MAGNUM ENERGY INC.

FINANCIAL STATEMENTS

For Year Ended August 31, 2008

Collins Barrow
Chartered Accountants & Consultants

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Auditors' Report

To the Shareholders
Magnum Energy Inc.

We have audited the balance sheet of Magnum Energy Inc. as at August 31, 2008 and the statements of operations, comprehensive loss and deficit and cash flows for the year 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 audit.

We conducted our audit 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, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at August 31, 2007 and for the year then ended were audited by another firm of chartered accountants who expressed an opinion without reservation on those statements in their report dated December 11, 2007.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Alberta
December 4, 2008

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Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

MAGNUM ENERGY INC.
BALANCE SHEETS

		August 31 2008		August 31 2007
ASSETS				
Current assets:				
Cash and cash equivalents	$	594,529	$	281,325
Accounts receivable		297,083		61,676
Prepaid expenses and deposits		43,277		20,341
		934,889		363,342
Property and equipment (note 5)		3,923,472		3,492,216
	$	4,858,361	$	3,855,558
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	493,190	$	421,641
Bank loan (note 6)		550,000		-
		1,043,190		421,641
Asset retirement obligations (note 8)		163,003		117,996
		1,206,193		539,637
Shareholders' equity:				
Share capital (note 9)		5,179,934		4,999,562
Warrants (note 9)		222,000		-
Contributed surplus (note 10)		679,050		662,350
Deficit		(2,428,816)		(2,345,991)
		3,652,168		3,315,921
	$	4,858,361	$	3,855,558

Going concern (note 1)
Contingent liabilities (note 12)
Commitments (note 16)

See accompanying notes to financial statements

Approved by the Directors:

"Theodore Konyi"	*"Allan Thompson"*
Theodore Konyi	Allan Thompson

MAGNUM ENERGY INC.

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended August 31

	2008	2007
Revenue		
Oil and natural gas sales	$ 1,868,137	$ 857,798
Royalties	(221,706)	(168,663)
Interest	9,133	-
	1,655,564	689,135
Expenses		
Operating	379,217	170,060
General and administrative	814,054	596,285
Interest	54,908	-
Stock-based compensation	42,200	280,350
Depletion, depreciation and accretion	811,788	1,515,816
	2,102,167	2,562,511
Loss before income taxes	(446,603)	(1,873,376)
Future income tax recovery (note 7)	363,778	268,260
Net loss and comprehensive loss	(82,825)	(1,605,116)
Deficit, beginning of year	(2,345,991)	(740,875)
Deficit, end of year	$ (2,428,816)	$ (2,345,991)
Loss per share - basic and diluted (note 9)	$ (0.00)	$ (0.09)

See accompanying notes to financial statements

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

	2008	2007
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss	$ (82,825)	$ (1,605,116)
Adjustments for items not involving cash:		
Depletion, depreciation and accretion	811,788	1,515,816
Stock-based compensation	42,200	280,350
Future income tax recovery	(363,778)	(268,260)
	407,385	(77,210)
Changes in non-cash working capital items related to operating:		
Accounts receivable	(219,624)	60,595
Prepaid expenses and deposits	(22,936)	545
Accounts payable and accrued liabilities	126,916	54,752
	291,741	38,682
INVESTING ACTIVITIES		
Property and equipment expenditures	(1,221,737)	(2,329,763)
Sale of property and equipment	499,200	-
Changes in non-cash working capital items related to investing:		
Accounts receivable	(15,783)	-
Accounts payable and accrued liabilities	(55,367)	266,482
	(793,687)	(2,063,281)
FINANCING ACTIVITIES		
Proceeds from share issuances (net of issuance costs)	265,150	1,675,708
Bank loan proceeds, net of repayments	550,000	-
	815,150	1,675,708
Increase (decrease) in cash and cash equivalents	313,204	(348,891)
Cash and cash equivalents, beginning of year	281,325	630,216
Cash and cash equivalents, end of year	$ 594,529	$ 281,325
Cash and cash equivalents is comprised of:		
Balances with banks	$ 91,406	$ 281,325
Term deposit	503,123	-
	$ 594,529	$ 281,325
Supplementary cash flow information:		
Interest paid	$ 23,775	$ -
Income taxes paid	$ -	$ -

Non-cash transactions (note 13)

See accompanying notes to financial statements

1. Nature and Continuance 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.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applied to a going concern which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. At August 31, 2008, the Company had a working capital deficiency of approximately $108,000 and had accumulated losses since inception of approximately $2,429,000. Furthermore, the Company has a credit facility in which the full amount has been drawn at August 31, 2008 and requires permanent principal payment reductions each month of $25,000. As described in note 12, the Company is committed to spend approximately $809,000 by December 31, 2008 in order to meet its flow-through share obligations to certain shareholders. These factors cast doubt about the Company's ability to continue as a going concern.

Notwithstanding the continued losses, working capital deficiency and financial commitments, these financial statements have been prepared by management on a going concern basis in accordance with GAAP. Positive cash flows realized in the fall of 2008 and production from a well expected to be onstream early in 2009 lead management to believe that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and obligations in the normal course of business.

The ability of the Company to continue as a going concern and to realize its assets and discharge its liabilities in the normal course of business is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

2. Significant Accounting Policies

Basis of Presentation

These financial statements have been prepared in accordance with 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

2. Significant Accounting Policies (Continued)

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.

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.

2. Significant Accounting Policies (Continued)

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 at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected life of the option, the expected price volatility of the underlying security and the risk-free interest rate.

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 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.

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, 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 as well as the probability that the Company will satisfy its flow-through share commitments.

The amounts 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.

2. Significant Accounting Policies (Continued)

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 loan are designated as other financial liabilities.

3. Changes in Accounting Policies

Accounting Changes

Effective September 1, 2007, the Company adopted the revised recommendations of the Canadian Institute of Chartered Accountants "CICA" section 1506, "Accounting Changes". Under the revised standards, voluntary changes in accounting policies are permitted only if they result in financials statements that provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. These standards are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

During the year, the Company recorded an adjustment of approximately $60,000 related to actual amounts received for engineering costs. This amount has been reflected as a change in estimate as the amount recorded in the years ended August 31, 2007 and 2006 was based on the best information available at the time.

Financial Instruments – Disclosures

Effective September 1, 2007, the Company adopted CICA section 3862, "Financial Instruments – Disclosures". Section 3862 requires disclosure of the significance of financial instruments for a company's financial position and performance. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments and how the Company manages those risks. See additional disclosures included in note 14.

Financial Instruments – Presentation

Effective September 1, 2007, the Company adopted CICA section 3863, "Financial Instruments – Presentation". Section 3863 carries forward, from Section 3861, standards for presentation of financial instruments and non-financial derivatives. This Section addresses an issuer's classification of financial instruments between liabilities and equity and the classification of interest, dividends, losses and gains.

Capital Disclosures

Effective September 1, 2007, the Company adopted CICA section 1535, "Capital Disclosures", requiring disclosures regarding an entity's objectives, policies and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the management of capital, whether the requirements have been complied with, or consequences of non-compliance, and an explanation of how the Company is meeting its objective for managing capital. In addition, quantitative data about capital and whether the Company has complied with all capital requirements are also required. See additional disclosures included in note 15.

4. Future Accounting Pronouncements

General Standards of Financial Statement Presentation

Effective September 1, 2008, the Company will be required to adopt certain amendments of the CICA section 1400 with respect to requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of these amendments is not expected to have a significant impact on the financial statements.

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.

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 2009.

5. Property and Equipment

	2008			2007		
	Cost	Accumulated Depletion and Depreciation	Net Book Value	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties	$ 6,210,241	$ 2,309,861	$ 3,900,380	$ 4,993,313	$ 1,512,690	$ 3,480,623
Equipment	35,203	12,111	23,092	16,897	5,304	11,593
	$ 6,245,444	$ 2,321,972	$ 3,923,472	$ 5,010,210	$ 1,517,994	$ 3,492,216

As at August 31, 2008, $1,209,389 (2007- $1,374,725) of oil and gas property costs are undeveloped and have not been subject to depletion. The calculation of depletion included future development costs of $149,350 (2007 - $nil).

The Company performed a ceiling test calculation at August 31, 2008, to assess the recoverable value of the oil and gas properties. The oil and gas future prices are based on the September 1, 2008 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:

Year	Crude Oil Edmonton (Cdn$/bbl)	Natural Gas AECO ($/mcf)
2008	109.96	7.70
2009	104.96	8.20
2010	99.96	8.20
2011	99.96	8.70
2012	94.96	8.70
2013	94.96	8.70
Escalated at 2% thereafter		

As at August 31, 2007, the Company provided a write down of $1,005,788 as a result of a ceiling test impairment.

6. Bank Loan

During the year ended August 31, 2008, the Company negotiated a demand revolving reducing loan facility with a Canadian chartered bank for a maximum of $700,000 with monthly principal reductions of $25,000 commencing March 1, 2008. Interest is at the bank's prime lending rate plus 1.5% per annum. As collateral security for the repayment of the credit facility, there is a first fixed and floating charge debenture in the amount of $1,000,000 over all assets of the Company. All advances under the terms of the facility must be repaid by June 1, 2010.

As at August 31, 2008 the amount outstanding on the loan was $550,000, being the maximum available. As part of the loan agreement, the Company is required to meet certain reporting requirements, and financial and reserve based covenants, all of which were met at August 31, 2008.

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 30.4% (2007 - 34.12%) to loss before income taxes. The principal reasons for this difference are as follows:

		2008		2007
Basic statutory and provincial income tax rate		30.4%		34.12%
Expected income tax recovery on loss before taxes	$	135,767	$	639,196
Increase (decrease) resulting from:				
Stock-based compensation		(12,829)		(95,655)
Change in tax rates		(22,847)		-
Future income tax asset (not recognized) recognized		263,687		(275,281)
	$	363,778	$	268,260

As at August 31, 2008, the Company had a net future tax asset which was not recognized due to the "more likely than not" criteria not being met. Future income tax assets are recorded when it is more likely than not that they will be recovered in future periods. Significant components of the Company's future tax assets are as follows:

		2008		2007
Carrying value of property and equipment in excess of available tax deductions	$	(275,000)	$	(343,000)
Non-capital losses carried forward		256,000		282,000
Share issue costs		58,000		105,000
		39,000		44,000
Valuation allowance		(39,000)		(44,000)
	$	-	$	-

The Company has non-capital losses of approximately $948,000, resource expenditures of approximately $3,585,000 and share issue costs of approximately $214,000 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		70,000
	$	948,000

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 $302,000 (2007: $252,000). These payments are expected to be made over the next four to sixteen years. A credit-adjusted risk free rate of 7% (2007 – 10%) 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.

	2008	2007
Balance, beginning of year	$ 117,996	$ 47,686
Liabilities incurred	46,756	65,541
Liabilities sold	(9,559)	-
Accretion expense	7,810	4,769
Balance, end of year	$ 163,003	$ 117,996

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, 2006	16,948,421	$ 3,583,113
Flow-through shares issued	5,878,593	1,763,580
Share issuance costs		(87,871)
Future income tax effect related to flow-through shares		(205,260)
Subscriptions receivable		(54,000)
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

Flow-through Shares

In December 2006, the Company issued 2,000,000 units at $0.30 per unit for total proceeds of $600,000. 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.

9. Share Capital (Continued)

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.

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 (2007: $205,260) 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 is 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, 2008, $28,000 of Part XII.6 tax has been accrued and is included with interest expense.

Acquisition of Countess (note 11)

During the year, 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 entitles 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	2008	2007
-basic	24,536,069	18,693,546
-diluted	24,536,069	18,693,546

The weighted average number of shares outstanding for the years ended August 31, 2008 and 2007 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 (2007: 2,880,000) Class A common shares were held in escrow. The release of these shares is subject to an escrow agreement. The remaining escrow shares were released on September 27, 2008.

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, 2006	2,300,000	$0.97
Expired	(300,000)	0.75
Issued	5,878,593	0.40
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

As at August 31, 2008, share purchase warrants were outstanding to acquire one Class A common share for each warrant as follows:

Number of Warrants	Exercise Price	Expiry Date
2,000,000	$0.40	December 8, 2008
367,500	0.75	December 31, 2008
220,000	0.40	June 29, 2009
3,658,593	0.40	August 11, 2009
1,585,000	0.40	October 15, 2009
7,831,093		

All warrants were exercisable at August 31, 2008.

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, 2006	850,000	0.45
Granted	1,365,000	0.29
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

9. Share Capital (Continued)

As at August 31, 2008, stock options were outstanding as follows:

Number of Options	Exercise Price ($)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
350,000	0.45	1.14	October 21, 2009	350,000
500,000	0.45	2.48	February 22, 2011	500,000
715,000	0.30	3.23	November 24, 2011	715,000
500,000	0.30	3.75	June 1, 2012	500,000
20,000	0.40	1.53	March 14, 2010	20,000
2,085,000		2.81		2,085,000

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

	2008	2007
Fair value	$0.25	$0.23
Risk-free interest rate	2.43%	4% - 4.57%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	99%	71.68% - 82%
Expected life of options (years)	2	5

10. Contributed Surplus

The following summarizes the Company's contributed surplus for the year ended August 31, 2008:

	2008	2007
Balance, beginning of year	$ 662,350	$ 382,000
Options vested	42,200	280,350
Options exercised	(25,500)	-
Balance, end of year	$ 679,050	$ 662,350

11. Related Party Transactions

During the year, the Company incurred consulting fees totaling $319,000 charged by companies controlled by directors or officers of the Company (2007 -$291,000), and legal fees totaling $30,000 charged by a firm where a director is a partner (2007 - $64,000). These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

During the year, 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.

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, 2008, the Company paid approximately $29,700 (2007 - $28,800) 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, 2008 is approximately $22,000 (2007 - $37,000) with respect to unpaid consulting fees, legal fees and general administration owing to related companies which is due under normal credit terms.

12. 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:

2009	$	133,947
2010		140,655
2011		142,891
2012		37,359
2013		25,728
thereafter		46,778
	$	527,358

Flow-through Shares

During the period June 2007 to December 2007, the Company issued an aggregate of $1,347,330 of flow-through shares. Pursuant to the terms of the agreements, the Company committed to renounce to the subscribers $1,347,330 of expenditures that qualify as Canadian Exploration Expense ("CEE") for Canadian income tax purposes and to incur the CEE no later than December 31, 2008.

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 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 the shortfall.

Pursuant to the terms of the agreements, the Company agreed to indemnify subscribers for the amount of tax benefits lost in the event the amount of qualifying expenditures renounced to subscribers was reduced.

To August 31, 2008, the Company incurred qualifying expenditures totalling approximately $538,000. As noted above, the Company has to incur the remaining $809,000 by December 31, 2008. If the expenditures are not made, the Company will be required to amend the renunciation and be obligated to pay a 10% penalty on the unspent funds as well as indemnify the subscribers.

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 period ended August 31, 2008 as follows:

- the Company recorded an asset retirement obligation of $46,756 (2007 - $65,541) on its proven properties
- the Company issued 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.

14. Financial instruments and risk management (Continued)

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, 2008, the Company had entered into no derivative financial instruments for the purpose of managing commodity price risk.

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, 2008. If interest rates had been 1% lower with all other variables held constant, after tax net loss for the year ended August 31, 2008 would have been approximately $4,400 lower, due to lower interest expense. An equal opposite impact would have occurred to net loss had interest rates been 1% higher.

The Company is also exposed to interest rate risk to the extent that changes in market interest rates impact its earnings on its floating rate redeemable deposit. If interest rates had been 1% lower with all other variables held constant, after tax net loss for the year ended August 31, 2008 would have been approximately $3,600 higher, due to lower interest income. An equal opposite impact would have occurred to net loss had interest rates been 1% higher.

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, 2008, the Company had no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

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 consist 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. As at August 31, 2008, the Company had a floating rate redeemable deposit at a rate of prime less 2.25% per annum.

The majority of the Company's accounts receivables are due from joint venture partners in the oil and gas industry and are subject to the same industry factors such as 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, 2008, the Company's receivables consisted of $279,670 from joint venture partners and $17,413 from government agencies.

14. Financial Instruments and Risk Management (Continued)

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, 2008, the only significant receivable greater than 90 days relates to a cash call of $15,783 that the industry operator is utilizing against ongoing capital expenditures.

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 liabilites 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. See the discussion in Note 1 regarding the Company's ability to continue as a going concern.

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 loans. 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

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 its 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.

As of August 31, 2008, the working capital ratio as calculated for the credit facility covenant was as follows:

Current Assets	$ 934,889
Undrawn Portion of Bank Loan	-
	$ 934,889
Current Liabilities	$ 1,043,190
Current Portion of Bank Loan	550,000
	$ 493,190
Ratio	1.9 : 1

The Company is required to maintain this ratio at no less than 1:1. The Company was in compliance with all required covenants with its banker as of August 31, 2008.

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 designated producing zone of a well changed. 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, 2008, the amount owing if the application is denied is approximately $129,300.

Flow-through share obligations

As described in note 12, the Company must incur the remaining qualifying expenditures by December 31, 2008 or be subject to a ten percent penalty of the shortfall and indemnify the subscribers for any resultant tax liabilities incurred by them.

17. Comparative Figures

Certain comparative figures as at and for the year ended August 31, 2007 have been reclassified to conform to the current year's financial statement presentation.

MAGNUM ENERGY INC.

Management's Discussion & Analysis

For the Year Ended August 31, 2008

MANAGEMENT'S DISCUSSION & ANALYSIS

December 16, 2008

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, 2008 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.

The goal of the Company is to create sustainable and profitable growth in production and cash flow. To accomplish this, Magnum plans to develop existing properties using cash flow generated from existing production and from re-completion and developments. Initially, efforts will be concentrated in the Sedalia area where the Company has a 100% working interest and is currently reactivating approximately 10 km of pipeline. Magnum will also pursue additional interests in oil and gas producing properties and exploration and development prospects in the Western Canadian Sedimentary Basin.

Magnum initially focused its exploration efforts in the Vauxhall area of Southern Alberta. To date, the Company has been successful in securing oil and gas interests in this area by entering into the Farm-in Agreement. Primary targets in this area are the Jurassic Sawtooth sandstone, with secondary targets in the Lower Cretaceous Upper Mannville lithic channel deposits, the Bow Island sands of the Colorado Group, and the Second White Speckled Shales. The Company has a 40% working interest in one producing gas well in the area.

Pursuant to a Farm-out and Overriding Royalty Agreement (the "FORA") dated January 11, 2006, Magnum acquired the right to participate in the drilling of a minimum of six exploration wells in Southern Alberta. To date, the Company has participated in the drilling of eight producing gas wells in the Taber area and currently owns an average working interest of 75.0% before payout (50.0% after payout) in the wells.

Magnum has a 31.5% net working interest in a producing Cardium oil and gas well in the McLeod area in central Alberta. An application to the ERCB for Good Production Practices was approved effective August 1, 2008 and the well is currently producing 55 boes per day net to the Company.

During the year ended August 31, 2008, Magnum re-entered a previously abandoned gas well in the Sedalia area and upon recompletion, a flow test was performed which indicated an initial flow rate of one million cubic feet a day. The well is presently shut-in and will be tied-in after the pipeline is tested and reactivated early in 2009. The Company is in the process of preparing the necessary surface and

regulatory applications to re-enter two well locations and to drill two new wells on adjacent 100% working interest sections. Magnum owns a 100% working interest in four sections of land in the area.

Additionally, the Company has been, and will continue to be active in attempting to secure additional oil and gas interests through acquisitions, farm-in agreements and other industry participation agreements. Investment decisions will largely be opportunity driven, however, and management may decide to employ a significant portion of its available funds in other areas.

In selecting exploration, exploitation and development drilling prospects, management of the Company will choose those that offer an appropriate combination of risk and economic reward, recognizing that all drilling involves substantial risk and that a high degree of competition exists for prospects. To achieve sustainable and profitable growth, the Company believes in controlling the timing and costs of its projects whenever possible.

HIGHLIGHTS FOR THE YEAR ENDED AUGUST 31, 2008

- Petroleum and natural gas sales were $1,868,137 for the year, an increase of 118% compared to $857,798 for the year ended August 31, 2007.
- Cash flow provided by operating activities was $407,385 for the year ended August 31, 2008 as compared to $(77,210) for 2007.
- The Company drilled a successful oil well (31.5% w.i.) in the McLeod area that commenced production in February 2008.
- A successful re-entry in a well in the Sedalia area resulted in the acquisition of a previously operational pipeline system which is currently undergoing repairs. When successfully reactivated, Sedalia gas production should commence in early 2009.
- Two additional sections of land in the Sedalia area were acquired at a Crown rights offering in July, 2008, providing additional growth opportunities for the Company in this area.

SELECTED ANNUAL INFORMATION

		August 31 2008		August 31 2007		August 31 2006
Oil and natural gas sales	$	1,868,137	$	857,798	$	308,799
Production :						
Oil & NGLs (bbls)		11,114		757		386
Gas (mcf)		108,720		121,776		40,792
BOE		29,234		21,053		7,184
Average sales price:						
Oil & NGLs ($/bbl)		98.24		53.38		56.43
Gas ($/mcf)		7.14		6.71		7.04
Cash flow from (used in) operations	$	407,385	$	(77,210)	$	(158,813)
Per share (basic & diluted)	$	0.02	$	(0.00)	$	(0.01)
Per BOE		13.94		(3.67)		(22.11)
Net loss	$	(82,825)	$	(1,605,116)	$	(218,611)
Per share (basic & diluted)	$	(0.00)	$	(0.09)	$	(0.01)
Capital expenditures (net of dispositions)	$	1,198,037	$	2,329,793	$	1,487,774
Total assets	$	4,858,361	$	3,855,558	$	3,435,332
Weighted average number of shares -basic and diluted		24,536,069		18,693,546		16,827,873

RESULTS OF OPERATIONS

	Three Months Ended August 31		Year Ended August 31	
	2008	2007	2008	2007
Oil and natural gas sales	$ 470,114	$ 281,583	$ 1,868,137	$ 857,798
Royalties	(50,768)	(40,490)	(221,706)	(168,663)
Interest	3,123	-	9,133	-
	422,469	241,093	1,655,564	689,135
Operating	60,533	84,325	379,217	170,060
General and administrative	302,793	214,924	814,054	596,285
Interest	37,593	-	54,908	-
Stock-based compensation	5,000	15,800	42,200	280,350
Depletion, depreciation and accretion	202,534	1,262,033	811,788	1,515,816
	608,453	1,577,082	2,102,167	2,562,511
Loss before income taxes	(185,984)	(1,335,989)	(446,603)	(1,873,376)
Future income tax recovery (expense)	(95,930)	268,260	363,778	268,260
Net loss	$ (281,914)	$ (1,067,729)	$ (82,825)	$ (1,605,116)
Net loss per share, basic & diluted	$ (0.01)	$ (0.05)	$ (0.00)	$ (0.09)

Revenues

	Three months ended August 31		Year ended August 31	
	2008	2007	2008	2007
Oil	$ 264,348	$ -	$ 1,046,453	$ -
Gas	196,112	272,968	776,264	817,392
Natural gas liquids	9,654	8,615	45,420	40,406
	$ 470,114	$ 281,583	$ 1,868,137	$ 857,798

Production

	Three Months Ended August 31		Year Ended August 31	
	2008	2007	2008	2007
Oil and NGL's (bbls)	2,381	153	11,114	757
Gas (mcf)	22,943	40,063	108,720	121,776
Combined (boe)	6,205	6,830	29,234	21,053

Production for the year ended August 31, 2008 increased by 39% on a per boe basis as compared to 2007, due mainly to a new oil well in the McLeod area which commenced production in February 2008, and due to oil production from a Countess area well. Decreases in natural gas volumes resulted from normal declining production rates in the Cherry and Vauxhall areas. For the three months ended August 31, 2008 oil production increased due to the McLeod well. The Vauxhall and Taber gas wells continue to produce at anticipated rates of decline. 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.

Average selling prices

	Three months ended August 31		Year ended August 31	
	2008	2007	2008	2007
Oil and NGLs($/bbl)	115.08	56.31	98.24	53.38
Gas ($/mcf)	8.55	6.81	7.14	6.71
Total ($/boe)	75.76	41.23	63.90	40.74

Revenues increased for both the three month period and year ended August 31, 2008 over 2007 due to new oil production as well as increases in both oil and gas prices.

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

Royalties

	Three Months Ended August 31		Year ended August 31	
	2008	2007	2008	2007
Crown	$ 39,367	$ 29,463	$ 129,336	$ 143,689
GORR	11,401	11,027	41,437	24,974
Freehold	-	-	50,933	-
Total royalties expense	$ 50,768	$ 40,490	$ 221,706	$ 168,663
Royalties as a percent of revenue	10.8%	14.4%	11.9%	19.7%
Royalties expense per BOE	$ 8.18	$ 5.93	$ 7.58	$ 8.01

The Company's net royalty rate averaged 10.8% for the three months ended August 31, 2008 (2007 – 14.4%) due to a royalty holiday on the producing McLeod oil well. Royalties for the year ended August 31, 2008 were 11.9% of total revenue (2007 – 19.7%); the decrease was also due to the royalty holiday.

Operating costs

	Three Months ended August 31		Year ended August 31	
	2008	2007	2008	2007
Total operating costs	$ 60,533	$ 84,325	$ 379,217	$ 170,060
Operating costs per BOE	$ 9.76	$ 12.35	$ 12.97	$ 8.08

Operating costs have increased for the year ended August 31, 2008 over 2007 due to the high costs of operating the Taber area wells (averaged $19.43 per boe) and the Countess well (averaged $18.62 per boe) for the year. The Vauxhall and McLeod wells' average production costs were $7.90 and $7.28 per boe for the year. Operating costs per boe are expected to decline in the future due to the sale of the Countess property and from increased production from areas other than Taber. Production from the McLeod well commenced in February 2008 and lower per boe operating costs resulted in decreased expenses for the three months ended August 31, 2008 as compared to 2007.

General and administrative expenses

	Three Months Ended August 31		Year ended August 31	
	2008	2007	2008	2007
General and administrative expense	$ 302,793	$ 214,924	$ 814,054	$ 596,285
General and administrative expense per BOE	$ 48.80	$ 31.47	$ 27.85	$ 28.32

General and administrative expenses have increased by approximately $218,000 (37%) in 2008 due to the Company's increased activity level. Increases during the year and three months ended August 31, 2008 were incurred mainly in the areas of engineering consulting, accounting, shareholder services, miscellaneous office and rent, and professional fees.

Interest

Interest expensed during the year ended August 31, 2008 was $54,900 (2007 – nil) and consists primarily of interest on Magnum's credit facility ($26,700) and Part XII.6 tax of approximately $28,200. The Part XII.6 tax is 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 August 31, 2008. The Company is required to incur all flow-through expenditures by December 31, 2008 or an additional Part XII.6 tax of 10% of the unexpended amounts will be levied. See further details under Commitments and Contingencies.

Stock-based compensation

On June 26, 2007, the Company granted 150,000 stock options to an officer of the Company at a price of $0.27 per share. The options were exercised in April 2008. During the year ended August 31, 2008, 20,000 options were granted to a consultant at a price of $0.40 per share.

All options issued and outstanding as of August 31, 2008 were fully vested and expire as follows:

Number of Options	Exercise Price ($)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
350,000	0.45	1.14	October 21, 2009	350,000
500,000	0.45	2.48	February 22, 2011	500,000
715,000	0.30	3.23	November 24, 2011	715,000
500,000	0.30	3.75	June 1, 2012	500,000
20,000	0.40	1.53	March 14, 2010	20,000
2,085,000		2.81		2,085,000

Depletion, depreciation and accretion

	Three Months ended August 31		Year ended August 31	
	2008	2007	2008	2007
Oil and natural gas properties	$ 200,000	$ 1,257,398	$ 797,171	$ 1,508,681
Equipment	3,576	(134)	6,807	2,366
Accretion of asset retirement obligation	(1,042)	4,769	7,810	4,769
	$ 202,534	$ 1,262,033	$ 811,788	$ 1,515,816
Depletion, depreciation and accretion per boe	$ 32.64	$ 184.78	$ 27.77	$ 72.00

Depletion and accretion decreased during both the year and three month periods ended August 31, 2008 as compared to 2007 due to a ceiling test write-down of $1,005,788 incurred by Magnum during the fourth quarter of 2007.

Future income tax recovery

For the year ended August 31, 2008, Magnum recorded a future income tax recovery of $363,778 (2007 - $268,260). The recoveries were the result of recognizing previously unrecognized future income tax assets upon the renunciation of flow-through share expenditures.

Income tax deductions

The Company has approximately $4,747,000 of available income tax deductions and does not expect to incur cash taxes in its 2009 fiscal year. The following table summarizes Magnum's available income tax deductions as at August 31, 2008:

		Amount	Annual Rate (%)
Non-capital losses	$	948,000	100
Share issuance costs		214,000	20
Canadian exploration expenses		17,000	100
Canadian development expenses		1,711,000	30
Canadian oil and gas property expenses		576,000	10
Undepreciated capital costs		1,281,000	25-45
	$	4,747,000	

Net loss

The Company incurred a loss of $82,825 ($0.00 per share) for the year ended August 31, 2008 as compared to a loss of $1,605,116 ($0.09 per share) for the same period in 2007. A loss of $281,914 ($0.01 per share) was incurred during the three months ended August 31, 2008 as compared to a loss of $1,067,729 ($0.05 per share) for the three months ended August 31, 2007. The decrease in the loss was due to increased oil and gas revenues, mainly from the McLeod oil well offset by increased general and administrative expenses and decreased stock-based compensation. Magnum incurred a ceiling test write-down in 2007 of approximately $1,005,000 in the three months ended August 31, 2007 which resulted in a much larger depletion, depreciation and accretion expense for 2007 than for 2008.

Per boe information

	Three Months ended August 31				Year ended August 31			
		2008		2007		2008		2007
($/boe)								
Average sales price	$	75.76	$	41.23	$	63.90	$	40.74
Operating		(9.76)		(12.35)		(12.97)		(8.08)
Royalties		(8.18)		(5.93)		(7.58)		(8.01)
Operating netback per boe		57.82		22.95		43.35		24.65
General and administrative costs		(48.80)		(31.47)		(27.85)		(28.32)
Interest income		0.50		-		0.32		-
Interest expense		(6.06)		-		(1.88)		-
Cash flow from operations per boe		3.46		(8.52)		13.94		(3.67)
Depletion, depreciation and accretion		(32.64)		(184.78)		(27.77)		(72.00)
Stock-based compensation		(0.81)		(2.31)		(1.44)		(13.31)
Loss before income taxes per boe	$	(29.99)	$	(195.61)	$	(15.27)	$	(88.98)

Cash flow from operations

For the year ended August 31, 2008, the Company's cash flow from operations was $407,385 ($0.02 per share) as compared to cash used by operations of $77,210 ($0.00 per share) for the year ended August 31, 2007 due to increased oil and natural gas revenues. For the same reason, cash flows provided by operations for the three months ended August 31, 2008 was $21,550 compared to cash used by operations for the same period in 2007 of $58,156.

CAPITAL EXPENDITURES

During the years ended August 31, 2008 and 2007, Magnum incurred capital expenditures as follows:

	Year ended August 31	
	2008	2007
Land acquisition and retention	$ 274,140	$ 141,675
Geological	17,216	-
Drilling and completions	513,483	1,124,612
Well equipping and facilities	398,592	1,053,229
Property acquisitions	475,500	-
Office equipment	18,306	10,247
Total	1,697,237	2,329,763
Dispositions	(499,200)	-
Net	$ 1,198,037	$ 2,329,763

The land acquisitions in both 2007 and 2008 were incurred in the Sedalia area. Drilling and completions in 2008 occurred in the McLeod area which was also equipped and tied-in. A successful re-entry occurred in the Sedalia area and pipeline costs of approximately $150,000 will be incurred for that well in fiscal 2009. In 2007, all drilling, completion, equipping and facility costs were concentrated in the Cherry and Vauxhall areas. In the first quarter of the 2008 fiscal year, the Company acquired a producing oil well in the Countess area which was subsequently sold effective February 29, 2008.

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 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)	75.76	79.42	55.50	41.88

Three months ended:	August 31 2007	May 31 2007	February 29 2007	November 30 2006
Total revenue	$ 281,583	$ 220,068	$ 169,117	$ 187,030
Net income (loss)	$ (1,067,729)	$ (106,340)	$ (92,214)	$ (338,833)
Per share, basic and diluted	$ (0.05)	$ (0.01)	$ (0.01)	$ (0.02)
Production (boe)	6,830	6,199	3,590	4,434
Average pricing ($/boe)	41.23	46.62	47.11	42.18

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:

2009	$ 133,947
2010	140,655
2011	142,891
2012	37,359
2013	25,728
thereafter	46,778
	$ 527,358

Flow-through Shares

During the period June 2007 to December 2007, the Company issued an aggregate of $1,347,330 of flow-through shares. Pursuant to the terms of the agreements, the Company committed to renounce to the subscribers $1,347,330 of expenditures that qualify as Canadian Exploration Expense ("CEE") for Canadian income tax purposes and to incur the CEE no later than December 31, 2008.

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 agreed to indemnify subscribers for the amount of tax benefits lost in the event the amount of qualifying expenditures renounced to subscribers was reduced.

To August 31, 2008, the Company incurred qualifying expenditures totaling approximately $538,000. As noted above, the Company has to incur the remaining $809,000 by December 31, 2008. If the expenditures are not made, the Company will be required to amend the renunciation and be obligated to pay a 10% penalty on the unspent funds as well as indemnify the subscribers.

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 designated producing zone of a well changed. 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, 2008, the amount owing if the application is denied is approximately $129,300.

Flow-through share obligations

As described in the previous section above in Commitments, Magnum must incur the remaining qualifying expenditures by December 31, 2008 or be subject to a ten percent penalty of any shortfall and indemnify the subscribers for any resultant tax liabilities incurred by them. As of December 16, 2008, the Company is planning to re-enter two wells and drill an additional two wells in the Sedalia area prior to December 31, 2008, subject to obtaining the necessary approvals, leases and availability of drilling and service rigs.

LIQUIDITY AND CAPITAL RESOURCES

During the year ended August 31, 2008, the Company had cash flows from operations of $407,385 (2007 – $(77,210)). As at August 31, 2008, the Company had a working capital deficit of $108,301 and had incurred a loss of $82,825 for the year then ended.

During the year ended August 31, 2008, the Company negotiated a demand revolving reducing loan facility with a Canadian chartered bank for a maximum of $700,000 with monthly principal reductions of $25,000 commencing March 1, 2008. Interest is at the bank's prime lending rate plus 1.5% per annum. As collateral security for the repayment of the credit facility, there is a first fixed and floating charge debenture in the amount of $1,000,000 over all assets of the Company. All advances under the terms of the facility must be repaid by June 1, 2010.

As at August 31, 2008 the amount outstanding on the loan was $550,000, being the maximum available. As part of the loan agreement, the Company is required to meet certain reporting requirements, and financial and reserve based covenants, all of which were met at August 31, 2008.

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.

Notwithstanding the working capital deficiency and financial and flow-through share obligations, positive cash flows in the fall of 2008 and production from a well expected to be onstream early in 2009 lead management to believe that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and obligations in the normal course of business.

OUTSTANDING SHARE DATA

As at August 31, 2008, 24,929,514 Class A common shares were issued and outstanding. No shares have been issued since that date.

As at August 31, 2008, 2,085,000 options and 7,831,093 warrants were issued and outstanding. No options or warrants have been issued since that date. On December 8, 2008, 2,000,000 options expired unexercised.

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 loan are designated as other financial liabilities.

The Company does not have any commodity contracts related to production or prices as at August 31, 2008.

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.

RELATED PARTY TRANSACTIONS

During the year ended August 31, 2008, the Company incurred consulting fees totaling $319,000 charged by companies controlled by Ted Konyi, Allan Thompson and Jeff Lowe (directors) Richard Nemeth and Shannon Matthyssen (officers) and Michael Chen, a former officer of the Company (2007 -$291,000). Legal fees totaling $30,000 were charged by a firm where Jeff Lowe, director, is a partner (2007 - $64,000). These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

During the year ended August 31, 2008, the Company acquired the assets of Countess Production Limited Partnership (Countess). Ted Konyi, Allan Thompson and Jeff Lowe (directors) own shares in the General Partner of Countess and two of the directors of Magnum, Ted Konyi and Allan Thompson, are also directors of the General Partner of Countess. As consideration, the Company issued 1,585,000 Class A common shares and warrants to the limited partners of Countess. Each warrant entitles the holder to purchase an additional Class A common share at $0.40 per share until October 15, 2009. This transaction was measured at the exchange amount which is the amount agreed upon by the transacting parties.

The Company shares office space with another public company for whom Jeff Lowe serves as a director and Allan Thompson serves as an officer. During the year ended August 31, 2008, the Company paid approximately $29,700 (2007 - $28,800) 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, 2008 is approximately $22,000 (2007 - $37,000) with respect to unpaid consulting fees, legal fees and general administration owing to related companies which is due under normal credit terms.

CHANGES IN ACCOUNTING POLICIES

Accounting Changes

Effective September 1, 2007, the Company adopted the revised recommendations of the Canadian Institute of Chartered Accountants "CICA" section 1506, "Accounting Changes". Under the revised standards, voluntary changes in accounting policies are permitted only if they result in financials statements that provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. These standards are effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

Financial Instruments – Disclosures

Effective September 1, 2007, the Company adopted CICA section 3862, "Financial Instruments – Disclosures". Section 3862 requires disclosure of the significance of financial instruments for a company's financial position and performance. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments and how the Company manages those risks.

Financial Instruments – Presentation

Effective September 1, 2007, the Company adopted CICA section 3863, "Financial Instruments – Presentation". Section 3863 carries forward, from section 3861, standards for presentation of financial instruments and non-financial derivatives. This Section addresses an issuer's classification of financial instruments between liabilities and equity and the classification of interest, dividends, losses and gains.

Capital Disclosures

Effective September 1, 2007, the Company adopted CICA section 1535, "Capital Disclosures", requiring disclosures regarding an entity's objectives, policies and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the management of capital, whether the requirements have been complied with, or consequences of non-compliance, and an explanation of how the Company is meeting its objective for managing capital. In addition, quantitative data about capital and whether the Company has complied with all capital requirements are also required.

FUTURE ACCOUNTING PRONOUNCEMENTS

General Standards of Financial Statement Presentation

Effective September 1, 2008, the Company will be required to adopt certain amendments of the CICA section 1400 with respect to requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of these amendments is not expected to have a significant impact on the financial statements.

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.

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 the year ended August 31, 2009.

CRITICAL ACCOUNTING ESTIMATES

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

- 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 traded options
- income taxes are based on estimates 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 royalties 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 traded 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, 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 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 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.