

MAGNUM ENERGY INC.

FINANCIAL STATEMENTS

For Three Months Ended November 30, 2010

MAGNUM ENERGY INC.
BALANCE SHEETS

	November 30 2010	August 31 2010
ASSETS		
Current assets:		
Accounts receivable	\$ 324,080	\$ 376,878
Prepaid expenses and deposits	77,218	85,709
	401,298	462,587
Property and equipment (note 4)	11,269,459	11,288,043
	\$ 11,670,757	\$ 11,750,630
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 711,134	\$ 1,172,267
Bank debt (note 5)	4,983,918	4,248,301
	5,695,052	5,420,568
Future income tax liability (note 6)	-	82,300
Asset retirement obligations (note 7)	485,918	481,200
	6,180,970	5,984,068
Shareholders' equity:		
Share capital (note 8)	8,099,711	8,099,711
Warrants (note 8)	9,400	9,400
Contributed surplus (note 9)	1,144,870	1,144,870
Deficit	(3,764,194)	(3,487,419)
	5,489,787	5,766,562
	\$ 11,670,757	\$ 11,750,630
Basis of presentation and going concern (note 2)		
Commitments (note 11)		
Subsequent events (note 15)		

See accompanying notes to financial statements

Approved by the Directors:

"Richard A. Nemeth"
Richard A. Nemeth

"Gordon J. Dolph"
Gordon J. Dolph

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

For the three months ended November 30

	2010	2009
Revenue		
Oil and natural gas sales	\$ 512,208	\$ 418,656
Royalties	(45,409)	(40,696)
	466,799	377,960
Expenses		
Operating	218,393	121,973
General and administrative	236,163	277,520
Interest and bank charges	57,894	55,936
Stock-based compensation	-	71,250
Depletion, depreciation and accretion	313,424	185,556
	825,874	712,235
Loss from operations	(359,075)	(334,275)
Settlement of account payable (note 8)	-	19,264
Loss before income taxes	(359,075)	(315,011)
Future income tax recovery (note 6)	82,300	75,000
Net loss and comprehensive loss	(276,775)	(240,011)
Deficit, beginning of period	(3,487,419)	(2,830,022)
Deficit, end of period	\$ (3,764,194)	\$ (3,070,033)
Loss per share - basic and diluted (note 8)	\$ (0.01)	\$ (0.01)

See accompanying notes to financial statements

MAGNUM ENERGY INC.
STATEMENTS OF CASH FLOWS
For the three months ended November 30

	Three months ended November 30	
	2010	2009
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss	\$ (276,775)	\$ (240,011)
Adjustments for items not involving cash:		
Depletion, depreciation and accretion	313,424	185,556
Stock-based compensation	-	71,250
Settlement of account payable	-	(19,264)
Future income tax recovery	(82,300)	(75,000)
	(45,651)	(77,469)
Changes in non-cash working capital items related to operating:		
Accounts receivable	661	(36,365)
Prepaid expenses and deposits	7,591	(4,263)
Accounts payable and accrued liabilities	112,686	40,457
	75,287	(77,640)
INVESTING ACTIVITIES		
Property and equipment expenditures	(290,122)	(3,655,918)
Changes in non-cash working capital items related to investing:		
Accounts receivable	52,137	(102,977)
Prepaid expenses and deposits	900	-
Accounts payable and accrued liabilities	(573,819)	(11,844)
	(810,904)	(3,770,739)
FINANCING ACTIVITIES		
Proceeds from share issuance (net of issuance costs)	-	581,512
Bank debt proceeds, net of repayments	735,617	3,266,867
	735,617	3,848,379
Decrease in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of period	-	-
Cash and cash equivalents, end of period	\$ -	\$ -
Supplementary cash flow information:		
Interest paid	\$ 57,894	\$ 30,821
Income taxes paid	\$ -	\$ -

Non-cash transactions (note 12)

See accompanying notes to financial statements

MAGNUM ENERGY INC.

NOTES TO FINANCIAL STATEMENTS

For The Three Months Ended November 30, 2010 and 2009

1. Nature of Operations

Magnum Energy Inc. (the "Company") was incorporated on June 27, 2003 under the laws of British Columbia, Canada and was continued under the Alberta Business Corporations Act on February 18, 2010. The Company is a public company whose Class A common shares trade on the TSX Venture Exchange. The Company is in the business of the acquisition, exploration, development and production of oil and gas properties in Alberta.

2. Significant Accounting Policies

Basis of Presentation and Going Concern

The interim financial statements of the Company have been prepared following the same accounting policies and methods of computation of the financial statements of the Company for the year ended August 31, 2010. The disclosure below is incremental to that included in the annual financial statements. The interim financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended August 31, 2010.

These interim financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars. The preparation of the 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 liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual amounts could differ from these estimates.

These financial statements have been prepared using GAAP applicable to a going concern that contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due.

The Company has a history of operating losses and of negative cash flows from operations. For the three months ended November 30, 2010, the Company incurred a loss of \$276,775 and cash outflows from operating activities of \$45,651. The Company's working capital deficit and accumulated deficit at November 30, 2010 totalled \$5,293,754 and \$3,764,194 respectively. These circumstances lend doubt as to the ability of the Company to meet its bank loan obligations as they become due (see Note 5) and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders and Lender, the ability of the Company to raise equity or debt financing and the attainment of profitable operations. The Company is currently in the process of completing the acquisition of a Viking oil producing property. Management believes the acquisition will have a significant impact on its reserves and net revenues by December 31, 2011 and coincident with the signing of the Purchase and Sale Agreement will seek financing to relieve its bank debt obligations. While the Company has been successful in obtaining additional sources of funding in the past, there can be no assurance that it will be able to do so in the future.

On December 31, 2010, the Company announced that it had closed a private placement of \$595,660 through the issuance of 2,054,001 flow-through Class A common shares at a price of \$0.29 per share. Finders' fees of approximately \$38,000 were incurred. In February, 2011, the Company will renounce \$595,650 of qualifying expenditures on its flow-through shares issued in 2010.

3. Future Accounting Pronouncements

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.

MAGNUM ENERGY INC.

NOTES TO FINANCIAL STATEMENTS

For The Three Months Ended November 30, 2010 and 2009

3. Future Accounting Pronouncements (continued)

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

The Company has not completed development of its IFRS changeover plan, which will include project structure governance, resourcing and training, analysis of key GAAP differences and a phase plan to assess accounting policies under IFRS as well as potential first time adoption of IFRS exemptions. The Company plans 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 2011. The Company will disclose the key elements of its plan and progress on the project as information becomes available during the transition period.

4. Property and Equipment

As at November 30, 2010, \$1,110,000 (2009- \$970,000) of oil and natural gas property costs are undeveloped and have not been subject to depletion. The calculation of depletion included future development costs of \$1,800,000 (2009 - \$600,000). During the three months ended November 30, 2010 the Company capitalized approximately \$20,300 (2009 - \$12,600) of general and administrative expenses.

November 30, 2010			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and natural gas properties	\$ 15,529,740	\$ 4,267,405	\$ 11,262,335
Equipment	38,201	31,077	7,124
	\$ 15,567,941	\$ 4,298,482	\$ 11,269,459

August 31, 2010			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and natural gas properties	\$ 15,239,618	\$ 3,960,033	\$ 11,279,585
Equipment	38,201	29,743	8,458
	\$ 15,277,819	\$ 3,989,776	\$ 11,288,043

5. Bank Debt

As at November 30, 2010, the Company has available a demand revolving operating loan facility with a Canadian financial institution with a borrowing base of \$5,000,000. The credit facility has been extended and revolves beyond the initial fifteen month period as requested by the Company and accepted by the Lender. A fee of \$50,000 has been charged by the Lender for a three month extension and is payable upon the earlier of the repayment of the entire facility or April 30, 2011.

The amount of the facility is subject to a borrowing base test performed on a periodic basis by the Lender, based primarily on reserves and using commodity prices estimated by the Lender as well as other factors. The Lender has indicated that a decrease in the borrowing base has occurred as a result of the current price forecast for natural gas. A reduction to the credit facility has not yet been quantified and the Lender will require a repayment of some portion of the facility on April 30, 2011.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
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5. Bank Debt (continued)

The credit facility provides direct advances which bear interest at the lender's prime rate plus 2.5%. A general security agreement over all present and after acquired personal property and a floating charge on all lands has been provided as security. As at November 30, 2010, \$4,983,918 was outstanding on this facility.

6. Income Taxes

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

	November 30 2010	August 31 2010
Carrying value of property and equipment and asset retirement obligations in excess of available tax deductions	\$ (783,400)	\$ (784,500)
Non-capital losses carried forward	748,900	650,700
Share issue costs	47,300	51,500
	12,800	(82,300)
Valuation allowance	(12,800)	-
	\$ -	\$ (82,300)

7. 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 \$697,000 (2009: \$882,000). These payments are expected to be made over the next five to fifteen years. A credit-adjusted risk free rate of 6% (2009 – 7%) was used to calculate the fair value of the asset retirement obligations. The following table reconciles the asset retirement obligations associated with the retirement of oil and gas properties:

	Three months ended November 30 2010	Year ended August 31 2010
Balance, beginning of period	\$ 481,200	\$ 293,230
Liabilities incurred	-	295,890
Liabilities sold	-	(135,839)
Accretion expense	4,718	27,919
Balance, end of period	\$ 485,918	\$ 481,200

8. 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:

There were no changes to the share capital during the three months ended November 30, 2010. Changes during the prior two fiscal years are as follows:

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Three Months Ended November 30, 2010 and 2009

8. Share Capital (continued)

Class A voting common shares	Number of Shares	Stated Value
Balance, August 31, 2008	24,929,514	\$ 5,179,934
Shares issued for debt settlement	214,058	32,815
Balance, August 31, 2009	25,143,572	\$ 5,212,749
Private placements	9,128,249	3,468,860
Exercise of options	240,579	106,770
Share issuance costs (net of income tax effect of \$57,910)		(165,968)
Future income tax effect related to flow-through shares		(522,700)
Balance, August 31 and November 30, 2010	34,512,400	\$ 8,099,711

Settlement of Account Payable

On March 22, 2009, the Company issued 214,058 Class A common shares to a certain creditor of the Company in exchange for an outstanding debt owed to them of \$64,218. The shares were subject to a four month hold period. The shares have been ascribed a value of \$0.153 per share based on the trading price of the shares at the time of the issuance with the share price differential of \$12,138 recognized as income attributable to the settlement of the accounts payable as of August 31, 2009. The remaining \$19,264 of the debt was included in accounts payable at August 31, 2009 and was recognized as income during the three months ended November 30, 2009, when certain conditions regarding the trading price of the shares of the Company were met.

Issuance of Class A common shares

In October 2009, the Company issued 3,000,000 Class A common shares at \$0.20 per share for total proceeds of \$600,000. In June and July 2010, the Company issued 2,332,250 Class A common shares at \$0.40 per share for total proceeds of \$932,900.

Flow-through Shares

In December 2009, the Company issued 3,795,999 flow-through Class A common shares at \$0.51 per share for total proceeds of \$1,935,960.

In February 2010, the Company renounced \$1,935,960 of qualifying expenditures on its flow-through shares issued in 2009. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$522,700 in 2010 with respect to the renunciation. Of the expenditures renounced, \$1,034,000 was renounced under the one year look-back rule that allows companies to renounce qualifying expenditures prior to incurring the expenditures. As at August 31, 2010, the Company had fully incurred the qualifying expenditures related to these renouncements.

Per Share Amounts

The table below summarizes the weighted average number of Class A common shares used in calculating loss per share for the three months ended November 30:

	2010	2009
Basic and diluted	34,512,400	26,363,352

The weighted average number of shares outstanding for the three months ended November 30, 2010 and 2009 were not increased for outstanding stock options and warrants for purposes of calculating diluted loss per share as the effect would be anti-dilutive.

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8. Share Capital (continued)

Warrants

There were no changes to warrants during the three months ended November 30, 2010. Changes during the year ended August 31, 2010 were as follows:

	Fair Value of Warrants	Number of Warrants	Weighted Average Exercise Price
Balance as at August 31, 2009	\$ 222,000	1,585,000	\$0.40
Expired	(222,000)	(1,585,000)	0.40
Broker's warrants granted	9,400	117,583	0.40
Balance as at August 31 and November 30, 2010	\$ 9,400	117,583	\$0.40

On June 22, 2010, 117,583 Class A common share broker warrants were granted with an exercise price of \$0.40 and a one year expiry date. The fair value of the warrants granted was estimated at \$0.08 per warrant using the Black-Scholes option pricing model using a one year expected life, a 0% dividend yield, an expected volatility of 37% and a risk-free interest rate of 2.77%.

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, 2009	2,414,000	0.28
Granted	931,579	0.37
Expired	(275,000)	0.35
Cancelled	(150,000)	0.18
Exercised	(240,579)	0.37
Balance as at August 31, 2010	2,680,000	0.23
Granted	300,000	0.30
Balance as at November 30, 2010	2,980,000	0.24

In October 2010, the Company granted 300,000 stock options, vesting one quarter at the end of each of January 15, 2011, April 15, 2011, July 15, 2011 and October 15, 2011 and expiring in 2 years, at a exercise price of \$0.295 per share. As at November 30, 2010, stock options were outstanding as follows:

Number of Options	Exercise Price (\$)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
150,000	0.18	0.23	February 22, 2011	150,000
650,000	0.18	0.98	November 24, 2011	650,000
500,000	0.18	1.50	June 1, 2012	500,000
200,000	0.18	3.19	February 5, 2014	200,000
225,000	0.18	3.42	May 1, 2014	225,000
244,000	0.18	3.47	May 20, 2014	244,000
100,000	0.26	3.84	October 1, 2014	100,000
561,000	0.37	3.91	October 27, 2014	561,000
50,000	0.45	4.05	December 17, 2014	50,000
300,000	0.30	1.88	October 15, 2012	-
2,980,000		2.36		2,680,000

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Three Months Ended November 30, 2010 and 2009

8. Share Capital (continued)

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

	2010	2009
Fair value	\$0.04 to \$0.31	\$0.09 to \$0.12
Risk-free interest rate	1.04% - 2.77%	2.07% - 2.22%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	37% - 89%	84% - 85%
Expected life of options (years)	1 - 5	5

9. Contributed Surplus

The following summarizes the Company's contributed surplus:

	November 30 2010	August 31 2010
Balance, beginning of period	\$ 1,144,870	\$ 747,510
Options vested	-	193,350
Options exercised	-	(17,990)
Warrants expired	-	222,000
Balance, end of period	\$ 1,144,870	\$ 1,144,870

10. Related Party Transactions

During the period, the Company incurred consulting fees totaling \$47,420 charged by companies controlled by directors or officers of the Company (2009 -\$19,300), and legal fees totaling \$2,550 charged by a firm where a director is a partner (2009 - \$11,122). These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

The Company shares office space with another public company which has certain directors and officers who are also directors and officers of the Company. During the three months ended November 30, 2010, the Company paid \$3,000 (2009 - \$6,303) 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 November 30, 2010 is approximately \$61,055 (August 31, 2010 - \$25,100) with respect to unpaid consulting fees, legal fees and general administration owing to related parties which is due under normal credit terms.

11. Commitments

The Company has lease commitments for base rental payments for offices and equipment through 2014. The approximate minimum lease commitments including operating costs for the next five years and thereafter are as follows:

2011	\$ 119,358
2012	31,126
2013	12,000
2014	12,000
2015	10,000
	\$ 184,484

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Three Months Ended November 30, 2010 and 2009

11. Commitments (continued)

On October 15, 2010, the Company entered into a consulting agreement whereby the consultant will provide certain investment relations services. The terms of the agreement are for \$7,500 per month for one year subject to a review after the first three months. The agreement was amended effective January 15, 2011 to \$2,500 per month.

12. Non-cash Transactions

There were no non-cash transactions during the three months ended November 30, 2010.

13. Financial Instruments and Risk Management

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

Market Risk

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

Commodity Price Risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices to manage its cash flow. Commodity prices for oil and natural gas are impacted by numerous factors, including supply and demand, the relationship between the Canadian and U.S. dollar, the political climate and other market forces. As of August 31, 2010, 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 period ended November 30, 2010. If interest rates had been 1% lower with all other variables held constant, after tax net loss for the three months ended November 30, 2010 would have been approximately \$11,500 lower, due to lower interest expense. 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 November 30, 2010, the Company had no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

The Company is also subject to the risk of fluctuating exchange rates relating to the purchase of services in U.S. dollars. At November 30, 2010, \$nil (2009 – \$19,298) of accounts payable is denominated in U.S. dollars.

MAGNUM ENERGY INC.
NOTES TO FINANCIAL STATEMENTS
For The Three Months Ended November 30, 2010 and 2009

13. Financial Instruments and Risk Management (continued)

Credit Risk

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

The majority of the Company's accounts receivables are due from companies in the oil and gas industry and are subject to normal industry credit risks including commodity price fluctuations and escalating costs. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued by the partner. The Company has not experienced any credit loss in the collection of accounts receivable to date. As at November 30, 2010 the Company's receivables consisted of approximately \$80,500 from joint venture partners, \$139,300 from oil and gas marketers and \$104,200 from government agencies.

The Company sells the majority of its production to two petroleum and natural gas marketers and therefore is subject to concentration risk. At November 30, 2010, the Company's largest credit exposure to the petroleum and natural gas marketers represents 43% of accounts receivable. Management does not believe that this concentration of credit risk will result in any loss to the Company based on past payment experience. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large gas marketers. The Company does not obtain collateral from petroleum and natural gas marketers or others in the event of non-payment.

The carrying amount of accounts receivable represents the maximum credit exposure and therefore, the Company reviews its outstanding receivables on an ongoing basis. As of November 30, 2010, there were no significant receivables greater than 90 days.

Liquidity Risk

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

Fair Value of Financial Instruments

Financial instruments of the Company carried on the balance sheet consist mainly of accounts receivable, accounts payable and accrued liabilities, and bank debt. The estimated fair value of the financial instruments approximates their carrying value due to their short terms to maturity and the floating interest rate on the Company's debt. At November 30, 2010, the Company does not hold any financial instruments for which it has elected to apply hedge accounting under Section 3865.

14. Capital Management

There was no change to the Company's capital management during the three months ended November 30, 2010. 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 changes 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.

MAGNUM ENERGY INC.

NOTES TO FINANCIAL STATEMENTS

For The Three Months Ended November 30, 2010 and 2009

14. Capital Management (continued)

The Company's objective is to maintain a flexible structure that will allow it to execute its investment program, including exploration and development of its oil and gas properties and acquisition and disposition transactions that will carry varying amounts of risk. The Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its investment program. The Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

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

15. Subsequent Events

On November 3, 2010, the Company announced it had entered into a letter of intent to acquire lands, producing oil wells and related production facilities in a Viking Oil prospect at a cost of \$2,800,000 before closing adjustments. The acquisition is scheduled to close on March 15, 2011.

On December 31, 2010, the Company announced that it had closed a private placement of \$595,660 through the issuance of 2,054,001 flow-through Class A common shares at a price of \$0.29 per share. Finders' fees of approximately \$38,000 were incurred. In February, 2011, the Company will renounce \$595,650 of qualifying expenditures on its flow-through shares issued in 2010.

MAGNUM ENERGY INC.

Management's Discussion & Analysis

For the Three Months Ended November 30, 2010

MANAGEMENT'S DISCUSSION & ANALYSIS

January 28, 2011

This management's discussion and analysis (MD&A) of financial condition and results of operations for the three month period ended November 30, 2010 should be read in conjunction with the unaudited financial statements of Magnum Energy Inc. (the "Company" or "Magnum") for the three months ended November 30, 2010 as well as the audited financial statements and MD&A for the years ended August 31, 2010 and 2009. These documents and other statutory filings are available on SEDAR at www.sedar.com and on the Company's website at www.magnumenergyinc.com.

The interim 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 and was continued under the Business Corporations Act of Alberta on February 18, 2010. The Company is a public company whose Class A common shares trade on the TSX Venture Exchange. Magnum was formed to operate in Canada as an oil and gas exploration, development and production company.

SELECTED QUARTERLY INFORMATION

	November 30	
	2010	2009
Oil and natural gas sales	\$ 512,208	\$ 418,656
Production :		
Oil & NGLs (bbls)	987	1,638
Gas (mcf)	124,396	81,216
BOE	21,720	15,174
Average sales price:		
Oil & NGLs (\$/bbl)	65.99	68.18
Gas (\$/mcf)	3.59	3.78
Cash flow from (used in) operations	\$ (45,651)	\$ (77,469)
Per share (basic & diluted)	\$ (0.00)	\$ (0.00)
Net loss	\$ (276,775)	\$ (240,011)
Per share (basic & diluted)	\$ (0.01)	\$ (0.01)
Capital expenditures	\$ 290,122	\$ 3,655,918
Total assets	\$ 11,670,757	\$ 9,871,342
Weighted average number of shares		
-basic and diluted	34,512,400	26,363,352

RESULTS OF OPERATIONS

	Three Months Ended November 30	
	2010	2009
Oil and natural gas sales	\$ 512,208	\$ 418,656
Royalties	(45,409)	(40,696)
	466,799	377,960
Operating	218,393	121,973
General and administrative	236,163	277,520
Interest	57,894	55,936
Stock-based compensation	-	71,250
Depletion, depreciation and accretion	313,424	185,556
	825,874	712,235
Net loss from operations	\$ (359,075)	\$ (334,275)
Net loss per share, basic & diluted	\$ (0.01)	\$ (0.01)
Weighted average number of shares basic and diluted	- 34,512,400	26,363,352

Revenues

	Three Months ended November 30	
	2010	2009
Oil	\$ 43,233	\$ 100,406
Gas	447,073	306,982
Natural gas liquids	21,902	11,268
	\$ 512,208	\$ 418,656

Average selling prices

	Three Months ended November 30	
	2010	2009
Oil and NGLs(\$/bbl)	65.99	68.18
Gas (\$/mcf)	3.59	3.78
Total (\$/boe)	23.58	27.59

Oil revenues decreased for three month period ended November 30, 2010 over 2009 due to decreased production from the McLeod property. Gas sales for the period increased by 46% to \$447,073, due mainly to a 53% increase in production offset by a decrease in the price of gas over 2009.

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

Production

	Three Months Ended November 30	
	2010	2009
Oil and NGL's (bbls)	987	1,638
Gas (mcf)	124,396	81,216
Combined (boe)	21,720	15,174

Production for the three months ended November 30, 2010 increased by 43% on a per boe basis as compared to 2009, due mainly to new gas wells acquired and drilled in the Sedalia area during the year ended August 31, 2010. Six producing gas wells were acquired in October, 2009 and workovers and re-completions performed in late 2009 also resulted in increased production. An additional well drilled early in 2010 commenced production in March 2010. Three additional wells began production late in August, 2010 as the result of a completion, a recompletion and the drilling of a new well, all in the Sedalia area. Gas production from the Enchant well had been shut-in since September, 2008 and was brought onstream again in August, 2010.

Royalties

	Three Months Ended November 30	
	2010	2009
Crown	\$ 42,327	\$ 35,795
GORR	3,082	4,901
Total royalties expense	\$ 45,409	\$ 40,696
Royalties as a percent of revenue	8.9%	9.7%
Royalties expense per BOE	\$ 2.09	\$ 2.68

Royalties for the three months ended November 30, 2010 were 8.9% of total revenue (2009 – 9.7%); the decrease was due to lower royalty rates on lower productivity wells and oil crown royalties having less of an impact due to decreased oil production. Also, many of the Company's Sedalia wells have benefitted from the reduced royalty rates announced early in 2009 and have a maximum 5% crown royalty burden for the first year of production. Magnum anticipates its average royalty rates will remain approximately 10% through to the end of 2011.

Operating costs

	Three Months ended November 30	
	2010	2009
Total operating costs	\$ 218,393	\$ 121,973
Operating costs per BOE	\$ 10.05	\$ 8.04

Operating costs have increased for the three months ended November 30, 2010 over 2009 due to repairs required at the Company's operated gas processing facility in Sedalia and prior period expenses charged by the previous owner of certain Sedalia wells and facilities.

General and administrative expenses

General and administrative expenses decreased by \$41,357 (15%) in 2010 due to decreases in accounting, legal and travel expenses. Increases were incurred mainly in the areas of consulting and salaries and shareholder and trust services due to the Company's increased activity. Magnum

capitalized approximately \$20,300 of general and administrative expenses in 2010 as compared to \$12,600 in 2009. Details of general and administrative expenses by category are:

	Three Months Ended November 30	
	2010	2009
Accounting and Auditing	\$ 17,619	\$ 26,615
Consulting and salaries	103,311	91,928
Directors' fees	20,420	26,000
Shareholder and trust services	29,670	20,152
Legal fees	2,550	24,764
Office and miscellaneous	13,547	17,042
Rent	28,840	32,530
Reserve evaluations	33,495	24,791
Travel and entertainment	7,008	26,263
Overhead recoveries	(20,297)	(12,565)
General and administrative expense	\$ 236,163	\$ 277,520
General and administrative expense per BOE	\$ 10.87	\$ 18.29

Interest

Interest expensed during the three months ended November 30, 2010 was \$57,894 (2009 – \$55,936) and consists primarily of interest and bank fees on Magnum's credit facility.

Stock-based compensation

No stock options vested during the three months ended November 30, 2010. In October 2010, the Company granted 300,000 stock options, vesting one quarter at the end of each of January 15, 2011, April 15, 2011, July 15, 2011 and October 15, 2011 and expiring in 2 years, at a exercise price of \$0.295 per share. Stock-based compensation of approximately \$15,000 will be recognized over the vesting period.

Options issued and outstanding as of November 30, 2010 are exercisable as follows:

Number of Options	Exercise Price (\$)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
150,000	0.18	0.23	February 22, 2011	150,000
650,000	0.18	0.98	November 24, 2011	650,000
500,000	0.18	1.50	June 1, 2012	500,000
200,000	0.18	3.19	February 5, 2014	200,000
225,000	0.18	3.42	May 1, 2014	225,000
244,000	0.18	3.47	May 20, 2014	244,000
100,000	0.26	3.84	October 1, 2014	100,000
561,000	0.37	3.91	October 27, 2014	561,000
50,000	0.45	4.05	December 17, 2014	50,000
300,000	0.30	1.88	October 15, 2012	-
2,980,000		2.36		2,680,000

No additional options have been granted since November 30, 2010.

Depletion, depreciation and accretion

	Three Months ended November 30	
	2010	2009
Oil and natural gas properties	\$ 307,372	\$ 173,511
Office Equipment	1,334	2,575
Accretion of asset retirement obligation	4,718	9,470
	\$ 313,424	\$ 185,556
Depletion, depreciation and accretion per boe	\$ 14.43	\$ 12.23

Depletion and accretion increased during the three months ended November 30, 2010 due to increased production from the Sedalia area and an increase in the underlying depletable capital expenditures as compared to the prior year.

Future income tax recovery

For the three months ended November 30, 2010, Magnum recorded a future income tax recovery of \$82,300 (2009 - \$75,000). The recoveries were the result of the recognition of excess of tax deductions available over the carrying value of property and equipment.

Income tax deductions

The Company has approximately \$10,900,000 of available income tax deductions and does not expect to incur cash taxes in its 2011 fiscal year. The following table summarizes Magnum's available approximate income tax deductions as at November 30, 2010:

	Amount	Annual Rate (%)
Non-capital losses	\$ 2,894,000	100
Share issuance costs	179,000	20
Canadian exploration expenses	1,942,000	100
Canadian development expenses	524,000	30
Canadian oil and gas property expenses	2,093,000	10
Undepreciated capital costs	3,268,000	25-45
	\$ 10,900,000	

Net loss

The Company incurred a loss of \$276,775 (\$0.01 per share) for the three months ended November 30, 2010 as compared to a loss of \$240,011 (\$0.01 per share) for the same period in 2009. The increase in the loss was due mainly to increased depletion expense offset by decreases in general and administrative expenses and stock-based compensation.

Per boe information

	Three Months ended November 30			
	2010		2009	
(\$/boe)				
Average sales price	\$	23.58	\$	27.59
Operating		(10.05)		(8.04)
Royalties		(2.09)		(2.68)
Operating netback per boe		11.44		16.87
General and administrative costs		(10.87)		(18.29)
Interest and bank charges		(2.67)		(3.69)
Cash flow from operations per boe		(2.10)		(5.11)
Depletion, depreciation and accretion		(14.43)		(12.23)
Stock-based compensation		-		(4.70)
Settlement of account payable		-		1.28
Loss per boe (before tax recovery)	\$	(16.53)	\$	(20.76)

Cash outflows from operations

For the three months ended November 30, 2010, the Company's cash outflows from operations was \$45,651 (\$0.00 per share) as compared to \$77,469 (\$0.00 per share) for the same period in 2009.

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:	November 30 2010		August 31 2010		May 31 2010		February 28 2010	
Total revenue	\$	512,208	\$	527,387	\$	659,775	\$	842,464
Net income (loss)	\$	(276,775)	\$	(263,680)	\$	(169,177)	\$	15,471
Per share, basic and diluted	\$	(0.01)	\$	(0.01)	\$	(0.00)	\$	(0.00)
Production (boe)		21,720		20,499		25,179		23,023
Average pricing (\$/boe)		23.58		25.73		26.20		36.59

Three months ended:	November 30 2009		August 31 2009		May 31 2009		February 28 2009	
Total revenue	\$	418,656	\$	329,657	\$	346,048	\$	223,718
Net income (loss)	\$	(240,011)	\$	3,024	\$	(183,552)	\$	(152,763)
Per share, basic and diluted	\$	(0.01)	\$	(0.00)	\$	(0.02)	\$	(0.01)
Production (boe)		15,174		13,007		11,405		5,878
Average pricing (\$/boe)		27.59		25.32		30.31		37.86

CAPITAL EXPENDITURES

During the three months ended November 30, 2010, Magnum incurred \$290,122 of capital expenditures consisting mainly of completion and tie-in costs for two wells in the Sedalia area.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended November 30, 2010, the Company had negative cash flows from operations of \$45,651 (2009 – \$77,469). As at November 30, 2010, the Company had a working capital deficit of \$5,293,754 (August 31, 2010 - \$4,947,981). These circumstances lend doubt as to the ability of the Company to meet its bank loan obligations as they become due (see below) and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

The Company's ability to continue as a going concern is dependent on continued financial support from its shareholders and Lender, the ability of the Company to raise equity or debt financing and the attainment of profitable operations. The Company is currently in the process of completing the acquisition of a Viking oil producing property. Management believes the acquisition will have a significant impact on its reserves and net revenues by December 31, 2011 and coincident with the signing of the Purchase and Sale Agreement will seek financing to relieve its bank debt obligations. While management has been successful in obtaining additional sources of funding in the past, there can be no assurance that it will be able to do so in the future.

At November 30, 2010, the Company has available a demand revolving line of credit availability to a maximum of \$5,000,000 bearing interest at the financial institution's prime lending rate plus 2.5% per annum. As of January 28, 2011 the Company had drawn \$4,678,600 on its available line.

As collateral security for the loan facility, there is a general security agreement from the Company providing a security interest over all present and future acquired property and a floating charge on all lands owned by the Company. The credit facility has been extended and revolves beyond the initial fifteen month period as requested by the Company and accepted by the Lender. A fee of \$50,000 has been charged by the Lender for a three month extension and is payable upon the earlier of the repayment of the entire facility or April 30, 2011.

The amount of the facility is subject to a borrowing base test performed on a periodic basis by the Lender, based primarily on reserves and using commodity prices estimated by the Lender as well as other factors. The Lender has indicated that a decrease in the borrowing base has occurred as a result of the current price forecast for natural gas. A reduction to the credit facility has not yet been quantified and the Lender will require a repayment of some portion of the facility on April 30, 2011.

Pursuant to a private placement in December 2010, the Company issued 2,054,001 flow-through Class A common shares at a price of \$0.29 per share for gross proceeds of \$595,660. Finder's fees on the placement totaled approximately \$38,000.

OUTSTANDING SHARE DATA

As at November 30, 2010, 34,512,400 Class A common shares were issued and outstanding. An additional 2,054,001 Class A common shares were issued in December, 2010 pursuant to a private placement of flow-through shares and the outstanding number of Class A common shares of the Company as of January 28, 2011 is 36,566,401.

As at August 31, 2010, 2,680,000 options were issued and outstanding. In October 2010, an additional 300,000 stock options were granted to a consultant at an exercise price of \$0.295 per share. No options have been exercised since November 30, 2010.

FINANCIAL INSTRUMENTS

Cash and cash equivalents are designated as held-for-trading instruments and are measured at carrying value, which approximates fair value due to the short term nature of these instruments. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities and bank debt are designated as other financial liabilities. The Company did not have any commodity contracts related to production or prices during the period ended November 30, 2010 and has not entered into any as at January 28, 2011.

OFF-BALANCE SHEET ARRANGEMENTS

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

COMMITMENTS

Viking Oil Acquisition

On November 3, 2010, the Company announced it had entered into a letter of intent to acquire lands, producing oil wells and related production facilities in a Viking Oil prospect at a cost of \$2,800,000 before closing adjustments. As of the date of this MD&A the agreed upon date for the closing of the acquisition is March 15, 2011.

The Company is currently in the process of completing a joint operating agreement and a purchase and sale agreement with an industry partner whereby the partner will pay for the Viking Oil acquisition and the drilling of the initial two horizontal wells on existing lands to earn a 50% interest. The Company's share of the acquisition will initially be funded from the proceeds of the net revenues from the acquisition.

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:

2011	\$	119,358
2012		31,126
2013		12,000
2014		12,000
2015		10,000
	\$	184,484

In October 2010, the Company entered into a consulting agreement whereby the consultant will provide certain investment relations services. The terms of the agreement were for \$7,500 per month for the first three months which has been reduced to \$2,500 per month effective January 15, 2011 for the remaining nine months of the agreement.

Flow-through Shares

On December 31, 2010, the Company announced that it had closed a non-brokered private placement of \$595,660 through the issuance of 2,054,001 flow-through Class A common shares at a price of \$0.29 per share. Pursuant to the terms of the private placement, the Company will commit to renounce to the subscribers \$595,660 of expenditures that qualify as Canadian Exploration Expense

“CEE”) and Canadian Development Expense (“CDE”) for Canadian income tax purposes and to incur the expenditures no later than December 31, 2011.

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.

RELATED PARTY TRANSACTIONS

During the three months ended November 30, 2010, the Company incurred consulting fees totaling \$47,420 charged by companies controlled by directors or officers of the Company (2009 - \$19,300), and legal fees totaling \$2,550 charged by a firm where a director is a partner (2009 - \$11,122). These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

The Company shares office space with another public company which has certain directors and officers who are also directors and officers of the Company. During the three months ended November 30, 2010, the Company paid \$3,000 (2009 - \$6,303) 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 November 30, 2010 is approximately \$61,055 (August 31, 2010 - \$25,100) with respect to unpaid consulting fees, legal fees and general administration owing to related parties which is due under normal credit terms.

CHANGES IN ACCOUNTING POLICIES

There were no changes in accounting policies during the period ended November 30, 2010.

FUTURE ACCOUNTING PRONOUNCEMENTS

International Financial Reporting Standards (“IFRS”)

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

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

The Company has not completed development of its IFRS changeover plan, which will include project structure governance, resourcing and training, analysis of key GAAP differences and a phase plan to assess accounting policies under IFRS as well as potential first time adoption of IFRS exemptions. The Company plans 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 2011. The Company will disclose the key elements of its plan and progress on the project as information becomes available during the transition period.

CRITICAL ACCOUNTING ESTIMATES

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

- capital expenditures are based on estimates on projects in various stages of completion
- drilling royalty credits receivable are based on estimates of future crown royalty costs not yet billed
- royalties and operating costs are based on estimates for which costs had not yet been billed
- asset retirement obligations are based on estimates of future costs and timing of expenditures
- depletion, depreciation and accretion are based on estimates of oil and natural gas reserves that Magnum expects to recover in the future
- asset retirement obligations are based on estimates of future costs and timing of expenditures
- the future recoverable value of oil and gas properties is also based on estimates that the Company expects to realize
- stock-based compensation and warrants are based on estimates of the fair value of options and warrants
- income taxes are based on estimates of the deductibility of certain expenditures and of future tax rates and laws

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

Oil and gas reserves determination

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

Depletion

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

Impairment of oil and gas properties

Magnum is required to review the carrying value of all oil and gas assets for potential impairment. Impairment is indicated if the carrying amount of the oil and gas properties is not recoverable by the future undiscounted cash flows attributed to them. If impairment is indicated, the amount by which the

carrying value of the properties exceeds their estimated fair value is charged to earnings as part of depletion expense. The assessment of impairment is dependent upon estimates of reserves, production rates, future prices, future foreign exchange rates, future royalty rates, future operating costs and other relevant assumptions.

Stock-based compensation

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

Asset retirement obligations

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

Income tax accounting

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

RISKS AND UNCERTAINTIES

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

- finding and developing oil and natural gas reserves at economic costs
- production of oil and natural gas in commercial quantities
- marketability of oil and natural gas produced
- substantial capital requirements and access to capital markets
- volatility of commodity prices
- 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 raise the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. Moreover, future activities may require the Company to alter its capitalization significantly. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on the Company's financial condition, results of operations or prospects.

Competition

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

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

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

Environmental Risks

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

Reserve Replacement

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

Reliance on Operators and Consultants

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

Corporate Matters

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

Permits and Licenses

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

Additional Funding Requirements

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

Issuance of Debt

From time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair the Company's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access Restrictions

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

Kyoto Protocol

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

ADDITIONAL INFORMATION

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