MAGNUM ENERGY INC.

FINANCIAL STATEMENTS

For Period Ended February 28, 2010

MAGNUM ENERGY INC.

BALANCE SHEETS

		February 28 2010		August 31 2009
ASSETS				
Current assets:				
Accounts receivable	$	360,104	$	95,955
Prepaid expenses and deposits		62,997		46,236
		423,101		142,191
Property and equipment (note 4)		10,921,173		5,527,309
Future income tax asset (note 6)		-		203,000
	$	11,344,274	$	5,872,500
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	1,135,766	$	839,274
Bank debt (note 5)		4,236,004		1,387,759
		5,371,770		2,227,033
Future income tax liability (note 6)		221,500		-
Asset retirement obligations (note 7)		630,770		293,230
		6,224,040		2,520,263
Shareholders' equity:				
Share capital (note 8)		7,131,536		5,212,749
Warrants (note 8)		-		222,000
Contributed surplus (note 9)		1,043,260		747,510
Deficit		(3,054,562)		(2,830,022)
		5,120,234		3,352,237
	$	11,344,274	$	5,872,500

Commitments (note 11)
Contingent liabilities (note 15)
Subsequent events (note 16)

See accompanying notes to financial statements

Approved by the Directors:

"Richard A. Nemeth"	*"Gordon J. Dolph"*
Richard A. Nemeth	Gordon J. Dolph

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

	Three months ended February 28		Six months ended February 28	
	2010	**2009**	**2010**	**2009**
Revenue				
Oil and natural gas sales	$ 842,464	$ 222,547	$ 1,261,120	$ 853,385
Royalties	(83,357)	(55,126)	(124,053)	(122,017)
Interest	-	1,171	-	4,135
	759,107	168,592	1,137,067	735,503
Expenses	-			
Operating	141,842	66,832	263,815	135,297
General and administrative	212,044	180,180	489,564	430,658
Interest and bank charges	48,209	22,944	104,145	39,412
Stock-based compensation	6,500	-	77,750	-
Depletion, depreciation and accretion	320,491	51,399	506,047	350,814
	729,086	321,355	1,441,321	956,181
Loss from operations	30,021	(152,763)	(304,254)	(220,678)
Settlement of account payable (note 9)	-	-	19,264	-
Loss before income taxes	30,021	(152,763)	(284,990)	(220,678)
Future income tax (expense) recovery (note 7)	(14,550)	-	60,450	-
Net loss and comprehensive loss	15,471	(152,763)	(224,540)	(220,678)
Deficit, beginning of period	(3,070,033)	(2,496,731)	(2,830,022)	(2,428,816)
Deficit, end of period	$ (3,054,562)	$ (2,649,494)	$ (3,054,562)	$ (2,649,494)
Loss per share - basic and diluted (note 8)	$ 0.00	$ (0.01)	$ (0.01)	$ (0.01)

See accompanying notes to financial statements

MAGNUM ENERGY INC.
STATEMENTS OF CASH FLOWS
For the period ended February 28, 2010

	Three months ended February 28		Six months ended February 28	
	2010	**2009**	**2010**	**2009**
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net loss	$ 15,471	$ $ (152,763)	$ (224,540)	$ (220,678)
Adjustments for items not involving cash:				
Depletion, depreciation and accretion	320,491	51,399	506,047	350,814
Stock-based compensation	6,500	-	77,750	-
Settlement of account payable	-	-	(19,264)	-
Future income tax expense (recovery)	14,550	-	(60,450)	-
	357,012	(101,364)	279,543	130,136
Changes in non-cash working capital items related to operating:				
Accounts receivable	(184,944)	31,659	(221,309)	227,341
Prepaid expenses and deposits	9,561	4,454	5,298	5,908
Accounts payable and accrued liabilities	(145,569)	(145,236)	(105,112)	(38,902)
	36,060	(210,487)	(41,580)	324,483
INVESTING ACTIVITIES				
Property and equipment expenditures	(1,906,453)	(1,318,102)	(5,562,371)	(1,483,921)
Changes in non-cash working capital items related to investing:				
Accounts receivable	60,137	(71,490)	(42,840)	(55,707)
Prepaid expenses and deposits	(22,059)	-	(22,059)	-
Accounts payable and accrued liabilities	432,712	932,111	420,868	1,003,316
	(1,435,663)	(457,481)	(5,206,402)	(536,312)
FINANCING ACTIVITIES				
Proceeds from share issuance (net of issuance costs)	1,818,225	-	2,399,737	-
Bank debt proceeds, net of repayments	(418,622)	(75,000)	2,848,245	(150,000)
	1,399,603	(75,000)	5,247,982	(150,000)
Increase (decrease) in cash and cash equivalents	-	(742,968)	-	(361,829)
Cash and cash equivalents, beginning of period	-	975,668	-	594,529
Cash and cash equivalents, end of period	$ -	$ 232,700	$ -	$ 232,700
Cash and cash equivalents is comprised of:				
Balances with banks		2,439	$ -	$ 2,439
Term deposit		230,261	-	230,261
	$ -	$ 232,700	$ -	$ 232,700
Supplementary cash flow information:				
Interest paid	$ 43,977	$ 32,723	$ 74,798	$ 40,955
Income taxes paid	$ -	$ -	$ -	$ -

Non-cash transactions (note 12)

See accompanying notes to financial statements

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 commenced trading on September 28, 2005 on the TSX Venture Exchange. The Company is in the business of the acquisition, exploration, development and production of oil and gas properties in Alberta.

2. Significant Accounting Policies

Basis of Presentation

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, 2009. 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, 2009.

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.

3. Future Accounting Pronouncements

Business Combinations

Effective September 1, 2011, the Company will be required to adopt certain amendments of Section 1582 with respect to requirements of the use of the acquisitions method for business combinations and related disclosures with earlier application permitted. The Company plans to adopt this standard prospectively effective September 1, 2010 and does not expect the adoption of this standard to have a significant impact on its results of operations or financial position until a business combination occurs.

Consolidated Financial Statements and Non-controlling Interests

Effective September 1, 2011, the Company will be required to adopt Section 1601, **Consolidated Financial Statements,** and 1602, **Non-controlling Interests,** which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company plans to adopt these standards effective September 1, 2010 and does not expect the adoption to have a material impact on its results of operations or financial position.

International Financial Reporting Standards ("IFRS")

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

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

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

4. Property and Equipment

	February 28, 2010		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and gas properties	$ 14,259,349	$ 3,349,913	$ 10,909,436
Equipment	38,201	26,464	11,737
	$ 14,297,550	$ 3,376,377	$ 10,921,173

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

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

As at February 28, 2010, $969,691 (2009- $969,691) of oil and gas property costs are undeveloped and have not been subject to depletion. The calculation of depletion included future development costs of $770,000 (2009 - $300,000). During the six months ended February 28, 2010, the Company capitalized $57,000 (2009 - $nil) of general and administrative expenses.

5. Bank Debt

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

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

6. Income Taxes

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

	February 28, 2010	August 31, 2009
Carrying value of property and equipment in excess of available tax deductions	$ (786,500)	$ (275,000)
Non-capital losses carried forward	506,000	450,000
Share issue costs	59,000	28,000
	$ (221,500)	$ 203,000

At February 28, 2010 the Company had cumulative income tax deductions of approximately $9,800,000 which may be carried forward to reduce taxable income in future years. The benefits relating to these tax deductions have been reflected in these financial statements.

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 $912,000 (August 31, 2009: $511,000). These payments are expected to be made over the next four to sixteen 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:

	Six months ended February 28 2010	Year ended August 31 2009
Balance, beginning of period	$ 293,230	$ 163,003
Liabilities incurred	318,600	119,188
Accretion expense	18,940	11,039
Balance, end of period	$ 630,770	$ 293,230

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:

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	6,795,999		2,535,960
Exercise of options	20,000		7,600
Share issuance costs (net of income tax effect)			(102,073)
Future income tax effect related to flow-through shares			(522,700)
Balance, February 28, 2010	31,959,571	$	7,131,536

Private Placements

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

Flow-through Shares

On December 17, 2010, the Company issued 3,795,999 Class A flow-through common shares at a price of $0.51 per share for gross proceeds of $1,935,960. In February 2009, the Company renounced $1,935,960 of qualifying expenditures and recorded a recovery of future income tax assets with a corresponding reduction in share capital of $522,700 during the period with respect to the renunciation. As at February 28, 2010, the Company has $273,000 remaining to expend pursuant to the flow-through renunciation.

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 six months ended February 28, 2010, when certain conditions regarding the trading price of the shares of the Company were met.

Per Share Amounts

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

	Three months ended February 28		Six months ended February 28	
	2010	**2009**	**2010**	**2009**
Basic	31,189,593	24,929,514	28,779,969	24,929,514
Diluted	33,209,657	24,929,514	30,800,033	24,929,514

The weighted average number of shares outstanding for the six months ended February 28, 2009 was not increased for outstanding stock options and warrants for purposes of calculating diluted loss per share as the effect would be anti-dilutive.

Warrants

During the year ended August 31, 2008, the Company issued 1,585,000 Class A common shares and warrants for an aggregate value of $475,500 as consideration to acquire certain oil and gas properties. Each warrant entitled the holder to purchase an additional Class A common share at $0.40 per share until October 15, 2009. The fair value of $222,000 assigned to the warrants ($0.14 per warrant) was calculated using the Black-Scholes pricing model with 99% volatility,a risk free interest rate of 2%, a 0% dividend yield and an expected two year life. During the six months ended February 28, 2010, the warrants expired, unexercised.

Share purchase warrants transactions for the period are summarized below:

	Number of Warrants	Weighted Average Exercise Price
Balance as at August 31, 2008	7,831,093	$0.42
Expired	(6,246,093)	0.42
Balance as at August 31, 2009	1,585,000	$0.40
Expired	(1,585,000)	0.40
Balance as at February 28, 2010	-	

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, 2008	2,085,000	0.36
Granted	669,000	0.18
Cancelled	(340,000)	0.42
Balance as at August 31, 2009	2,414,000	0.29
Granted	725,000	0.36
Expired	(275,000)	0.45
Exercised	(20,000)	0.18
Balance as at February 28, 2010	2,844,000	0.23

As at February 28, 2010, stock options were outstanding as follows:

Number of Options	Exercise Price ($)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
300,000	0.18	0.98	February 22, 2011	300,000
650,000	0.18	1.73	November 24, 2011	650,000
500,000	0.18	2.25	June 1, 2012	500,000
200,000	0.18	3.94	February 5, 2014	200,000
225,000	0.18	4.17	May 1, 2014	225,000
244,000	0.18	4.22	May 20, 2014	244,000
100,000	0.26	4.59	October 1, 2014	100,000
575,000	0.37	4.66	October 27, 2014	575,000
50,000	0.45	4.80	December 17, 2014	50,000
2,844,000		3.05		2,844,000

During the year ended August 31, 2009, the Company applied to the TSX Venture Exchange to re-price, to $0.18 per share, 1,300,000 options outstanding at an average exercise price of $0.32 per share. The re-pricing was approved by the non-interested shareholders at the Annual and Special Meeting of the Company held on January 20, 2010.

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

	2010	2009
Fair value	$0.08 to $0.13	$0.12
Risk-free interest rate	2.51 - 2.75%	2.14%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	29%	84%
Expected life of options (years)	5	5

9. Contributed Surplus

The following summarizes the Company's contributed surplus:

	February 28 2010	August 31 2009
Balance, beginning of year	$ 747,510	$ 679,050
Options vested	77,750	68,460
Options exercised	(4,000)	-
Warrants expired	222,000	-
Balance, end of year	$ 1,043,260	$ 747,510

10. Related Party Transactions

During the six months ended February 28, 2010, the Company incurred consulting fees totaling $49,513 charged by companies controlled by directors or officers of the Company (2009 -$100,550) and legal fees totaling $23,651 charged by a firm where a director is a partner (2009 - $12,283). During the six months ended February 28, 2010, the Company incurred directors' fees totaling $41,000 (2009 -$96,000). These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

The Company shares office space with another public company which has certain directors and officers who are also directors and officers of the Company. During the six months ended February 28, 2010, the Company paid approximately $12,638 (2009 - $11,982) 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 February 28, 2010 is approximately $43,633 (August 31, 2009 - $24,800) with respect to unpaid consulting, legal and directors' fees and general administration owing to related companies which is due under normal credit terms.

11. Commitments

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

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

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

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

12. 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 six months ended February 28, 2010 as follows:

- the Company recorded an asset retirement obligation of $318,600 (2009 - $66,963) on its proven properties

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 November 30, 2009, 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 February 28, 2010. If interest rates had been 1% lower with all other variables held constant, after tax net loss for the six months ended February 28, 2010 would have been approximately $15,000 lower, due to lower interest expense. An equal opposite impact would have occurred to net loss had interest rates been 1% higher.

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

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas are denominated in U.S. dollars, and therefore, are impacted by changes in the exchange rate between the Canadian and U.S. dollar. As at February 28, 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 February 28, 2010 $nil of accounts payable (August 31, 2009 - $19,298) is denominated in U.S. dollars.

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 February 28, 2010, the Company's receivables consisted of approximately $23,951 from joint venture partners, $229,028 from oil and gas marketers and $107,125 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 February 28, 2010, the Company's largest credit exposure to the petroleum and natural gas marketers represents 64% 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 February 28, 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 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.

Fair Value of Financial Instruments

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

14. Capital Management

There was no change to the Company's capital management during the period ended February 28, 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 growth in reserve values, the availability of other sources of debt with different characteristics than the existing bank debt, the sale of assets, limiting the size of the investment program, and new share issuances if available on favourable terms. The Company's objective is to maintain a flexible structure that will allow it to execute its investment program, including exploration and development of its oil and gas properties and acquisition and disposition transactions that will carry varying amounts of risk. The Company continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its investment program. The Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Company monitors its capital monthly by forecasting expected cash flows from oil and natural gas based on current price and production information. The Company also monitors compliance with the financial covenants it has under its credit facility whereby certain ratios are required to be maintained between specific reserve value data and financial data is monitored. As of February 28, 2010, the Company was in compliance with all required covenants with its banker.

15. Contingent Liabilities

Clarification of producing zone

The operator of one of the Company's properties has applied to the Energy Resources Conservation Board ("ERCB") to have the spacing unit of the producing zone of a well reduced to a half section spacing. If this is not approved by the ERCB, the Company's working interest in the well will decrease from 40% to 30% and it will have to pay an industry partner the amount by which net revenues from the well from inception have exceeded the capital costs incurred on the well. To February 28, 2010, the amount owing if the application is denied is approximately $130,200. The amount has not been accrued in the financial statements to February 28, 2010 as the outcome of the ERCB application is not determinable. Any amount owing with respect to this application will be recorded in the period the application is approved or denied.

16. Subsequent Events

On March 31, 2010, the Company announced that it had entered into a Conditional Land Acquisition Agreement to acquire 13.75 (gross and net) sections of land in two areas in Alberta for a total cost of $2,220,000. The purchase price will be paid in part with cash and in part with the issuance of no less than 1,100,000 Class A common shares of the Company.

MAGNUM ENERGY INC.

Management's Discussion & Analysis

For the Six Months Ended February 28, 2010

MANAGEMENT'S DISCUSSION & ANALYSIS

April 28, 2010

This management's discussion and analysis (MD&A) of financial condition and results of operations should be read in conjunction with the unaudited financial statements of Magnum Energy Inc. (the "Company" or "Magnum") for the six months ended February 28, 2010 as well as the audited financial statements and MD&A for the years ended August 31, 2009 and 2008. 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 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 Alberta Business Corporations Act on February 18, 2010. 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.

SELECTED QUARTERLY INFORMATION

	Three months ended February 28		Six months ended February 28	
	2010	**2009**	**2010**	**2009**
Oil and natural gas sales	$ 842,464	$ 222,547	$ 1,261,120	$ 853,385
Production :				
Oil & NGLs (bbls)	1,696	3,693	3,334	10,064
Gas (mcf)	129,120	13,113	210,336	29,311
BOE	23,216	5,878	38,390	14,949
Average sales price:				
Oil & NGLs ($/bbl)	72.79	40.19	70.52	66.77
Gas ($/mcf)	5.57	5.65	4.88	6.19
Cash flow from (used in) operations	$ 357,012	$ (101,364)	$ 279,543	$ 130,136
Per share (basic & diluted)	$ 0.01	$ (0.00)	$ 0.01	$ 0.01
Per BOE	15.38	(17.24)	7.28	8.71
Net income (loss) after tax	$ 15,471	$ (152,763)	$ (224,540)	$ (220,678)
Per share (basic & diluted)	$ 0.00	$ (0.01)	$ (0.01)	$ (0.01)
Capital expenditures	$ 1,906,453	$ 1,318,102	$ 5,562,371	$ 1,483,921
Total assets	$ 11,344,274	$ 5,524,766	$ 11,344,274	$ 5,524,766
Weighted average number of shares				
-basic	31,189,593	24,929,514	28,779,969	24,929,514
-diluted	33,209,657	24,929,514	30,800,033	24,929,514

HIGHLIGHTS FOR THE SIX MONTHS ENDED FEBRUARY 28, 2010

- Petroleum and natural gas production was 38,390 boes for the period, an increase of 157% compared to 14,949 boes for the six months ended February 28, 2009.
- The Company acquired 13 gross (9.24 net) sections of land on October 20, 2009 in its core Sedalia area with additional gas production of approximately 415 mcf/d.
- In November 2009, Magnum installed a second compressor at its Sedalia gas processing facility bringing the total production capacity at the site to 6,200 mcf/d.
- The Company reduced its operating costs from $9.05 per boe for the six months ended February 28, 2009 to $6.87 per boe for the same period ended February 28, 2010.

RESULTS OF OPERATIONS

	Three Months Ended February 28		Six Months Ended February 28	
	2010	2009	2010	2009
Oil and natural gas sales	$ 842,464	$ 222,547	$ 1,261,120	$ 853,385
Royalties	(83,357)	(55,126)	(124,053)	(122,017)
Interest	-	1,171	-	4,135
	759,107	168,592	1,137,067	735,503
Operating	141,842	66,832	263,815	135,297
General and administrative	212,044	180,180	489,564	430,658
Interest	48,209	22,944	104,145	39,412
Stock-based compensation	6,500	-	77,750	-
Depletion, depreciation and accretion	320,491	51,399	506,047	350,814
	729,086	321,355	1,441,321	956,181
Net income (loss) from operations	$ 30,021	$ (152,763)	$ (304,254)	$ (220,678)
Net loss per share, basic & diluted	$ 0.00	$ (0.01)	$ (0.01)	$ (0.01)

Revenues

	Three Months ended February 28		Six Months ended February 28	
	2010	2009	2010	2009
Oil	$ 107,487	$ 139,371	$ 207,893	$ 653,392
Gas	719,012	74,119	1,025,994	181,443
Natural gas liquids	15,965	9,057	27,233	18,550
	$ 842,464	$ 222,547	$ 1,261,120	$ 853,385

Average selling prices

	Three Months ended February 28		Six Months ended February 28	
	2010	2009	2010	2009
Oil and NGLs($/bbl)	72.79	40.19	70.52	66.77
Gas ($/mcf)	5.57	5.65	4.88	6.19
Total ($/boe)	36.29	37.86	32.85	57.09

Revenues increased during the periods ended February 28, 2010 over 2009 due to gas production from the Sedalia area which commenced in April, 2009. Additional gas production in the area was acquired effective October 20, 2009. Oil revenues declined as a result of declines in production from the McLeod well.

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

Production

	Three Months Ended February 28		Six Months Ended February 28	
	2010	2009	2010	2009
Oil and NGL's (bbls)	1,696	3,693	3,334	10,064
Gas (mcf)	129,120	13,113	210,336	29,311
Combined (boe)	23,216	5,878	38,390	14,949

Oil production for the three and six months ended February 28, 2010 decreased significantly from the McLeod well due to higher than expected declines. Gas production increased mainly due to three new gas wells in the Sedalia area two of which commenced production in April 2009 and the third in August, 2009. Additional gas production of approximately 415 mcf/d was acquired on October 20, 2009. Gas production from the Enchant well was 19 boe/d when it was shut-in in September, 2008 pending clarification of the producing zone.

Royalties

	Three Months ended February 28		Six Months ended February 28	
	2010	2009	2010	2009
Crown	$ 79,533	$ 49,980	$ 115,328	$ 110,852
GORR	3,824	5,146	8,725	11,165
Total royalties expense	$ 83,357	$ 55,126	$ 124,053	$ 122,017
Royalties as a percent of revenue	9.9%	24.8%	9.8%	14.3%
Royalties expense per BOE	$ 3.59	$ 9.38	$ 3.23	$ 8.16

The Company’s net royalty rate averaged 9.8% for the six months ended February 28, 2010 (2009 – 14.3%). While Magnum is incurring crown royalties at a rate of 31% on its production from the McLeod oil well, the Company’s Sedalia wells have benefitted from the reduced royalty rates announced earlier in 2009.

Operating costs

	Three Months ended February 28		Six Months ended February 28	
	2010	2009	2010	2009
Operating expenses	$ 116,821	$ 54,580	$ 218,296	$ 117,467
Transportation costs	25,021	12,252	45,519	17,830
Total operating costs	$ 141,842	$ 66,832	$ 263,815	$ 135,297
Operating costs per BOE	$ 6.11	$ 11.37	$ 6.87	$ 9.05

Operating costs have increased in total for the three and six months ended February 28, 2010 over 2009 due to increased production, however; on a per boe basis, operating costs have decreased by 24% from $9.05 to $6.87 over the six months then ended. Increased costs and decreased production resulted in an average operating cost of $17.88 per boe at the Cherry wells which were sold effective December 31, 2009. Operating costs in the Sedalia area averaged $5.94 per boe. Operating costs per boe are expected to decline in the future due to increased production from additional wells in the Sedalia area and the sale of the Cherry area wells.

General and administrative expenses

General and administrative expenses have increased by approximately $59,000 (14%) for the six months ended February 28, 2010 over 2009 due to the Company's increased activity level. On a per boe basis, general and administrative costs have decreased by 56% for the six months ended February 28, 2010 and by 70% for the three months then ended as compared to the same periods for the previous fiscal year. Magnum has increased the number of personnel to its current level of eight (2009 - seven) and has four outside directors.

Details of general and administrative expenses by category are:

	Three Months ended February 28		Six Months ended February 28	
	2010	2009	2010	2009
Accounting and Auditing	$ 33,009	$ 21,850	$ 59,624	$ 56,717
Consulting and salaries	113,623	40,880	205,551	129,929
Directors' fees	15,000	69,000	41,000	96,000
Shareholder and trust services	22,376	10,843	42,528	24,959
Legal fees	18,616	10,188	43,380	12,790
Office and miscellaneous	16,562	20,232	33,604	44,492
Rent	32,270	32,046	64,800	61,269
Reserve evaluations	-	5,844	24,791	20,484
Travel and entertainment	5,216	894	31,479	15,615
Overhead recoveries	(44,628)	(31,597)	(57,193)	(31,597)
General and administrative expense	$ 212,044	$ 180,180	$ 489,564	$ 430,658
General and administrative expense per BOE	$ 9.13	$ 30.65	$ 12.75	$ 28.81

Interest and bank charges

Interest and bank charges expensed during the six months ended February 28, 2010 was $104,145 and consists of interest of $69,145 and bank fees of $35,000 for Magnum's credit facility. The 2009 expense incurred of $39,412 consisted of interest on the credit facility of $13,400 and Part XII.6 tax of approximately $26,000. The Part XII.6 tax was levied commencing March 1, 2008 at a prescribed rate applied to the difference between the amount of flow-through expenditures renounced effective December 31, 2007 and the actual expenditures incurred until December 31, 2008.

Stock-based compensation

During the six months ended February 28, 2010, the Company granted 725,000 stock options to various officers, consultants and directors of the Company at a weighted average price of $0.36 per share. On October 21, 2009, 275,000 options exercisable at $0.45 per share expired. The fair value of the options granted ranged from $0.08 to $0.13 per share for a total stock based compensation expense for the period of $77,750 (2008 - $nil). All options issued and outstanding 28, 2010 were fully vested and expire as follows:

Number of Options	Exercise Price ($)	Remaining contractual life in years	Expiry Date
300,000	0.18	0.98	February 22, 2011
650,000	0.18	1.73	November 24, 2011
500,000	0.18	2.25	June 1, 2012
200,000	0.18	3.94	February 5, 2014
225,000	0.18	4.17	May 1, 2014
244,000	0.18	4.22	May 20, 2014
100,000	0.26	4.59	October 1, 2014
575,000	0.37	4.66	October 27, 2014
50,000	0.45	4.80	December 17, 2014
2,844,000		3.05	

In May 2009, Magnum applied to the TSX Venture Exchange to re-price, to $0.18 per share, 1,300,000 options outstanding at an average exercise price of $0.36 per share. The re-pricing was approved by the non-interested shareholders at the Annual and Special Meeting of the Company held on January 20, 2010.

In February, 2010, a consultant to the Company exercised 20,000 options at a price of $0.18 per share. In March, 2010, the same consultant exercised 14,000 options at a price of $0.37 per share.

Depletion, depreciation and accretion

	Three Months ended February 28		Six Months ended February 28	
	2010	2009	2010	2009
Oil and natural gas properties	$ 308,447	$ 46,249	$ 481,958	$ 340,476
Office Equipment	2,574	2,297	5,149	4,632
Accretion of asset retirement obligation	9,470	2,853	18,940	5,706
	$ 320,491	$ 51,399	$ 506,047	$ 350,814
Depletion, depreciation and accretion per boe	$ 13.80	$ 8.74	$ 13.18	$ 23.47

Depletion increased during three and six months ended February 28, 2010 as compared to 2009 due to increased production from the Sedalia area. Accretion expense increased due to the site restoration and abandonment obligations incurred upon the acquisition of additional wells and a gas processing facility in October, 2009.

Future income tax recovery

For the six months ended February 29, 2010, Magnum recorded a future income tax recovery of $60,450 (2008 - $nil). The recovery was the result of the recognition of excess of tax deductions available over the carrying value of property and equipment. The Company has determined that it is more likely than not that Magnum will realize the benefits from its tax assets.

Income tax deductions

The Company has approximately $9,800,000 of available income tax deductions and does not expect to incur cash taxes in its 2010 fiscal year. The following table summarizes Magnum's available approximate income tax deductions as at February 28, 2010:

	Amount	Annual Rate (%)
Non-capital losses	$ 1,943,000	100
Share issuance costs	221,000	20
Canadian exploration expenses	1,936,000	100
Canadian development expenses	23,000	30
Canadian oil and gas property expenses	2,123,000	10
Undepreciated capital costs	3,566,000	25-45
	$ 9,812,000	

Net loss

The Company incurred a loss of $224,540 ($0.01 per share) for the six months ended February 28, 2010 as compared to a loss of $220,678 ($0.01 per share) for the same period in 2009. The increase in the loss was mainly due to increased gas production and revenues which were offset by increases in operating costs, general and administrative expenses, interest and depletion which were a result of the higher level of activity of the Company during the first half of the year as compared to 2009.

Per boe information

	Three Months ended February 28		Six Months ended February 28	
	2010	2009	2010	2009
($/boe)				
Average sales price	$ 36.29	$ 37.86	$ 32.85	$ 57.09
Operating	(6.11)	(11.37)	(6.87)	(9.05)
Royalties	(3.59)	(9.38)	(3.23)	(8.16)
Operating netback per boe	26.59	17.11	22.75	39.88
General and administrative costs	(9.13)	(30.65)	(12.75)	(28.81)
Interest income	-	0.20	-	0.28
Interest and bank charges	(2.08)	(3.90)	(2.72)	(2.64)
Cash flow from operations per boe	15.38	(17.24)	7.28	8.71
Depletion, depreciation and accretion	(13.80)	(8.74)	(13.18)	(23.47)
Stock-based compensation	(0.29)	-	(2.02)	-
Settlement of account payable	-	-	0.50	-
Income (loss) before taxes per boe	$ 1.29	$ (25.98)	$ (7.42)	$ (14.76)

Cash flow from operations

For the six months ended February 28, 2010, the Company's cash flow from operations was $279,543 ($0.01 per share) as compared to $130,136 ($0.01 per share) for the same period in 2009 due mainly to increased natural gas revenues.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

Three months ended:	**February 28 2010**	**November 30 2009**	**August 31 2009**	**May 31 2009**
Total revenue	$ 842,464	$ 418,656	$ 329,657	$ 346,048
Net income (loss)	$ 15,471	$ (240,011)	$ 3,024	$ (183,552)
Per share, basic and diluted	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.02)
Production (boe)	23,216	15,174	13,007	11,405
Average pricing ($/boe)	36.29	27.59	25.32	30.31

Three months ended:	**February 28 2009**	**November 30 2008**	**August 31 2008**	**May 31 2008**
Total revenue	$ 223,718	$ 633,802	$ 473,237	$ 708,505
Net income (loss)	$ (152,763)	$ (67,915)	$ (281,914)	$ 272,908
Per share, basic and diluted	$ (0.01)	$ -	$ (0.01)	$ 0.01
Production (boe)	5,878	9,071	6,205	8,851
Average pricing ($/boe)	37.86	69.54	75.76	79.42

CAPITAL EXPENDITURES

During the six months ended February 28, 2010, Magnum incurred capital expenditures as follows:

Geological	$	89,804
Drilling and completions		1,650,381
Well equipping and facilities		1,313,123
Property acquisition		2,836,251
Sale of Cherry area		(224,986)
Office equipment		2,523
Drilling credits		(104,725)
Total	$	5,562,371

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

During the six months ended February 28, 2010, the Company drilled and completed one gas well and re-completed eight previously producing gas wells to enhance production. The well equipping and facilities costs were incurred mainly on the purchase and installation of a second compressor at the Sedalia gas processing facility and the installation of five separators at wells in the Sedalia area.

Effective December 31, 2009, the Company sold its interest in the Cherry area wells and facilities for net proceeds of approximately $225,000.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended February 28. 2010, the Company had cash flows from operations of $279,543 (2009 – $130,136). As at February 28, 2010, the Company had a working capital deficit of $4,948,669 and had incurred a loss of $224,540 (2008 - $220,678) for the six months then ended.

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

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

Pursuant to a private placement, on October 23, 2009, the Company issued 3,000,000 Class A common shares at a price of $0.20 per share for gross proceeds of $600,000. All of the shares

issued pursuant to the private placement are subject to a hold period expiring on February 24, 2010. The funds were used in part to pay outstanding accounts payable and for current working capital.

On December 17, 2009, the Company closed two non-brokered private placements totaling 3,795,999 flow-through Class A common shares at a price of $0.51 per share for total proceeds of $1,935,960. As of February 28, 2010, the Company had incurred $1,663,000 of such qualifying expenditures.

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

OUTSTANDING SHARE DATA

As at February 28, 2010, 31,959,571 Class A common shares were issued and outstanding. Pursuant to the exercise of stock options in March, 2010, 14,000 Class A common shares were issued resulting in a total of 31,973,571 Class A common shares issued and outstanding as of April 28, 2010.

As at April 28, 2010, 2,830,000 options were issued and outstanding.

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 six months ended February 29, 2010 and has not entered into any as at April 28, 2010.

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

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

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

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

Flow-through Shares

In December, 2009, the Company issued an aggregate of $1,935,960 of flow-through shares. Pursuant to the terms of the agreements, the Company committed to renounce to the subscribers $1,935,960 of expenditures that qualify as Canadian Exploration Expense ("CEE") and Canadian Development Expense ("CDE") for Canadian income tax purposes and to incur the expenditures no later than December 31, 2010. As of April 28, 2010, the Company estimates that it has incurred $1,710,000 of such qualifying expenditures and that the remainder of the expenditures will be incurred prior to June 30, 2010.

CONTINGENCIES

Clarification of producing zone

The operator of one of the Company's properties has applied to the Energy Resources Conservation Board ("ERCB") to have the spacing unit of the producing zone of a well reduced to a half section spacing. If this is not approved by the ERCB, the Company's working interest in the well will decrease from 40% to 30% and it will have to pay an industry partner the amount by which net revenues from the well from inception have exceeded the capital costs incurred on the well. To February 28, 2010, the amount owing if the application is denied is approximately $130,200. The amount has not been accrued in the financial statements to February 28, 2010 as the outcome of the ERCB application is not determinable. Any amount owing with respect to this application will be recorded in the period the application is approved or denied.

RELATED PARTY TRANSACTIONS

During the six months ended February 28, 2010, the Company incurred consulting fees totaling $49,513 charged by companies controlled by directors or officers of the Company (2009 -$100,550), and legal fees totaling $23,651 charged by a firm where a director is a partner (2009 - $12,283). During the six months ended February 28, 2010, the Company incurred directors' fees totaling $41,000 (2009 -$96,000). These transactions were measured at the exchange amount which is the amount agreed upon by the transacting parties.

The Company shares office space with another public company which has certain directors and officers who are also directors and officers of the Company. During the six months ended February 28, 2010, the Company paid approximately $12,638 (2009 - $11,982) 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 February 28, 2010 is approximately $43,600 (August 31, 2009 - $24,800) with respect to unpaid consulting, legal and directors' fees and general administration owing to related companies which is due under normal credit terms.

CHANGES IN ACCOUNTING POLICIES

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

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

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

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

FUTURE ACCOUNTING PRONOUNCEMENTS

Business Combinations

Effective September 1, 2011, the Company will be required to adopt certain amendments of Section 1582 with respect to requirements of the use of the acquisitions method for business combinations and related disclosures with earlier application permitted. The Company plans to adopt this standard prospectively effective September 1, 2010 and does not expect the adoption of this standard to have a significant impact on its results of operations or financial position until a business combination occurs.

Consolidated Financial Statements and Non-controlling Interests

Effective September 1, 2011, the Company will be required to adopt Section 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replace existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 with earlier application permitted. The Company plans to adopt these standards effective September 1, 2010 and does not expect the adoption to have a material impact on its results of operations or financial position.

International Financial Reporting Standards ("IFRS")

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

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

be required to adopt a form similar to "successful efforts" method of accounting for oil and gas on a prospective basis.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Oil and gas reserves determination

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

Depletion

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

Impairment of oil and gas properties

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

Stock-based compensation

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

Asset retirement obligations

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

Income tax accounting

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

RISKS AND UNCERTAINTIES

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

- finding and developing oil and natural gas reserves at economic costs
- production of oil and natural gas in commercial quantities
- marketability of oil and natural gas produced
- substantial capital requirements and access to capital markets

- environmental risks
- insurance
- reliance on operators and key employees
- third party credit risk
- changes in legislative and incentive programs

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

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

Insurance

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

Prices, Markets and Marketing of Crude Oil and Natural Gas

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

In addition to establishing markets for its oil and natural gas, the Company must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas, which may be acquired or discovered by the Company, will be affected by numerous factors beyond its control. The Company will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines, which deliver natural gas to

commercial markets. The Company will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Company has limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements; Liquidity

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

Competition

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

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

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

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign

governments and third parties and may require the Company to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Company's financial condition, results of operations or prospects.

Reserve Replacement

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

Reliance on Operators and Consultants

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

Corporate Matters

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

Permits and Licenses

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

Additional Funding Requirements

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

Issuance of Debt

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

Availability of Drilling Equipment and Access Restrictions

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

Kyoto Protocol

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

ADDITIONAL INFORMATION

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