



MAGNUM ENERGY INC.
INTERIM FINANCIAL STATEMENTS
For Six Months Ended February 28, 2011
(unaudited)

MAGNUM ENERGY INC.
INTERIM BALANCE SHEETS
(Unaudited)

	February 28 2011	August 31 2010
ASSETS		
Current assets:		
Accounts receivable	\$ 187,796	\$ 376,878
Prepaid expenses and deposits	70,554	85,709
	<u>258,350</u>	<u>462,587</u>
Property and equipment (note 4)	11,124,845	11,288,043
	<u>\$ 11,383,195</u>	<u>\$ 11,750,630</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 403,143	\$ 1,172,267
Bank debt (note 5)	4,776,808	4,248,301
	<u>5,179,951</u>	<u>5,420,568</u>
Future income tax liability (note 6)	44,000	82,300
Asset retirement obligations (note 7)	490,636	481,200
	<u>5,714,587</u>	<u>5,984,068</u>
Shareholders' equity:		
Share capital (note 8)	8,584,409	8,099,711
Warrants (note 8)	9,400	9,400
Contributed surplus (note 9)	1,096,120	1,144,870
Deficit	(4,021,321)	(3,487,419)
	<u>5,668,608</u>	<u>5,766,562</u>
	<u>\$ 11,383,195</u>	<u>\$ 11,750,630</u>
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.**INTERIM STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**
(Unaudited)

	Three months ended February 28		Six months ended February 28	
	2011	2010	2011	2010
Revenue				
Oil and natural gas sales	\$ 408,624	\$ 842,464	\$ 920,832	\$ 1,261,120
Royalties	(27,239)	(83,357)	(72,648)	(124,053)
	381,385	759,107	848,184	1,137,067
Expenses				
Operating	192,491	141,842	410,884	263,815
General and administrative	241,557	212,044	477,720	489,564
Interest and bank charges	63,012	48,209	120,906	104,145
Stock-based compensation	3,750	6,500	3,750	77,750
Depletion, depreciation and accretion	239,792	320,491	553,216	506,047
	740,602	729,086	1,566,476	1,441,321
Income (loss) from operations	(359,217)	30,021	(718,292)	(304,254)
Settlement of account payable (note 8)	-	-	-	19,264
Income (loss) before income taxes	(359,217)	30,021	(718,292)	(284,990)
Future income tax recovery (expense) (note 6)	102,090	(14,550)	184,390	60,450
Net and comprehensive income (loss)	(257,127)	15,471	(533,902)	(224,540)
Deficit, beginning of period	(3,764,194)	(3,070,033)	(3,487,419)	(2,830,022)
Deficit, end of period	\$ (4,021,321)	\$ (3,054,562)	\$ (4,021,321)	\$ (3,054,562)
Income (loss) per share:				
-basic and diluted (note 8)	\$ (0.01)	\$ 0.00	\$ (0.02)	\$ (0.01)

See accompanying notes to financial statements

MAGNUM ENERGY INC.
INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended February 28		Six months ended February 28	
	2011	2010	2011	2010
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income (loss)	\$ (257,127)	\$ 15,471	\$ (533,902)	\$ (224,540)
Adjustments for items not involving cash:				
Depletion, depreciation and accretion	239,792	320,491	553,216	506,047
Stock-based compensation	3,750	6,500	3,750	77,750
Settlement of account payable	-	-	-	(19,264)
Future income tax (recovery) expense	(102,090)	14,550	(184,390)	(60,450)
	(115,675)	357,012	(161,326)	279,543
Changes in non-cash working capital items related to operating:				
Accounts receivable	66,753	(184,944)	67,414	(221,309)
Prepaid expenses and deposits	5,764	9,561	13,355	5,298
Accounts payable and accrued liabilities	(151,334)	(145,569)	(38,648)	(105,112)
	(194,492)	36,060	(119,205)	(41,580)
INVESTING ACTIVITIES				
Property and equipment expenditures	(90,460)	(1,906,453)	(380,582)	(5,562,371)
Changes in non-cash working capital items related to investing:				
Accounts receivable	69,531	60,137	121,668	(42,840)
Prepaid expenses and deposits	900	(22,059)	1,800	(22,059)
Accounts payable and accrued liabilities	(156,657)	432,712	(730,476)	420,868
	(176,686)	(1,435,663)	(987,590)	(5,206,402)
FINANCING ACTIVITIES				
Proceeds from share issuance (net of issuance costs)	578,288	1,818,225	578,288	2,399,737
Bank debt proceeds, net of repayments	(207,110)	(418,622)	528,507	2,848,245
	371,178	1,399,603	1,106,795	5,247,982
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	\$ 63,012	\$ 43,977	\$ 120,906	\$ 74,798
Income taxes paid	\$ -	\$ -	\$ -	\$ -

Non-cash transactions (note 12)

See accompanying notes to financial statements

MAGNUM ENERGY INC.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

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 natural 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 six months ended February 28, 2011, the Company incurred a loss of \$533,902 and cash outflows from operating activities of \$161,326. The Company's working capital deficit and accumulated deficit at February 28, 2011 totalled \$4,921,601 and \$4,021,321 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 completed the acquisition of a Viking oil producing property on March 15, 2011 (see Note 15). 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 began to seek financing (see Note 15) to fund certain capital expenditures, the acquisition of the Viking oil property and 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.

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 INTERIM FINANCIAL STATEMENTS**

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

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 February 28, 2011, \$1,110,000 (2010 - \$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 (2010 - \$770,000). During the six months ended February 28, 2011, the Company recovered approximately \$18,000 (2010 - \$57,000) of general and administrative expenses through operated capital expenditures.

February 28, 2011			
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Oil and natural gas properties	\$ 15,620,200	\$ 4,501,145	\$ 11,119,055
Equipment	38,201	32,411	5,790
	\$ 15,658,401	\$ 4,533,556	\$ 11,124,845

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 February 28, 2011, 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 the extension and is payable on 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

MAGNUM ENERGY INC.**NOTES TO INTERIM FINANCIAL STATEMENTS**

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

5. Bank Debt (continued)

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 by May 31, 2011.

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 February 28, 2011, \$4,776,808 was outstanding on this facility.

6. Income Taxes

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

	February 28 2011	August 31 2010
Carrying value of property and equipment and asset retirement obligations in excess of available tax deductions	\$ (969,900)	\$ (784,500)
Non-capital losses carried forward	872,200	650,700
Share issue costs	53,700	51,500
	\$ (44,000)	\$ (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 (2010 - \$912,000). These payments are expected to be made over the next five to fifteen years. A credit-adjusted risk free rate of 6% (2010 - 6%) 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 2011	Year ended August 31 2010
Balance, beginning of period	\$ 481,200	\$ 293,230
Liabilities incurred	-	295,890
Liabilities sold	-	(135,839)
Accretion expense	9,436	27,919
Balance, end of period	\$ 490,636	\$ 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

MAGNUM ENERGY INC.**NOTES TO INTERIM FINANCIAL STATEMENTS**

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

8. Share Capital (continued)**Issued and Outstanding:**

Class A voting common shares	Number of Shares	Stated Value
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, 2010	34,512,400	\$ 8,099,711
Private placements	2,054,001	595,660
Exercise of options	150,000	79,500
Share issuance costs (net of income tax effect of \$11,760)		(32,612)
Future income tax effect related to flow-through shares		(157,850)
Balance, February 28, 2011	36,716,401	\$ 8,584,409

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.

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 2010, the Company issued 2,054,001 flow-through Class A common shares at \$0.29 per share for total proceeds of \$595,660. In February 2011, the Company renounced \$595,660 of qualifying expenditures on its flow-through shares issued in 2010. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$157,850 in February, 2011 with respect to the renunciation. Of the expenditures renounced, \$595,660 was renounced under the one year look-back rule that allows companies to renounce qualifying expenditures prior to incurring the expenditures. As at February 28, 2011, the Company had \$571,628 remaining to expend pursuant to the 2011 renouncement.

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 February, 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 the 2010 renouncement.

MAGNUM ENERGY INC.**NOTES TO INTERIM FINANCIAL STATEMENTS**

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

8. Share Capital (continued)**Per Share Amounts**

The table below summarizes the weighted average number of Class A common shares used in calculating income (loss) per share:

	Three months ended February 28		Six months ended February 28	
	2011	2010	2011	2010
Basic	36,166,034	31,189,593	35,334,649	28,779,969
Diluted	36,166,034	33,209,657	35,334,649	28,779,969

The effect of the outstanding stock options and warrants for the three and six months ended February 28, 2011 and for the six months ended February 28, 2010 have been excluded from the diluted calculation because the effect is anti-dilutive.

Warrants

There were no changes to warrants during the six months ended February 28, 2011. 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, 2008	\$ 222,000	7,831,093	\$0.42
Expired	-	(6,246,093)	0.42
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, 2010 and February 28, 2011	\$ 9,400	117,583	\$0.40

In June and July 2010, a total of 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%. The warrants outstanding and their expiry dates are as follows:

Number of Warrants	Exercise	
	Price	Expiry Date
110,723	\$ 0.40	June 22, 2011
6,860	\$ 0.40	July 28, 2011

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:

MAGNUM ENERGY INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

8. Share Capital (continued)

	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	350,000	0.29
Exercised	(150,000)	0.18
Balance as at November 30, 2010	2,880,000	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 an exercise price of \$0.295 per share. In February 2011, the Company granted 50,000 stock options, vesting one quarter at the end of each of May 7, 2011, August 7, 2011, November 7, 2011 and February 7, 2012 and expiring in 3 years, at an exercise price of \$0.25 per share. On February 22, 2011, 150,000 options were exercised at \$0.18 per share. As at February 28, 2011, stock options were outstanding as follows:

Number of Options	Exercise Price (\$)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
650,000	0.18	0.73	November 24, 2011	650,000
500,000	0.18	1.25	June 1, 2012	500,000
200,000	0.18	2.94	February 5, 2014	200,000
225,000	0.18	3.17	May 1, 2014	225,000
244,000	0.18	3.22	May 20, 2014	244,000
100,000	0.255	3.59	October 1, 2014	100,000
561,000	0.37	3.66	October 27, 2014	561,000
50,000	0.45	3.80	December 17, 2014	50,000
300,000	0.295	1.63	October 15, 2013	75,000
50,000	0.25	2.94	February 7, 2014	-
2,880,000		2.23		2,605,000

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:

	2011	2010
Fair value	\$0.05	\$0.08 to \$0.13
Risk-free interest rate	1.32%	2.51% - 2.75%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	30%	29%
Expected life of options (years)	2	5

MAGNUM ENERGY INC.**NOTES TO INTERIM FINANCIAL STATEMENTS**

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

9. Contributed Surplus

The following summarizes the Company's contributed surplus:

	February 28	August 31
	2011	2010
Balance, beginning of period	\$ 1,144,870	\$ 747,510
Options vested	3,750	193,350
Options exercised	(52,500)	(17,990)
Warrants expired	-	222,000
Balance, end of period	\$ 1,096,120	\$ 1,144,870

10. Related Party Transactions

During the six months ended February 28, 2011, the Company incurred consulting fees totaling \$52,000 charged by companies controlled by directors or officers of the Company (2010 - \$49,513), and legal fees totaling \$11,576 charged by a firm where a director is a partner (2010 - \$23,651). 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 a director who is also a director of the Company. During the six months ended February 28, 2011, the Company paid \$6,000 (2010 - \$12,638) 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, 2011 is approximately \$12,950 (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 2015. The approximate minimum lease commitments including operating costs for the next five years and thereafter are as follows:

2011	\$ 79,572
2012	31,126
2013	12,000
2014	12,000
2015	2,055
	\$ 136,753

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.

In December 2010, the Company issued 2,054,001 flow-through Class A common shares at \$0.29 per share for total proceeds of \$595,660. In February 2011, the Company renounced \$595,660 of qualifying expenditures on its flow-through shares issued in 2010. As at February 28, 2011, the Company had \$571,628 remaining to expend pursuant to the renouncement.

12. Non-cash Transactions

There were no non-cash transactions during the six months ended February 28, 2011.

MAGNUM ENERGY INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 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 February 28, 2011, 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, 2011. If interest rates had been 1% lower with all other variables held constant, after tax net loss for the six months ended February 28, 2011 would have been approximately \$22,600 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 February 28, 2011, the Company had no forward foreign exchange contracts in place, nor any significant working capital items denominated in foreign currencies.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Cash and cash equivalents 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 natural 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

MAGNUM ENERGY INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

13. Financial Instruments and Risk Management (continued)

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, 2011 the Company's receivables consisted of approximately \$61,300 from joint venture partners, \$92,600 from oil and natural gas marketers and \$33,900 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, 2011, the Company's largest credit exposure to the petroleum and natural gas marketers represents 49% 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 natural 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, 2011, 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 natural 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 February 28, 2011, 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 six months ended February 28, 2011. The Company actively manages its capital structure which includes shareholders' equity and bank debt. 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.

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 natural 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.

MAGNUM ENERGY INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(Unaudited)

For The Three and Six Months Ended February 28, 2011 and 2010

15. Subsequent Events

Acquisition of Viking Oil Property

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. In February, the Company entered into a Joint Venture Agreement (JVA) with Nextraction Energy Inc. whereby Nextraction initially funded 100% of the acquisition. The Company's share of the net production revenues from the Viking oil prospect shall be forwarded to Nextraction each month as a repayment of the Company's 50% share of the purchase price until the \$1,400,000 due to Nextraction is paid in full.

Nextraction shall also pay 100% of the costs to drill, case, complete, equip and tie-in two horizontal wells to earn a 50% interest in any lands or production other than production from the four existing producing wells. Under the terms of the JVA, the first well must commence drilling by June 30, 2011. The Company and Nextraction shall share revenue from the horizontal wells on a 50/50 basis from the date of first production. Costs and revenue for subsequent development will then be shared on a 50/50 basis.

The acquisition of the Provost area Viking oil prospect closed on March 15, 2011.

Stock Option Grants

On March 30, 2011, 575,000 options were granted to three consultants of the Company. Each option allows the holder to acquire one Class A common share of the Company for \$0.34 per share for a period of five years.

Preliminary Short Form Prospectus filed

Under the terms of the Preliminary Short Form Prospectus filed by the Company on April 12, 2011, a minimum of 8,333,334 units and a maximum of 13,333,334 units (each a "Unit") of Magnum at a price of \$0.30 per Unit, for minimum total gross proceeds of \$2,500,000.20 and maximum total gross proceeds of \$4,000,000.20 have been offered. Each Unit consists of one Class A Voting common share of the Company and one-half of a non-transferable Class A Common Share purchase warrant (each whole warrant a "Warrant"). Each whole Warrant will entitle the holder thereof to purchase one Class A Common Share (a "Warrant Share") at an exercise price of \$0.45 per Warrant Share at any time prior to 5:00 p.m. (Vancouver time) on or before the earlier of the date that is: (a) one year from the completion of the offering; and (b) 30 days after the giving of notice of early termination by the Company, which may be given by the Company, in its sole discretion, if the closing price of the Class A Common Shares on the TSX Venture Exchange is at least \$0.60 for a minimum of 20 consecutive trading days (whether or not trading of Class A Common Shares occurs on such days). The closing of the offering is expected to occur in early May, 2011.



MAGNUM ENERGY INC.
MANAGEMENT'S DISCUSSION & ANALYSIS

For the Six Months Ended February 28, 2011

MANAGEMENT'S DISCUSSION & ANALYSIS

April 29, 2011

This management's discussion and analysis (MD&A) of financial condition and results of operations for the six months ended February 28, 2011 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, 2011 as well as the audited financial statements and MD&A for the years ended August 31, 2010 and 2009. The financial data presented is in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars, except where indicated otherwise. These documents and other statutory filings are available on SEDAR at www.sedar.com and on the Company's website at www.magnumenergyinc.com.

FORWARD LOOKING INFORMATION

This document contains certain forward-looking statements, including management's assessment of future plans and operations, and capital expenditures and the timing thereof, that involve substantial known and unknown risks and uncertainties, certain of which are beyond Magnum's control. Forward looking information does not relate strictly to historical or current facts and can be identified by words such as "anticipate", "believe", "estimate", "expect", "forecast", "intend", "may", "project", "should", "will" or similar expressions. These statements represent management's reasonable projections, expectations and estimates as of the date of this document but undue reliance should not be placed upon them, as they are derived from many assumptions. Such assumptions are subject to known and unknown risks and uncertainties, including the business risks discussed in the MD&A, which may cause actual performance and financial results to differ materially from any projections of future performance or results implied by such forward looking statements.

The forward looking information in the MD&A is subject to significant risks and uncertainties and is based on many factors and assumptions which may prove to be incorrect; including, but not limited to, the following:

- Production volumes in the future will become more weighted towards oil than in 2011;
- The average oil price expected to be received by the Company in 2011 will be approximately 10% less than the Edmonton par reference price and the natural gas price will be similar to the AECO daily spot price;
- Provost area horizontal drilling operations are expected to be conducted on a pad basis in order to economize costs, resulting in wells commencing production on a periodic schedule;
- Investments made in batteries, gathering systems and water disposal facilities are expected to reduce operating costs incurred and reduce production disruptions due to inclement weather;
- The available credit facility will be utilized throughout 2011;
- The Company has sufficient financial resources with which to conduct its capital program;
- Drilling rigs, field service providers, completion and tie-in equipment will be available as required and that the costs of securing such services and equipment will not materially exceed expectations;
- The risk of accounts receivable becoming uncollectible is mitigated by the financial position of the applicable entities;
- Overall royalties in 2011 will be approximately 10% of total revenues, assuming similar commodity prices;

- Net general and administrative costs are expected to inversely vary with capital expenditure levels in each fiscal quarter, reflecting the impact of cost recoveries from operated capital expenditures;
- Increased future accretion costs from higher future retirement liabilities are expected to be incurred from incremental wells added through property acquisitions and drilling activities;
- The stock-based compensation expense calculation uses the Black-Scholes model to estimate stock option grant costs; however, this expense may not represent the actual eventual cash compensation realized by the recipients;
- The tax pools for which tax assets have been recorded are expected to be utilized

The forward looking information represents management's views as of the date of this MD&A and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. Management has attempted to identify important factors that could cause actual results to vary from those current expectations or estimates expressed or implied by the forward looking information. However, there may be other factors that cause actual results or performance to differ materially from current estimates and expectations. Other risks and uncertainties include, but are not limited to:

- Normal risks common to the oil and natural gas industry, including various operational risks in the implementation of exploration, development and production operations;
- Risks and uncertainties of oil and natural gas geological reserves;
- Revisions or amendments to capital expenditure programs, including development and exploitation opportunities;
- The Company's ability to attract and retain qualified professional employees and consultants;
- Risks as to the availability and pricing of appropriate financing alternatives on acceptable terms;
- Potential changes in government policies, rules, approval process changes, delays or enhancements, or income tax regulations.

The preparation of financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgment and decisions based on available geological, engineering and economic data. These estimates may change, having either a negative or positive affect on net earnings as further information becomes available, and as the economic environment changes.

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. Readers should be aware that historical results are not necessarily indicative of future performance.

NON-GAAP MEASURES

The MD&A contains the term “funds 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. Funds flow from operations and funds flow from operations per share (basic and diluted) are used by Magnum to analyze operating performance, leverage and liquidity and do not have any standardized meaning prescribed by GAAP and, therefore, may not be comparable with the calculation of similar measures by other entities. Funds flow from operations per share is calculated using the same basic and diluted weighted average number of shares outstanding as used in the calculation of loss per share. The Company reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with GAAP, as follows:

	Three months ended February 28		Six months ended February 28	
	2011	2010	2011	2010
Cash flow from (used in) operating activities	\$ (115,675)	\$ 357,012	\$ (161,326)	\$ 279,543
Changes in non-cash working capital items related to operating:				
Accounts receivable	66,753	(184,944)	67,414	(221,309)
Prepaid expenses and deposits	5,764	9,561	13,355	5,298
Accounts payable and accrued liabilities	(151,334)	(145,569)	(38,648)	(105,112)
Funds flow from (used in) operations	\$ (194,492)	\$ 36,060	\$ (119,205)	\$ (41,580)

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.

Funds 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 Companies Act of Alberta on February 18, 2010. The Company is a public company whose Class A common shares trade on the TSX Venture Exchange under the symbol “MEN”. Magnum was formed to operate in Canada as an oil and natural gas exploration, development and production company.

SELECTED QUARTERLY INFORMATION

	Three months ended February 28		Six months ended February 28	
	2011	2010	2011	2010
Oil and natural gas sales	\$ 408,624	\$ 842,464	\$ 920,832	\$ 1,261,120
Production :				
Oil & NGLs (bbls)	364	1,696	1,351	3,334
Natural Gas (mcf)	96,469	129,120	220,865	210,336
BOE	16,442	23,216	38,162	38,390
Average sales price:				
Oil & NGLs (\$/bbl)	70.76	72.79	67.28	70.52
Natural gas (\$/mcf)	3.97	5.57	3.76	4.88
Cash flow from (used in) operating activities	\$ (115,675)	\$ 357,012	\$ (161,326)	\$ 279,543
Per share - basic & diluted	\$ (0.00)	\$ 0.01	\$ (0.00)	\$ 0.01
Net income (loss) after tax	\$ (257,127)	\$ 15,471	\$ (533,902)	\$ (224,540)
Per share - basic & diluted	\$ (0.01)	\$ 0.00	\$ (0.02)	\$ (0.01)
Capital expenditures	\$ 90,460	\$ 1,906,453	\$ 380,582	\$ 5,562,371
Total assets	\$ 11,383,195	\$ 11,344,274	\$ 11,383,195	\$ 11,344,274
Weighted average number of shares				
-basic	36,166,034	31,189,593	35,334,649	28,779,969
-diluted	36,166,034	33,209,657	35,334,649	28,779,969

RESULTS OF OPERATIONS

	Three Months Ended February 28		Six Months Ended February 28	
	2011	2010	2011	2010
Oil and natural gas sales	\$ 408,624	\$ 842,464	\$ 920,832	\$ 1,261,120
Royalties	(27,239)	(83,357)	(72,648)	(124,053)
	381,385	759,107	848,184	1,137,067
Operating	192,491	141,842	410,884	263,815
General and administrative	241,557	212,044	477,720	489,564
Interest	63,012	48,209	120,906	104,145
Stock-based compensation	3,750	6,500	3,750	77,750
Depletion, depreciation and accretion	239,792	320,491	553,216	506,047
	740,602	729,086	1,566,476	1,441,321
Income (loss) from operations	\$ (359,217)	\$ 30,021	\$ (718,292)	\$ (304,254)
Income (loss) per share, basic & diluted	\$ (0.01)	\$ 0.00	\$ (0.02)	\$ (0.01)

Revenues

	Three Months ended February 28		Six Months ended February 28	
	2011	2010	2011	2010
Oil	\$ 10,733	\$ 107,487	\$ 53,966	\$ 207,893
Natural gas	382,867	719,012	829,940	1,025,994
Natural gas liquids	15,024	15,965	36,926	27,233
	\$ 408,624	\$ 842,464	\$ 920,832	\$ 1,261,120

Average selling prices

	Three Months ended February 28		Six Months ended February 28	
	2011	2010	2011	2010
Oil and NGLs(\$/bbl)	70.76	72.79	67.28	70.52
Natural gas (\$/mcf)	3.97	5.57	3.76	4.88
Total (\$/boe)	24.85	36.29	24.13	32.85

Oil revenues decreased for both the three and six month periods ended February 28, 2011 over 2010 due to decreased production from the McLeod property as a result of natural declines and waxing problems experienced in the wellbore. The operator has proposed a remedial program for the well which will be implemented only when the waxing issues overwhelm production. Oil revenues will increase in future quarters due to the acquisition on March 15, 2011 of a Viking oil producing property in the Provost area. Current production from the four Provost wells totals 15 barrels of oil per day (bopd) net to Magnum.

Natural gas sales for the six months ended February 28, 2011 decreased by 19% to \$829,940 from 2010, due mainly to a 23% decrease in natural gas prices. Natural gas sales for the three months then ended decreased by 47% from 2010 due to a 29% decrease in natural gas prices received and a 25% decrease in natural gas production. Natural gas production declined in the Sedalia area due to the following: a decline in the high initial production rates that occurred in early 2010 shortly after the completions performed in late 2009, natural declines and the temporary shut-in of various wells, which are planned to be recompleted in the late spring of 2011.

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	
	2011	2010	2011	2010
Oil and NGL's (bbls)	364	1,696	1,351	3,334
Natural Gas (mcf)	96,469	129,120	220,865	210,336
Combined (boe)	16,442	23,216	38,162	38,390

Production for the six months ended February 28, 2011 remained fairly constant on a boe basis as compared to 2010, due mainly to resumed production in August, 2010 from the Vauxhall well, which had been shut in since September, 2008. This increased production offset a decrease in production from the Sedalia area wells, which was due to both natural decline rates and to the shut-in of various wells which are to be recompleted in the spring of 2011. Re-completions performed in late 2009 resulted in initial flush production for the three months ended February 28, 2010.

Royalties

	Three Months ended February 28		Six Months ended February 28	
	2011	2010	2011	2010
Crown	\$ 24,559	\$ 79,533	\$ 66,886	\$ 115,328
GORR	2,680	3,824	5,762	8,725
Total royalties expense	\$ 27,239	\$ 83,357	\$ 72,648	\$ 124,053
Royalties as a percent of revenue	6.7%	9.9%	7.9%	9.8%
Royalties expense per BOE	\$ 1.66	\$ 3.59	\$ 1.90	\$ 3.23

Royalties for the three months ended February 28, 2011 were 6.7% of total revenue (2010 – 9.9%); 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 fiscal 2011.

Operating costs

	Three Months ended February 28		Six Months ended February 28	
	2011	2010	2011	2010
Operating expenses	\$ 179,984	\$ 116,821	\$ 380,065	\$ 218,296
Transportation costs	12,507	25,021	30,819	45,519
Total operating costs	\$ 192,491	\$ 141,842	\$ 410,884	\$ 263,815
Operating costs per BOE	\$ 11.71	\$ 6.11	\$ 10.77	\$ 6.87

Operating costs have increased for the three and six months ended February 28, 2011 over 2010 due to repairs required at the Company's operated gas processing facility in Sedalia, increased lease maintenance costs due to large quantities of snowfall and increased chemicals required to operate the wells at lower than average temperatures.

General and administrative expenses

Gross general and administrative expenses decreased during the six months ended February 28, 2011 from the same period in 2010 due to the general decrease in Magnum's activities. Magnum's reduction in overhead recoveries from 2010 reflects its decreased drilling and completion activity during the three and six month periods ended February 28, 2011 as compared to the same periods in 2010.

	Three Months ended February 28		Six Months ended February 28	
	2010	2009	2010	2010
Gross costs	243,807	256,672	500,267	546,757
Overhead recoveries	(2,250)	(44,628)	(22,547)	(57,193)
General and administrative expense	\$ 241,557	\$ 212,044	\$ 477,720	\$ 489,564
General and administrative expense per BOE	\$ 14.69	\$ 9.13	\$ 12.52	\$ 12.75

Interest

Interest and bank charges during the six months ended February 28, 2011 was \$120,906 (2010 – \$104,145) and consists primarily of interest and bank fees on Magnum's credit facility, which had a higher average outstanding balance in 2011 than 2010 due to the capital expenditures incurred.

Stock-based compensation

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 an exercise price of \$0.295 per share. During the three months ended February 28, 2011, 75,000 of these stock options vested. Stock-based compensation related to this grant is approximately \$15,000 and will be recognized over the vesting period.

In February 2011, the Company granted 50,000 stock options, vesting one quarter at the end of each of May 7, 2011, August 7, 2011, November 7, 2011 and February 7, 2012 and expiring in 3 years, at an exercise price of \$0.25 per share. Stock-based compensation related to this grant of approximately \$3,500 will be recognized over the vesting period.

In February 2011, 150,000 stock options were exercised at a price of \$0.18 per share for total proceeds of \$27,000.

Options issued and outstanding as of February 28, 2011 are exercisable as follows:

Number of Options	Exercise Price (\$)	Remaining contractual life in years	Expiry Date	Number of Options Exercisable
650,000	0.18	0.73	November 24, 2011	650,000
500,000	0.18	1.25	June 1, 2012	500,000
200,000	0.18	2.94	February 5, 2014	200,000
225,000	0.18	3.17	May 1, 2014	225,000
244,000	0.18	3.22	May 20, 2014	244,000
100,000	0.255	3.59	October 1, 2014	100,000
561,000	0.37	3.66	October 27, 2014	561,000
50,000	0.45	3.80	December 17, 2014	50,000
300,000	0.295	1.63	October 15, 2013	75,000
50,000	0.25	2.94	February 7, 2014	-
2,880,000		2.23		2,605,000

In March, 2011, an additional 575,000 options were granted at an exercise price of \$0.34 per share. As of the date of this MD&A, 3,455,000 options are outstanding.

Depletion, depreciation and accretion

	Three Months ended February 28		Six Months ended February 28	
	2011	2010	2011	2010
Oil and natural gas properties	\$ 233,740	\$ 308,447	\$ 541,112	\$ 481,958
Office Equipment	1,334	2,574	2,668	5,149
Accretion of asset retirement obligation	4,718	9,470	9,436	18,940
	\$ 239,792	\$ 320,491	\$ 553,216	\$ 506,047
Depletion, depreciation and accretion per boe	\$ 14.58	\$ 13.80	\$ 14.50	\$ 13.18

Depletion, depreciation and accretion increased during the six months ended February 28, 2011 due to an increase in the underlying depletable capital expenditures as compared to those of 2010. For the three months then ended, the decreased expense reflects the lower production levels experienced during the period as compared to the three months ended February 28, 2010.

Future income tax recovery

For the six months ended February 28, 2011, Magnum recorded a future income tax recovery of \$184,390 (2010 - \$60,450). The recoveries were the result of the recovery of the future income tax liability recorded on the flow-through share renunciations in February, 2011 and 2010, respectively, as well as the net loss recorded for the periods.

Income tax deductions

The Company has approximately \$10,999,000 of available income tax deductions and does not expect to incur cash taxes in its 2011 or 2012 fiscal years. The following table summarizes Magnum's available approximate income tax deductions as at February 28, 2011:

	Amount
Non-capital losses	\$ 3,250,000
Share issuance costs	203,000
Canadian exploration expenses	1,942,000
Canadian development expenses	496,000
Canadian oil and gas property expenses	2,053,000
Undepreciated capital costs	3,055,000
	<u>\$ 10,999,000</u>

Net loss

The Company incurred a loss of \$533,902 (\$0.02 per share) for the six months ended February 28, 2011 as compared to a loss of \$224,540 (\$0.01 per share) for the same period in 2010. The increase in the loss was due mainly to decreased oil and natural gas revenues and increased operating and depletion expenses.

Operating netbacks

	Three Months ended February 28		Six Months ended February 28	
	2011	2010	2011	2010
(\$/boe)				
Average sales price	\$ 24.85	\$ 36.29	\$ 24.13	\$ 32.85
Operating	(11.71)	(6.11)	(10.77)	(6.87)
Royalties	(1.66)	(3.59)	(1.90)	(3.23)
Field operating netback per boe	11.48	26.59	11.46	22.75

The reduction in operating netbacks from 2010 to 2011 is due mainly to the decreased price realized for the Company's natural gas production and increased operating expenses.

Cash flow from operating activities

For the six months ended February 28, 2011, the Company's cash flow from (used in) operating activities was \$(161,326) (\$0.00 per share) as compared to \$279,543 (\$0.01 per share) for the same period in 2010. For the same period, funds flow from operations was \$(119,205) (\$0.00 per share) in 2011 as compared to \$(41,580) (\$0.00 per share) for 2010.

CAPITAL EXPENDITURES

During the six months ended February 28, 2011, Magnum incurred \$380,582 in capital expenditures, consisting mainly of completion and tie-in costs for two wells in the Sedalia area. During the six months ended February 28, 2010, Magnum incurred \$5,562,371 in capital expenditures consisting mainly of \$2,836,251 for the acquisition of lands, producing natural gas wells and related gathering and processing facilities in the Sedalia area, \$1,650,381 in drilling and completion expenditures and \$1,313,123 in well equipping and facilities, also mainly in the Sedalia area, less the sale of the Cherry property for proceeds of \$224,983 and Alberta drilling royalty credits of \$104,725.

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 2011	November 30 2010	August 31 2010	May 31 2010
Total revenue	\$ 408,624	\$ 512,208	\$ 527,387	\$ 659,775
Net income (loss)	\$ (257,127)	\$ (276,775)	\$ (263,680)	\$ (169,177)
Per share, basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.00)
Production (boe)	16,442	21,720	20,499	25,179
Average pricing (\$/boe)	24.85	23.58	25.73	26.20

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

The changes in total revenues over the eight quarters disclosed above reflect the increases and/or decreases in both production and average commodity pricing received in each quarter and the changes have had a direct corresponding impact on the Company's net income (loss) incurred in each quarter.

SUBSEQUENT EVENT

Acquisition of Viking Assets

Pursuant to an agreement dated March 4, 2011 (the "T&E Agreement") among the Company, Nextraction Energy Corp. ("Nextraction") and T&E Oils Ltd. ("T&E"), the Company and Nextraction acquired from T&E certain petroleum and natural gas assets in the Provost area of eastern Alberta (the "Viking Assets"). The acquisition was completed on March 15, 2011. The Company and Nextraction have formed a joint venture (the "Viking Joint Venture") pursuant to an agreement dated January 28, 2011 (the "Viking JV Agreement").

The Viking Assets include three Crown petroleum and natural gas leases for all petroleum and natural gas products to the base of the Viking zone (but excluding natural gas produced from the Viking zone), and one freehold lease for oil in the Viking zone. The 3.25 sections of lands acquired have been unitized and are subject to Crown royalties, a 1% gross overriding royalty and a freehold lessor royalty of 0.82156%. Each lease will continue so long as petroleum and natural gas products are being produced or are commercially producible from the lands. Also included were fourteen wells, four of which are producing wells with cumulative average production from the 100% owned and operated vertical wells of approximately 30 barrels of sweet light crude oil per day. The acquired assets also include a battery and a disposal well. Four of the wells acquired are tied-in to the battery by pipelines, and there is a pipeline from the battery to the water injection site. Pursuant to the T&E Agreement, each of the Company and Nextraction will own a 50% interest in and to the Viking Assets.

In consideration, the Company and Nextraction paid T&E \$2.8 million (the "T&E Purchase Price") in cash. Pursuant to the Viking JV Agreement, Nextraction funded 100% of such amount, including the Company's proportionate share of such amount (being \$1.4 million). Magnum's share of the T&E Purchase Price will, until repaid in full to Nextraction, be deducted from all of the Company's share of any net operating income from the Viking Assets. When the Company's share of the T&E Purchase Price has been repaid in full, all subsequent net operating income from the Viking Assets will be distributed equally to Magnum and Nextraction.

Pursuant to the Viking JV Agreement, all costs with respect to the Viking Assets and the Viking Joint Venture will be borne equally by the Company and Nextraction. However, Nextraction must pay 100% of the costs to drill, case, complete, equip, tie-in or abandon (and reclaim) two horizontal wells. The first of such horizontal wells must be spud on or before June 30, 2011, and the second of such horizontal wells must be spud within 30 days thereafter, both deadlines subject to rig availability, regulatory approval and surface access. The surface and bottom-hole locations for each horizontal well will be decided upon by both Magnum and Nextraction. Each horizontal well must penetrate a minimum of 900 meters horizontally into the Viking formation. After both horizontal wells are drilled, cased, completed, equipped and tied-in or abandoned (and reclaimed), all further costs shall be borne equally by the Company and Nextraction. In the event that Nextraction fails to drill, case, complete, equip and tie-in or abandon (and reclaim) the two horizontal wells, Nextraction's entire interest in the Viking Assets will be forfeited to the Company, excepting any production from the currently producing zones in certain wellbores specified in the Viking JV Agreement, and in a well injection well, multi-well crude oil battery and associated pipelines, which will be shared equally by the Company and Nextraction. Notwithstanding these obligations, Magnum will be the operator of the Viking Assets.

Until both horizontal wells have been drilled, cased, completed, equipped and tied-in or abandoned (and reclaimed), Nextraction will not be entitled to propose, or cause to propose, any other joint or independent operations with respect to the Viking Assets, with exception of fracing or recompleting existing wells included in the Viking Assets. In the event that the fracing or recompleting of such wells is conducted prior to the two horizontal wells being completed, the Company may, at its election and without obligation, participate in the cost of operations proportionate to its participating interest in the Viking Joint Venture and any increased revenue resulting from such fracing or recompletion activities. If the Company does not elect to participate, the cost of fracing or recompleting such wells will be added to the amount owing by Magnum to Nextraction, and can be recouped by Nextraction solely out of subsequent net operating income from the Viking Assets.

Preliminary Short Form Prospectus

Under the terms of the Preliminary Short Form Prospectus filed by the Company on April 12, 2011, a minimum of 8,333,334 units and a maximum of 13,333,334 units (each a "Unit") of Magnum at a price of \$0.30 per Unit, for minimum total gross proceeds of \$2,500,000.20 and maximum total gross proceeds of \$4,000,000.20 have been offered. Each Unit consists of one Class A Voting common share of the Company and one-half of a non-transferable Class A Common Share purchase warrant (each whole warrant a "Warrant"). Each whole Warrant will entitle the holder thereof to purchase one Class A Common Share (a "Warrant Share") at an exercise price of \$0.45 per Warrant Share at any time prior to 5:00 p.m. (Vancouver time) on or before the earlier of the date that is: (a) one year from the completion of the offering; and (b) 30 days after the giving of notice of early termination by the Company, which may be given by the Company, in its sole discretion, if the closing price of the Class A Common Shares on the TSX Venture Exchange is at least \$0.60 for a minimum of 20 consecutive trading days (whether or not trading of Class A Common Shares occurs on such days). The closing of the offering is expected to occur in early May, 2011. Details of the offering may be found on the SEDAR website at www.sedar.com. Proceeds from the offering will be used to partially pay for the acquisition of the Provost Viking oil property, to repay a portion of the operating loan facility and to finance the Company's future capital expenditures.

Stock Option Grants

On March 31, 2011, 575,000 options were granted to three consultants of the Company. Each option allows the holder to acquire one Class A common share of the Company for \$0.34 per share for a period of five years.

LIQUIDITY AND CAPITAL RESOURCES

During the six months ended February 28, 2011, the Company had negative cash flows from operating activities of \$161,326 as compared to positive cash flows from operating activities in the same period of 2010 of \$279, 543. As at February 28, 2011, the Company had a working capital deficit of \$4,921,601 (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 company.

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 completed the acquisition of a Viking oil producing property on March 15, 2011. 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 T & E Agreement began to seek financing by filing the preliminary short form prospectus outlined above. 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.

At February 28, 2011, 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 April 29, 2011 the Company had drawn approximately \$4,821,000 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 the extension and is payable on 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 of not more than \$1,000,000 has occurred as a result of the current price forecast for natural gas. The Lender will require a repayment of some portion of the facility upon the closing of the financing that is currently contemplated.

On April 12, 2011, the Company filed a Preliminary Short Form Prospectus whereby a minimum of \$2,500,000 (approximately \$2,133,000 after estimated costs) and a maximum of \$4,000,000 (approximately \$3,505,500 after estimated costs) will be raised pursuant to a public offering. Details of the offering may be found on the SEDAR website at www.sedar.com. Proceeds from the offering will be used to partially pay for the acquisition of the Provost Viking oil property, to repay a portion of the operating loan facility and to finance the Company's future capital expenditures.

OUTSTANDING SHARE DATA

As at February 28, 2011, 36,716,401 Class A common shares were issued and outstanding. No shares have been issued since that date.

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 February 28, 2011 and has not entered into any as at April 29, 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

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 are as follows:

2011	\$ 79,572
2012	31,126
2013	12,000
2014	12,000
2015	2,055
	<u>\$ 136,753</u>

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 committed 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 companies to renounce qualifying expenditures to flow-through share subscribers prior to incurring the expenditures. Under these rules, companies have until December 31 of the year following the year in which the flow-through shares are issued to incur the qualifying expenditures. Companies 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.

On February 28, 2011 the Company renounced \$595,660 of qualifying expenditures pursuant to the flow-through shares issued in December, 2010. As at February 28, 2010 the Company had \$571,628 remaining to expend pursuant to the renouncement.

RELATED PARTY TRANSACTIONS

During the six months ended February 28, 2011, the Company incurred management fees totaling \$52,000 charged by Sourire Resources Ltd. and 384518 BC Ltd., companies controlled by directors or officers of the Company (2010 -\$49,513), and legal fees totaling \$11,576 charged by Richards Buell Sutton LP, a firm where a director is a partner (2010 - \$23,651). 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, SmartCool Systems Inc., which has a director who is also a director of the Company. During the six months ended February 28, 2011, the Company paid \$6,000 (2010 - \$12,638) 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, 2011 is approximately \$12,950 (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 six months ended February 28, 2011.

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 natural 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 natural 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 natural 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 natural 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 natural gas properties

Magnum is required to review the carrying value of all oil and natural gas assets for potential impairment. Impairment is indicated if the carrying amount of the oil and natural 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 natural 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

The following details certain risk factors relating to the business of the Company and is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this MD&A.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production there from will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions.

Other companies operate some of the assets in which the Company has an interest. As a result, the Company has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Company's financial performance. The Company's return on assets operated by others therefore depends upon a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with standard industry practice, the Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on future results of operations, liquidity and financial condition.

Fluctuating Prices

Oil and natural gas prices will have a direct impact on the Company's earnings and are subject to volatile price fluctuations. The Company's revenues are expected to be in large part derived from the extraction and sale of oil and natural gas. The price of oil will be affected by numerous factors beyond the Company's control, including international economic and political trends, expectations of inflation, war, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. Any substantial decline in the prices of oil or natural gas could have a material adverse effect on the Company and the level of its oil and natural gas reserves.

Prices continue to vary considerably concurrent with shifts in the global economy. Any decreases in oil and natural gas prices would typically result in a reduction of the Company's net production revenue and may change the economics of producing from some wells which could result in a reduction in the volume of the Company's reserves. Any substantial declines in the prices of crude oil or natural gas could also result in delay or cancellation of existing or future drilling, development or construction programs or the curtailment of production. All of these factors could result in a material

decrease in the Company's net production revenue, cash flows and profitability causing a reduction in its oil and natural gas acquisition and development activities.

In addition, bank borrowings available to the Company will in part be determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore, reducing the bank credit available and could require that a portion of its bank debt, if any at that time, be repaid.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/United States dollar exchange rates, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar although the rise in the Canadian dollar may be offset by increases in oil and natural gas prices which have been significant factors in the increase in the Canadian dollar. Material increases in the value of the Canadian dollar negatively impact the Company's production revenues. Future Canadian/United States dollar exchange rates could accordingly impact the future value of the Company's reserves as determined by independent evaluators.

Environmental

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 federal, provincial and local 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 natural 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 of applicable environmental legislation 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 governments and third parties and may require the Company to incur costs to remedy such discharge.

Although the Company believes that it will be in material compliance with current applicable environmental regulations 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 have a material adverse effect on the Company's business, financial condition, results of operations and prospects. There has been much public debate with respect to Canada's ability to meet these targets and the Government of Canada's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company and its operations and financial condition.

Substantial Capital Requirements

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. In the event 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. 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.

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 natural 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 to meet these requirements will be available at all or on terms acceptable to the Company.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGLs reserves and cash flows to be derived there from, including many factors beyond the Company's control. Reserve and associated cash flow information represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows there from are based upon a number of variable factors and assumptions, such as historical production from the properties, future commodity prices, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected there from prepared by different engineers, or by the same engineers at different times, may vary. The Company's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, the Company's independent reserve evaluator has used forecast price and cost estimates in calculating reserve quantities. Actual future net revenue will be affected by other factors such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and revenues derived therefrom will vary from the estimates contained in the Company's reserve evaluations and such variations could be material. Such reports are based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reports will be reduced to the extent that such activities do not achieve the level of success assumed therein.

Royalty Rates

The potential for additional future changes and corresponding changes in the royalty regimes applicable in the province of Alberta have created uncertainty surrounding the ability to accurately estimate future royalties, resulting in additional volatility and uncertainty in the oil and natural gas market. Increases to royalty rates in jurisdictions in which the Company operates may negatively impact the Company's results from operations and its ability to economically develop existing reserves or add new reserves.

Competition

Oil and natural gas exploration is intensely competitive in all its phases and involves a high degree of risk. The Company competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. The Company's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of the Company. The Company's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Competition may also be presented by alternate fuel sources.

Availability of Drilling, Completion Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling, completion 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. To the extent the Company is not the operator of its oil and natural gas properties, the Company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Title to Assets

It is the practice of the Company when acquiring significant oil and natural gas leases or interests in oil and natural gas leases to examine the title to the interest under the lease. In the case of minor acquisitions the Company may rely upon the judgment of oil and natural gas lease brokers or landmen who perform the field work in examining records in the appropriate governmental office before attempting to place under lease a specific interest. The Company believes that this practice is widely followed in the oil and natural gas industry. Nevertheless, there may be title defects which affect lands comprising a portion of the Company's properties which may adversely affect the Company.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The Company makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the

Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Company, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Company.

Seasonal Impact on Industry

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of drilling rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of the Company.

Conflicts of Interest

There are potential conflicts of interest to which some of the directors and officers of the Company will be subject in connection with the operations of the Company. Some of the directors and officers are engaged and will continue to be engaged in the search of oil and natural gas interests on their own behalf and on behalf of other companies, and situations may arise where the directors and officers will be in direct competition with the Company.

Conflicts of interest, if any, which arise will be subject to and be governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to or is a director or an officer of or has a material interest in any person who is a party to a material contract or proposed material contract with the Company, to disclose his interest and to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

Reliance on Key Personnel

The Company's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on the Company. The Company does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company.

Expiration of Licenses and Leases

The Company's properties are held in the form of licences and leases and working interests in licences and leases. If the Company or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Company's licences or leases or the working interests relating to a

licence or lease may have a material adverse effect on the Company's results of operations and business.

Management of Growth

The Company may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expend, train and manage its employee base. The inability of the Company to deal with this growth could have a material adverse impact on its business, operations and prospects.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Company is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful such claim may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Insurance

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although prior to drilling the Company will obtain insurance in accordance with industry standards to address certain of these 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.

Governmental Regulation

The oil and natural gas business is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possible expropriation or cancellation of contract rights, as well as with respect to prices, taxes, export quotas, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for oil and natural gas, increase the Company's costs and have a material adverse effect on the Company.

Changes in Legislation

The oil and natural gas industry in Alberta is subject to extensive controls and regulations imposed by various levels of government. All current legislation is a matter of public record and the Company will be unable to predict what additional legislation or amendments may be enacted. Amendments to current laws, regulations and permits governing operations and activities of oil and natural gas companies, including environmental laws and regulations, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenditures and

costs, affect the Company's ability to expand or transfer existing operations or require the Company to abandon or delay the development of new oil and natural gas properties.

Also, Canadian federal and provincial tax laws and government incentive programs relating to the oil and natural gas industry have a material effect on the Company. The return on an investment in securities of the Company is subject to changes in such laws and incentive programs and there can be no assurance that such laws or programs will not be changed in a manner which adversely affects the Company or the holding or disposing of the Company's shares.

Permits and Licenses

The operations of the Company may require licenses and permits for 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, development and operations of its projects.

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.