

MONARCH GULF EXPLORATION, INC.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

	June 30, 2007	December 31, 2006
	(unaudited)	(unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,279	\$ 203,817
Prepaid expense	-	1,300
Oil and gas revenue receivable	-	-
Office Equipment/Furniture (net)	<u>6,995</u>	<u>7,706</u>
Total Current Assets	<u>28,274</u>	<u>212,823</u>
OTHER ASSETS		
Proved oil and gas properties, using successful efforts accounting	<u>283,410</u>	<u>297,410</u>
TOTAL ASSETS	\$ <u>311,684</u>	\$ <u>510,233</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts Payable	\$ 37,836	\$ 51,127
Convertible debt	90,000	90,000
Interest payable	<u>11,250</u>	<u>6,750</u>
Total Current Liabilities	<u>139,086</u>	<u>147,877</u>
COMMITMENTS AND CONTINGENCIES		
	<u>-</u>	<u>-</u>
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, no par value; 100,000,000 shares authorized, 17,222,897 and 15,461,399 shares issued and outstanding, respectively	3,739,514	3,520,864
Deficit accumulated during exploration stage	<u>(3,566,915)</u>	<u>(3,158,508)</u>
Total Stockholders' Equity (Deficit)	<u>172,599</u>	<u>362,356</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ <u>311,684</u>	\$ <u>510,233</u>

The accompanying notes are an integral part of these consolidated financial statements.

MONARCH GULF EXPLORATION, INC.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Month Period Ended		For the Six Month Period Ended		From
	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)	June 30, 2007 (unaudited)	June 30, 2006 (unaudited)	January 1, 2000 (Inception) to June 30, 2007 (unaudited)
REVENUES	\$ 11,234	12,788	\$ 11,234	52,339	270,658
GENERAL AND ADMINISTRATIVE EXPENSES					
Payroll	52,078	48,194	104,111	99,312	407,126
Oil and gas exploration	-	-	-	-	510,766
Depletion and impairment	7,000	7,000	14,000	14,000	340,518
Consultation	75,000	71,625	219,308	74,625	439,207
Office expenses	6,086	5,706	13,881	11,683	101,605
Depreciation	355	-	710	26,012	1,420
Professional fees	14,973	8,013	27,341	333,999	257,934
Shareholder relations	366	1,304	28,455	3,806	1,215,505
Travel	730	171	7,335	-	46,417
Total Expenses	156,588	142,013	415,141	563,438	3,320,497
GAIN (LOSS) FROM OPERATIONS	(145,354)	(129,225)	(403,907)	(511,099)	(3,049,839)
OTHER INCOME (EXPENSES)					
Miscellaneous income	-	-	-	-	2,789
Financing and interest expenses	(2,250)	(2,250)	(4,500)	(4,514)	(75,351)
Total other income (expenses)	(2,250)	(2,250)	(4,500)	(4,514)	(72,562)
GAIN (LOSS) BEFORE INCOME TAXES	(147,604)	(131,475)	(408,407)	(515,612)	(3,122,401)
PROVISION FOR TAXES	-	-	-	-	-
GAIN (LOSS) FROM DISCONTINUED OPERATIONS	-	-	-	17,480	(444,514)
NET GAIN (LOSS)	\$ (147,604)	(131,475)	\$ (408,407)	(498,132)	\$ (3,566,915)
NET GAIN (LOSS) PER COMMON SHARE, BASIC AND DILUTED	\$ (0.01)	(0.01)	\$ (0.02)	(0.06)	\$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	16,949,919	8,940,959	16,949,919	8,940,959	

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MONARCH GULF EXPLORATION, INC.
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Subscription Receivable	Deficit Accumulated During Exploration Stage	Total Stockholders' Equity (Deficit)
	Number of Shares	Amount			
Original shares issued for cash	200,000	\$ 6,000.00	\$ -	\$ -	\$ 6,000
Net loss for period ending December 31, 2000	-	-	-	(6,000)	(6,000)
BALANCE, December 31, 2000	200,000	6,000	-	(6,000)	-
Net loss for period ending December 31, 2001	-	-	-	-	-
BALANCE, December 31, 2001	200,000	6,000	-	(6,000)	-
Net loss for period ending December 31, 2002	-	-	-	-	-
BALANCE, December 31, 2002	200,000	6,000	-	(6,000)	-
Shares cancelled by founding shareholders	(200,000)	-	-	-	-
Shares issued for cash at \$0.15	216,667	32,500	-	-	32,500
Shares issued for cash at \$0.30	166,667	50,000	-	-	50,000
Shares issued for consulting services at \$0.15	1,366,666	205,000	-	-	205,000
Shares issued for mineral properties	125,000	25,000	-	-	25,000
Shares issued for geological services	75,000	11,250	-	-	11,250
Shares issued for subscription at \$0.30 per share	50,000	15,000	(15,000)	-	-
Reverse merger acquisition and recapitalization	544,710	-	-	-	-
Net loss for period ending December 31, 2003	-	-	-	(290,370)	(290,370)
BALANCE, December 31, 2003	2,544,710	344,750	(15,000)	(296,370)	33,380
Payments of common stock subscription	-	-	15,000	-	15,000
Shares issued for geological services at \$0.30 per share	50,000	15,000	-	-	15,000
Shares issued for consulting services at \$0.30 per share	437,667	131,300	-	-	131,300
Shares issued for mineral properties at \$0.30 per share	83,333	25,000	-	-	25,000
Shares issued for legal services at \$0.30 per share	8,333	2,500	-	-	2,500
Shares issued for conversion of note at \$0.75 per share	13,333	10,000	-	-	10,000
Shares issued for premium on convertible note at \$0.75 per share	8,334	6,250	-	-	6,250
Net loss for period ending December 31, 2004	-	-	-	(320,478)	(320,478)
BALANCE, December 31, 2004	3,145,710	534,800	-	(616,848)	(82,048)

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MONARCH GULF EXPLORATION, INC.
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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Subscription Receivable	Deficit Accumulated During Exploration Stage	Total Stockholders' Equity (Deficit)
	Number of Shares	Amount			
Shares issued to acquire oil & gas interest at \$0.01 per share	16,666,667	242,818	-	-	242,818
Shares issued for cash at \$0.375 per share	2,666,667	999,940	-	-	999,940
Shares issued for extension of convertible note at \$0.75 per share	7,500	5,625	-	-	5,625
Shares returned to Company in settlement of claims	(15,500,000)	-	-	-	-
Adjustment for variance due to rounding of fractional shares during 3-1 reverse stock split	188	-	-	-	-
Net loss for period ending December 31, 2005	-	-	-	(808,793)	(808,793)
BALANCE, December 31, 2005	6,986,732	1,783,183	-	(1,425,641)	357,542
Shares issued for board of directors' fees at \$0.15 per share	2,200,000	330,000	-	-	330,000
Shares issued to consultant for services at \$0.15 per share	227,500	34,125	-	-	34,125
Shares issued to consultant for services at \$0.15 per share	250,000	37,500	-	-	37,500
Shares issued for board of directors' fees at \$0.20 per share	4,316,667	863,333	-	-	863,333
Shares issued for extension of convertible note at \$0.25 per share	27,000	6,750	-	-	6,750
Shares issued for cash at \$0.25 per share	1,200,000	300,000	-	-	300,000
Shares issued to consultant for services at \$0.25 per share	200,000	50,000	-	-	50,000
Shares returned by former board member for directors' fee unearned	(200,000)	(30,000)	-	-	(30,000)
Shares issued for cash at \$0.60 per share net of expense	253,500	145,973	-	-	145,973
Net loss for period ending December 31, 2006	-	-	-	(1,732,867)	(1,732,867)
BALANCE, December 31, 2006	15,461,399	\$ 3,520,864	\$ -	\$ (3,158,508)	\$ 362,356
Additional shares issued to 4th qrt 2006 Private Placement investors to make purchase equal to \$0.30 per share	253,500	-	-	-	-
Shares issued for cash at \$0.30 per share	464,998	139,500	-	-	139,500
Shares issued to consultant for services at \$0.05 per share	3,000	150	-	-	150
Shares issued for board of directors' fee at \$0.05 per share	500,000	25,000	-	-	25,000
Shares issued to IR consultants at \$0.10 per share	540,000	54,000	-	-	54,000
Net loss for period ending June 30, 2007	-	-	-	(408,407)	(408,407)
BALANCE, June 30, 2007	17,222,897	\$ 3,739,514	\$ -	\$ (3,566,915)	\$ 172,599

The accompanying notes are an integral part of these consolidated financial statements.

MONARCH GULF EXPLORATION, INC.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Six-Month Period Ended		From
	June 30,	June 30,	January 1, 2000
	2007	2006	(Inception) to
	(unaudited)	(unaudited)	June 30, 2007
			(unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	\$ (408,407)	\$ (498,132)	(3,566,915)
Adjustments to reconcile net loss to net cash (used) by operating activities:			
Amortization of debt discounts	-	-	6,250
Depletion and impairment expense	14,000	14,000	340,518
Depreciation expense	710	-	1,420
Common stock issued for services	79,150	401,625	1,729,158
Shares issued for financing expenses	-	-	12,375
Shares issued for mineral property expenses	-	-	50,000
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	-	27,176	-
(Increase) decrease in other assets	1,300	-	-
Increase (decrease) in interest payable	4,500	4,500	11,250
Increase (decrease) in accounts payable	(13,291)	-	37,836
Net cash used by operating activities	<u>(322,038)</u>	<u>(50,831)</u>	<u>(1,378,108)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES:			
Oil and gas lease	-	-	(381,110)
Purchase of Equipment	-	-	(8,416)
Net cash used by investing activities	<u>-</u>	<u>-</u>	<u>(389,526)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:			
Net proceeds from convertible debt	-	-	100,000
Cash received for common stock	139,500	-	1,688,913
Net cash provided by financing activities	<u>139,500</u>	<u>-</u>	<u>1,788,913</u>
Net increase (decrease) in cash and cash equivalents	(182,538)	(50,831)	21,279
Cash and cash equivalents beginning of period	<u>203,817</u>	<u>110,706</u>	<u>-</u>
Cash and cash equivalents end of period	<u>\$ 21,279</u>	<u>\$ 59,875</u>	<u>21,279</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>
NON-CASH INVESTING AND FINANCING TRANSACTIONS:			
Shares issued for mining properties	\$ -	\$ -	25,000
Common shares issued for extension of debt	\$ -	\$ -	6,250
Common shares issued for conversion of notes	\$ -	\$ -	10,000
Shares issued for oil and gas properties	\$ -	\$ -	242,818

The accompanying notes are an integral part of these consolidated financial statements.

MONARCH GULF EXPLORATION, INC.
(formerly, Monarch Gold Exploration, Inc. and Gold Placers, Inc.)
(An Exploration Stage Company)
Notes to Financial Statements
June 30, 2007

NOTE 1 – DESCRIPTION OF COMPANY

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at June 30, 2007 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted for purposes of filing interim financial statements. It is suggested that these condensed financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's financial statements for the year ended December 31, 2006. The results of operations for the three and six month periods ended June 30, 2007 and 2006 are not necessarily indicative of the operating results for the full year.

Monarch Gulf Exploration, Inc. ("Monarch" or the "Company") (formerly, Monarch Gold Exploration, Inc. and formerly, Gold Placers, Inc.), is a Washington corporation originally organized in 1964, which is currently engaged in the acquisition and development of natural gas producing properties.

Effective December 15, 2004, the Company entered into an asset purchase agreement with an individual to acquire participation interests in 17 oil and gas well projects. The purchase was completed via issuance of 16,666,667 shares of restricted common stock. The acquisition was completed during January of 2005 and is reported as a 2005 transaction. The Company changed its business emphasis, within the extractive minerals industry, from mineral exploration to development of oil and natural gas producing properties.

The 16,666,667 shares issued represented a controlling block of stock. With the change of control, the majority of the management and directors were also changed.

During 2005, and subsequent to the year end, the Company completed a thorough evaluation of its corporate operations and entered into an agreement with the controlling shareholder to divest himself of his interest in the Company through a return and cancellation of the shares issued. As of December 31, 2005, 15,500,000 shares of the original 16,666,667 shares of common stock had been returned and effectively cancelled. This divestiture is recorded in the December 31, 2005 statement of stockholders' equity.

The Company, to date, has not taken the responsibility for development of its producing investments, but has acquired working interests wherein the Company participates through funding of its proportional share of the development and operating costs. As such the Company has no responsibility to manage the development or the operations of its various well

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investments. The income received by the Company is from its share of the net operating income (“revenue interest”) disbursed periodically by the operator of the individual wells in which it owns a working interest.

Prior to December 15, 2004, the principal business of the Company had been the acquisition and proposed exploration of various lode mining claims located in Esmeralda County, Nevada. With the focus on oil and gas activities, the Company has negotiated a disposition of its mining claims via sale to a British company. (See Notes 8 and 9.)

The Company is considered to be an “exploration stage” oil and natural gas company and, as such, has not realized significant revenues from its planned operations. The Company’s principal office is located in Spokane, Washington.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the financial statements. The financial statements and notes are representations of the Company’s management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the U.S. and have been consistently applied in the preparation of the financial statements.

Accounting Methods

The Company’s financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Accounts Receivable

The Company carries its accounts receivable, which are characterized as oil and gas revenue receivable, at net realizable value. No allowance for doubtful accounts was considered necessary at June 30, 2007 or December 31, 2006.

Asset Impairments

The Company’s oil and gas assets are subject to impairment tests. An impairment charge is recorded in the year in which an asset is determined to be impaired (having a value less than the cost of the asset) under the successful efforts method of accounting. Individual oil and gas assets are considered impaired under the successful efforts method if its fair value falls below its carrying value. Impairment estimates require management to make assumptions regarding cash flows well into the distant future that are subject to revisions due to changes in commodity prices, costs, recoverable reserves, production profiles and in the case of goodwill, discount rates. The Company believes that all adjustments, necessary to the carrying value of its assets at June 30, 2007, and at December 31, 2006, have been recorded.

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Cash and Cash Equivalents

For purposes of the balance sheet and statement of cash flows, the Company considers all highly liquid investments (or short-term debt) with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company maintains its cash in a commercial account at a major financial institution.

Consolidation of Operations

The accompanying financial statements include the consolidation of Rio Grande Resources, Inc. (a wholly-owned, inactive subsidiary) and Monarch Gulf Exploration, Inc.

Rio Grande Resources, Inc. (“Rio Grande”), was incorporated under the laws of the State of Idaho in 2000. Monarch acquired the stock of Rio Grande in a “B” reorganization during the year ended December 31, 2003. Monarch acquired Rio Grande in a transaction accounted for as a recapitalization of Rio Grande in a manner similar to a reverse acquisition, where Rio Grande became the continuing company for all accounting purposes. During December 2003, Monarch issued six million shares of common stock (a controlling interest in Monarch at the time) to acquire all of the outstanding common stock of Rio Grande. (See Note 7.)

Derivatives

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (hereinafter “SFAS No. 133”), as amended by SFAS No. 137, “Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB No. 133”, and SFAS No. 138, “Accounting for Certain Derivative Instruments and Certain Hedging Activities”, and SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”. These statements establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. They require that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the earnings effect of the hedged forecasted transaction. For a derivative not designated as a hedging instrument, the gain or loss is recognized in income in the period of change.

At June 30, 2007 and 2006, the Company has not engaged in any transactions that would be considered derivative instruments or hedging activities.

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Going Concern

As shown in the accompanying financial statements, the Company has generated modest revenues since inception. At June 30, 2007 and 2006, the Company has an accumulated deficit and has operated at a loss since becoming active in the oil and gas industry. Management has raised money through several private placements and plans to continue to seek additional financing from investors. Currently, the Company has managed to operate primarily due to the sale of equity and borrowing. Management estimates that revenue, expected to be received from the oil and gas wells acquired to date (once those wells have been completed), will be adequate to handle the near-term monthly obligations of the Company. Management is going to attempt to raise additional funds from investors. The additional funding will be used primarily for the acquisition of additional interests in oil and gas properties.

The Company, being an exploration stage enterprise, is currently implementing the business plan outlined in the preceding paragraph, that will, if successful, mitigate these factors that raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence.

Earnings (Losses) Per Share

The Company has adopted Statement of Financial Accounting Standard No. 128, which provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. Primary earnings per share are computed using weighted average shares outstanding. The Company has no stock options or warrants outstanding. The Company does have debt which could have converted into 135,000 common shares but which is deemed to be antidilutive at June 30, 2007 and 2006.

Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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Exploration Costs

In accordance with accounting principles generally accepted in the United States of America, the Company expenses exploration costs as incurred concerning oil and gas properties and mineral properties. As of December 31, 2004, the mineral properties exploration costs expensed during the Company's exploration stage are now a part of discontinued operations. (See Note 13)

Exploration Stage Activities

The Company has been in the exploration stage of natural resources since its formation on January 1, 2000. It is primarily engaged in oil and natural gas exploration.

Fair Value of Financial Instruments

The Company's financial instruments as defined by Statement of Financial Accounting Standard No. 107, "Disclosures about Fair Value of Financial Instruments," include cash, trade accounts receivable, accounts payable and accrued expenses and short-term borrowings. All instruments are accounted for on a historical cost basis, which, due to the short maturity of these financial instruments, approximates fair value at June 30, 2007 and 2006.

Investments

At June 30, 2007 and 2006, the Company's investments consist of 445,000 and 295,000 shares, respectively, in a gold mining company which has been determined by management to have no trading value and is considered to be permanently impaired. (See Note 9.)

Oil and Gas Properties

The Company uses the successful efforts method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Company's experience of successful drilling and average holding period. Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the unit-of-production method. Support equipment and other property and equipment are depreciated over their estimated useful lives. For interim reports, the Company estimated depletion based upon the actual expenses incurred in preceding years.

On the sale or retirement of a complete unit of a proven property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proven

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property, the cost is charged to accumulated depreciation, depletion, and amortization with a resulting gain or loss recognized in income. On the sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any unrecorded impairment if the property had been assessed individually. If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment are calculated using the straight-line method over the estimated useful lives of the assets.

Provision for Taxes

Income taxes are provided based upon the liability method of accounting pursuant to Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (hereinafter "SFAS No. 109"). Under this approach, deferred income taxes are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end. A valuation allowance is recorded against deferred tax assets if management does not believe the Company has met the "more likely than not" standard imposed by SFAS No. 109 to allow recognition of such an asset.

Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"), which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income taxes assets and liabilities. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be recognized as a change in accounting principal through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company believes that the impact of adopting the provisions of FIN 48 in fiscal 2007 will not have a material impact on the Company's financial statements.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140." This Statement amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities. The provisions of this Statement are effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. Management believes the adoption of this statement will have no immediate impact on the Company's financial condition or results of operations.

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In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments-an amendment to FASB Statements No. 133 and 140". This Statement, among other things, allows a preparer to elect fair value measurement of instruments in cases in which a derivative would otherwise have to be bifurcated. The provisions of this Statement are effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The Company does not believe that the adoption of this Statement in fiscal 2007 will have a material impact on the Company's financial position or results of operations.

In May 2005, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections," (hereinafter SFAS No. 154") which replaces Accounting Principles Board Opinion No. 20, accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. Management does not expect SFAS No. 154 to have a material impact on the Company's financial position, results of operations, or cash flows.

Reverse Stock Split

In September, 2005, the Company entered into a 3 for 1 reverse stock split. The number of shares of the Company outstanding at the time of the split was 28,459,630. These shares were restated to 9,486,732 shares, of which 2,500,000 shares were effectively cancelled subsequent to the split. All references in the accompanying financial statements have been restated to reflect this stock split. (See Note 4.)

Successful Efforts Accounting

The successful efforts method is used to account for oil and gas exploration and development costs. Acquisition costs and development costs are capitalized and depleted using the unit of production method. Costs of drilling unsuccessful exploration wells and all other exploration costs, including geological and geophysical costs, are expensed.

Revenue Recognition

Oil and gas revenues are recorded using the sales method. Under this method, the Company will recognize revenues based on actual volumes of oil and gas sold to purchasers.

NOTE 3 – INCOME TAXES

At December 31, 2006, the Company had net operating loss carryforwards of approximately \$3,158,507 to reduce United States federal taxable income in future years. These carryforwards

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will begin to expire in 2019. For the six months ended June 30, 2007, the company incurred an additional loss of \$408,407 and at June 30, 2007 the total net operating loss is \$3,566,915.

The following is a reconciliation of income tax computed:

	June 30, 2007	December 31, 2006
Net loss per books	\$ (408,407)	\$ (1,732,867)
Nondeductible expenses	-	-
Net tax loss	(408,407)	(1,732,867)
Statutory federal tax rate	34.00%	34.00%
Federal income tax benefit	\$ (138,858)	\$ (589,175)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred Taxes

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and operating losses and tax credit carryforwards. The significant components of net deferred income tax assets are:

	June 30, 2007	December 31, 2006
Federal net operating loss carryforward	\$ 3,566,915	\$ 3,158,507
Deferred tax assets (liabilities)	1,212,751	1,073,892
Deferred tax assets before valuation	1,212,751	1,073,892
Valuation allowance	\$ (1,212,751)	\$ (1,073,892)

The change in the valuation allowance for the six months ended June 30, 2007, and for the year ended December 31, 2006, was \$138,858 and \$589,175, respectively.

Statement of Financial Accounting Standards No. 109 requires that the tax benefit of net operating losses, temporary differences and credit carryforwards be recorded as an asset to the

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extent that management assesses that realization is “more likely than not.” Realization of the future tax benefits is dependent on the Company’s ability to generate sufficient taxable income within the carryforward period. Because of the Company’s history of operating losses, management has provided a valuation allowance equal to its net deferred tax assets.

During the tax years ended December 31, 2005, and December 31, 2006, the Company incurred additional net operating losses of \$808,793 and \$1,732,867, respectively. Since the Company continues to incur losses on operations and realization of any value of the net operating losses is contingent on profitable operations, the Company’s deferred tax assets have been fully reserved by an offsetting allowance.

During 2004, the Company completed a reverse merger acquisition, which would be regarded as a control change under the Internal Revenue Code (IRC). Under IRC Section 382, a control change will limit the utilization of the net operating losses. The Company has not determined the effects of any limitations on the value of net operating losses or any tax credits outstanding prior to the control change. In addition, any future control change may further limit the extent to which the net operating loss carryforwards can be used to offset future taxable income.

Monarch, prior to the merger with Rio Grande, was inactive from 1995 through 2003, other than to settle various liabilities and wind up operations. Due to the change in corporate ownership, the prior net operating loss of approximately \$39,000 may be limited and not available for future use.

NOTE 4 – SHARE CAPITAL

Common Stock

During 2000, the founding shareholders of Rio Grande were issued 200,000 shares of common stock for \$6,000 in cash. Subsequently in 2003, these shares were returned to the Company and cancelled without further consideration.

During 2003, prior to the reverse acquisition of Rio Grande with Monarch Gold Exploration, Inc., the Company had issued 383,334 shares for cash of \$82,500, 125,000 shares for mineral properties valued at \$25,000, 50,000 shares for stock subscriptions of \$15,000 and 1,441,666 shares for services valued at \$216,250, for a total of 2,000,000 shares being issued. These shares were exchanged in the reverse acquisition between Rio Grande and Monarch.

The recapitalized company in 2003, recognized the issuance of 544,710 share of common stock to acquire control of Monarch.

During 2004, the Company issued 496,000 shares of common stock valued at \$148,800, 83,333 shares of common stock for mineral properties valued at \$25,000, 13,333 common shares for

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partial conversion of convertible note valued at \$10,000, and 8,334 shares of common stock issued as a premium on the convertible debt valued at \$6,250.

During 2005, the Company issued 16,666,667 shares of common stock for interests in oil and gas properties valued at \$242,818 although 15,500,000 of these shares were later returned during the year (see Note 5). The Company also issued 2,666,667 shares of common stock for cash of \$999,940 and 7,500 shares valued at \$5,625 in lieu of cash for a maturity extension on convertible debt.

The President of the Company, consistent with his employment agreement was entitled to receive additional shares of stock to offset any reverse stock splits that were initiated within the first 12 months of his employment. Under the terms of this agreement, the President was therefore entitled to receive an additional 516,667 shares of stock to offset the reverse split authorized in September of 2005. The Board of Directors, with the concurrence of the President agreed to delete this share offset provision. No additional shares will be issued to the President of the Company arising from this provision in his employment agreement.

On February 3, 2006 the Board of Directors authorized the issuance of 2,200,000 shares of common stock valued at \$0.15 to directors of the Company as payment of director fees.

On April 5, 2006 and May 18, 2006, the Company authorized the issuance of 227,500 and 250,000 shares of common stock, respectively, to unrelated parties, valued at \$0.15 per share, as consulting fees.

In August and September, 2006 the Company sold 1,200,000 shares in a private offering at \$.25 per share, for total proceeds of \$300,000.

On September 11, 2006, the Board of Directors authorized the issuance of 4,316,667 shares of common stock valued at \$0.20 per share to directors of the Company as payment of director fees.

On September 11, 2006, the Board of Directors authorized the issuance of 27,000 common shares to two holders of promissory notes in the aggregate principal amount of \$90,000 in exchange for their agreement to extend the due date on the promissory notes from April 5, 2006, to April 5, 2007, or until the Company secures additional equity or debt financing in excess of \$500,000.

On September 29, 2006, the Board of Directors approved a private offering of up to 1,500,000 shares of the Company's common stock at a price of \$.60 per share for gross proceeds of \$900,000. At the year ended December 31, 2006, 253,500 shares had been placed for gross proceeds of \$152,100. In January 2007, all investors of this offering were given the option of rescinding their purchase or agreeing to receive additional shares to make their purchase equal to

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\$0.30 per share. All investors agreed to accept the additional shares totaling 253,500 issued in January 2007.

On October 17, 2006, the Company issued 100,000, 40,000, and 60,000 shares of common stock valued at \$.025 per share, as payment for public and investor relations services to three different individuals.

In October 2006, 200,000 common shares were returned to the Company for cancellation by a former board member.

In the first quarter 2007, 464,998 shares were sold in a private placement at \$0.30 per share for gross proceeds of \$139,500.

In the first quarter 2007, a total of 543,000 shares were issued to three different individuals as payment for services.

In January 2007, 500,000 shares of common stock were issued to a director of the company as payment of director fees.

2006 Stock Option/Stock Issuance Plan

In September 2006, the Board of Directors approved the 2006 Stock Option/Stock Issuance Plan (the "Plan"), which allows for the Company to issue stock or grant options to purchase or receive shares of the Company's common stock. The maximum number of shares that may be optioned and sold under the Plan is 6,000,000. The Plan became effective with its adoption and remains in effect for ten years. The Board of Directors acts as administrator of the Plan and determines the vesting of options granted under the plan. Subsequent to the plans adoption the Company plans to obtain shareholder approval in 2007.

NOTE 5 – OIL AND GAS PROPERTIES

The Company's oil and gas properties are accounted for on the successful efforts basis wherein the costs of acquisition and development for successful wells are capitalized. The costs of dry holes and commercially unprofitable wells are written off. The Company considers all wells that do not have natural gas flow rates that allow the operator to operate the well profitably on a monthly basis to be commercially unprofitable. To operate profitably the well must recover enough gas to pay operating costs, management fees, provide a reserve for repairs and maintenance and return 15% net cash flow to Monarch. Monarch may, from time to time, continue to operate wells that are defined as commercially unprofitable due to unusually high gas prices or other factors; however, the costs of such wells are not included in the capitalized oil and gas properties. Revenues received from commercially unprofitable wells are included in miscellaneous income.

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At December 31, 2004, Monarch did not have any oil and gas properties.

On January 20, 2005, the Company acquired interests in 17 oil and gas properties from an individual in exchange for issuing 16,666,667 restricted shares of its common stock (controlling interest at the time), which was subsequently reduced to 1,166,667 shares. The acquisition was valued under the accounting rules for a transfer from a control person. Accordingly, the reduction in number of shares did not affect the value of the wells acquired, since the original value assigned to the properties was the basis from the contributing control person. During February 2005, the Company acquired interests in approximately 8 natural gas wells in exchange for cash.

Although generally accepted accounting standards provide that an acquisition of an asset in exchange for the shares of a corporation is to be valued based on either the fair market value of the assets received, or, if the fair market value of the asset is not established, then the transaction is valued based on the value of the shares issued, in the case of Monarch, where control of the corporation is exchanged, the transaction is accounted for based on the historical costs incurred by the acquired entity, as if it were the surviving corporation. Because the Company issued a majority of the subsequently outstanding shares of its stock in the transaction, and since the recipient of the shares subsequently became an officer and director of the Company, the transaction was treated as a "reverse acquisition", wherein the shares issued were valued based on the costs incurred in acquiring and developing the wells acquired. Based on subsequent reviews of the value and quantity of available reserves, the Company has utilized the historical cost of the wells to represent "cost" and adjusted to the lower of acquisition cost or market.

Generally, the wells acquired were purchased by a finder as part of a working and net revenue interest in a development project. The interests acquired by the finder were then remarketed to smaller investors with a 15% markup on the actual cost of the property. In some cases the finder retained a carried interest in the property and sold approximately 85% of the project for an amount equal to the finder's investment in the project. In other cases, in order to generate funds to run the business, the finder would sell the entire project for 115% of the original cost of the project. The interests transferred to the Company were in the former category wherein the interests were part or all of the retained 15% interest in the project. For reporting purposes, the properties are valued at the cost of the retained interest.

The interests transferred included 100% of the interest in the well held by the finder except for certain "retained interests" which represented well interests wherein the finder retained personally an interest in the production.

The following table represents a summary as of December 31, 2005, of the transferred interests, including the state, operator, the cost paid for the interest transferred, estimated depletion and impairment to reflect the lower of cost of market for effected wells, and the interest retained by the Company:

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Wells In:	Operator	Cost Paid	Depletion and Impairment	Value
Texas	Various	\$ 76,994	\$66,724	\$ 10,270
Louisiana	Various	160,671	15,013	145,658
Oklahoma	Various	5,153	5,153	-
Total		\$242,818	\$86,890	\$155,928

Wells acquired and developed for cash:

Wells In:	Operator	Cost Paid	Depletion and Impairment	Value
Texas	Various	\$309,014	\$211,628	\$97,386
Louisiana	Various	72,096	-	72,096
Total		381,110	211,628	197,893
Total for all properties		\$623,928	\$298,518	\$325,410

For the six months ended June 30, 2007, the Company has estimated depletion from its wells at \$14,000 based upon depletion recognized during 2005 of \$28,411. The total Depletion and Impairment as of June 30, 2007 is \$340,518.

NOTE 6 – DEPRECIATION, DEPLETION AND AMORTIZATION

On September 1, 2005, the Company received the initial report on reserves of oil and gas from a petroleum engineer. The report focused on reserves held in six wells which comprise the majority of the monthly income received by Monarch from oil and gas production. Based upon the results of a reserve analysis, the accompanying financial statements included an impairment (write down) of the existing wells in the amount of \$270,107. The Company recorded depletion based on units-of-production in the amount of \$28,411 for the year ended December 31, 2005. For the year ended December 31, 2006, the depletion has been estimated at \$28,000 based upon the depletion recognized during 2005, and for the six months ending June 30, 2007, depletion has been estimated at \$14,000 based on depletion recognized in 2005.

For the six months ending June 30, 2007 and 2006 the Company recorded depreciation using the straight-line method over the estimated useful lives of assets in the amount of \$710 and 0, respectively.

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NOTE 7 – ACQUISITION OF RIO GRANDE RESOURCES, INC.

On December 9, 2003, Monarch acquired all of the issued and outstanding stock of a private Idaho corporation, Rio Grande Resources, Inc. The acquisition was accounted for as a tax-free reorganization. Due to the fact that the control of the corporation transferred to the shareholders of Rio Grande and since the surviving entity was Rio Grande in terms of assets, business plan, Board of Directors, etc., the transaction was treated as a recapitalization of Rio Grande. The historical information in financial statements is treated as if Rio Grande were the acquiring corporation. There were no assets or liabilities acquired in this transaction, and the Company effectively issued 544,710 shares of common stock to acquire the legal entity.

NOTE 8 – OPTION AGREEMENTS WITH WESTERN GEOSCIENCE, INC.

Goldfield and Aurora Property

On November 18, 2003, Rio Grande Resources entered into an option agreement with Western Geoscience, Inc. whereby Rio Grande has the right to explore and develop certain gold mining claims. With the acquisition of Rio Grande, Monarch acquired the option and the obligation to deliver 500,000 shares of its common stock, 80% restricted, (in lieu of 500,000 shares of Rio Grande stock) to the principals of Western Geoscience, Inc. As of September 30, 2004, Monarch has delivered all shares required under the agreement.

Additionally, Monarch was required to pay certain staking and recording fee; on the Goldfield property and Aurora property; pay \$25,000 in first year and \$200,000 over the next 5 years working each of the two claim groups. The option provided Monarch with a 100% working interest in the properties, subject to a royalty of 1.5% net smelter returns (to be capped at \$1.5 million).

On May 12, 2004, Monarch contributed its option interest in the Goldfield Properties in exchange for a 40% interest in Goldfield Mining, LLC.

An unrelated company, domiciled in Great Britain, has agreed to invest \$1 million dollars to acquire the balance (60%) of the ownership of Goldfield Mining, LLC. As of March 31, 2007, no monies have been received pursuant to this transaction. (See Note 9).

Monarch expensed its investment in Goldfield Mining, LLC, valued at \$25,000 and has recorded this as part of its discontinued operations.

Coyote Property

On February 4, 2004, Monarch entered into an option agreement with Western Geoscience, Inc. whereby Monarch has the right to explore and develop certain gold mining claims. The option requires Monarch to deliver 250,000 shares of its common stock to the principals of Western

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Geoscience, Inc. Additionally, Monarch was required to pay certain staking and recording fees and other semi-annual payments. The option provides Monarch with a 100% working interest in the properties, subject to a royalty of 1.5% net smelter returns (to be capped at \$1.5 million).

The Company's interest in this property was transferred in 2005. (See Note 9).

NOTE 9 – SALE OF MINERAL PROPERTIES AND JOINT VENTURE INTEREST

On April 11, 2005, Monarch entered into an agreement to sell to a British corporation ("Buyer") Monarch's interest (and obligations) in the options to acquire the Goldfield, Aurora and Coyote mining claims and the Monarch interest in the Goldfield Mining LLC in exchange for Buyer's payment to Monarch of \$25,000 plus 300,000 shares of stock in Buyer. Under the terms of the agreement, Buyer would register its stock and provide freely tradable shares of stock to Monarch on or before September 1, 2005. Additionally, Buyer, through a combination of options, (puts and calls on the underlying stock), was required to assure Monarch's sale price of at least 0.80 British Pounds Sterling per share. Monarch shall also retain an overriding 1.5% royalty interest in the Aurora Claims, the Coyote Claims and the Goldfield Claims. In October 2005, the Company received 10,000 shares of stock and \$17,500 for redemption of 12,500 shares. In January 2006, the Company received another 10,000 shares of stock and \$17,500 for an additional redemption of 12,500 shares. In April 2006, the Company received 50,000 shares for the cancellation of the repurchase obligations under the previous agreements and replacing them with two redemptions scheduled to take place on August 1 and December 1, 2006, in the amount of \$180,000 each. Effective August 30, 2006, the buyer issued 100,000 of its shares to defer the payment dates to December 1, 2006, and March 1, 2007. Including the 300,000 original purchase price shares, all redemptions, and issuances of stock pursuant to amendments, the Company owns 445,000 shares of stock of the Buyer. At June 30, 2007 no further payments had been received by the Company from the Buyer.

The Company has not attributed any fair value to the shares received as there is no known current market for Buyer's shares

The transaction is expected to be accounted for as a sale of mineral and joint venture interests, wherein the proceeds of the sale will be approximately \$400,000 and the basis of the assets being sold is \$75,000, which was previously written off as exploration activities. Since there is a related risk of nonperformance, the transaction will be recognized only when proceeds are received by the Company.

NOTE 10 – CONVENTIONAL CONVERTIBLE DEBT

During April 2004, Monarch borrowed \$100,000 from two creditors under two one-year notes which bear interest of 10% per annum and entitle each note holder the right, at his option, to

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convert all or a lesser portion of the principal plus accrued interest into common stock of Monarch. at a conversion price of \$0.75 per share. This feature will not be classed as a “derivative” as defined in SFAS 133. Under the agreement, the Company is required to keep available common stock duly authorized for issuance in satisfaction of the convertible. The terms of the debt do not require regular monthly payments. At June 30, 2007, \$10,000 has been converted to 13,333 shares issued by Monarch.

During 2005, the notes and accrued interest were extended for an additional one year. In April 2006, these notes became due and are subsequently considered to be on demand loans.

On September 11, 2006, the Company issued 27,000 common shares to the two holders of the promissory notes in the aggregate principle amount of \$90,000 in exchange for their agreement to extend the due date on the promissory notes from April 5, 2006 to April 5, 2007, or until the Company secures additional equity or debt financing in excess of \$500,000. The Company paid \$18,000 during 2006 for interest on the notes.

NOTE 11 – RELATED PARTY TRANSACTIONS

In January 20, 2005, the Company entered into a three-year employment agreement with the President of the Company. The agreement allows for a base salary of \$7,500 per month (plus benefits such as health insurance) along with potential performance bonuses based upon Company objectives, as determined by the Board of Directors. The bonuses can range from 25% to 100% of the base salary. During the quarter ended March 31, 2007, the Company had paid \$22,500 in compensation and \$7,033 in benefits.

A retainer of \$7,500 per month will be paid to the Chief Operating Officer. The payment of the retainer to the Chief Operating Officer is conditioned upon the Company having available cash resources. Any unpaid obligation to the Chief Operating Officer will be accrued commencing January 1, 2006. During the quarter ended March 31, 2007, the Company had paid \$22,500 under the contract.

The President of the Company, consistent with his employment agreement, was entitled to receive additional shares of stock to offset any reverse stock splits that were initiated within the first 12 months of his employment. Under the terms of this agreement, the President was entitled to receive an additional 516,667 shares of stock to offset the reverse split authorized in September of 2005. The Board of Directors, with the concurrence of the President agreed to delete this share offset provision. No additional shares will be issued to the President of the Company arising from this provision in his employment agreement.

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On February 3, 2006 the Board of Directors authorized the issuance of 2,200,000 shares of common stock valued at \$0.15 per share to directors of the Company as payment of directors fees. Upon retirement of a board member, 200,000 shares were returned to the Company.

On September 11, 2006, the Board of Directors authorized the issuance of 4,316,667 shares of common stock valued at \$0.20 per share to directors of the Company as payment of director's fees.

In November 2006, the Company entered into a Geophysical Consulting Agreement with a new board member. The term of the agreement was for twelve months with compensation set at \$5000 month plus expenses. Under the agreement the Company paid consultant \$12,819 in 2006. In January 2007 the agreement was mutually terminated by both parties and consultant's resignation from the board was rendered.

In January 2007, the Board of Directors authorized the issuance of 500,000 shares of common stock valued at \$0.05 per share to a director of the Company as payment of director fees.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

In September, 2006, the Company entered into an agreement for a 19% working interest (subject to a 75% NRI) in the North Colgrade Prospect. This prospect is located approximately seven miles from Sikes in Winn Parish, Louisiana. There are no other back-ins or promotes on the venture. The well encountered eight feet of gas pay on water in the Wilcox. The well was deemed to have marginal economic viability and was abandoned. The Company's share of the drilling costs was \$71,060 and expensed as dryhole costs. The Joint Venture partners are currently evaluating further drilling potential based on the results of this well for the 1500 acre lease.

In October, 2006 the Company entered into an agreement with a Canadian company and a US individual for consulting services related to but not limited to general financial and business matters, mergers and acquisitions and investor relations. The term is for twelve months with compensation set at \$6000 per month. Additionally, Consultants may also receive stock for payment of services rendered. In 2007, the agreement was suspended for lack of performance; consequently, no compensation has been paid in 2007.

Joint Venture with Daybreak Oil and Gas, Inc.

On October 20, 2006, the Company entered into a farmout agreement with Daybreak Oil and Gas, Inc. in which the Company acquired a 25% working interest, subject to a 3% gross overriding royalty interest and mineral lease royalty interests, in a joint venture to explore and develop a prospect located in the San Joaquin Basin of California. The joint venture intends to seek fields that have a proven propensity for oil yields in the one million barrel range. The joint

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venture expects an initial capital budget of \$2 million to run up to three 3D seismic surveys. Based on the results of the seismic program, the joint venture intends to conduct a nine well exploration program. Monarch will be liable for its pro rata share of all of the costs associated with the project. By paying its percentage of the gross costs of the 3D seismic program and the costs of drilling the nine exploratory wells, Monarch will earn a 20% working interest before payout and a 15% working interest after the payout in the joint venture. Monarch may withdraw from the joint venture at any time, but would forfeit any interest in the wells. There is no assurance that Monarch will be able to raise sufficient funds to meet its obligations in the joint venture or that the wells will provide a marketable rate of production or be successful. In February 2007, Monarch received a default letter from Daybreak Oil and Gas for breach of payment provisions. Monarch plans to vigorously dispute the default claim.

In November 2006, the Company entered into an agreement to participate with a 15% working interest in the drilling of the Krotz Springs Prospect in Louisiana. The well was drilled in early 2007. Monarch chose not to participate because of cost overruns and lack of funds. The Company has no further commitments under the agreement.

In January 2007, the Company entered into discussions with a Securities dealer regarding acting as a financial advisor and investment banker in connection with a proposed offer and sale of partnership units in a private or public offering by the Company. In conjunction with this, the Company also entered into an agreement with a marketing and business development firm to assist with the marketing of the Company. The related work is expected to cost the Company approximately \$100,000 in 2007.

NOTE 13 – DISCONTINUED OPERATIONS

During the period ended December 31, 2005 and 2004, the Company elected to discontinue its mining operations and accordingly recorded a gain associated with discontinued operations of \$17,480 for the twelve months ended December 31, 2006, \$42,445 for the year ended December 31, 2005, and a loss associated with discontinued operations of \$221,929 for the year ended December 31, 2004.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards, No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” (hereinafter “SFAS No. 146”). SFAS No. 146 addresses significant issues regarding the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS No. 146 also addresses recognition of certain costs related to terminating a contract that is not a capital lease, costs to consolidate facilities or relocate employees, and termination benefits provided to employees that are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit

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arrangement or an individual deferred-compensation contract. The Company's financial position and results of operations have not been affected by adopting SFAS No. 146.

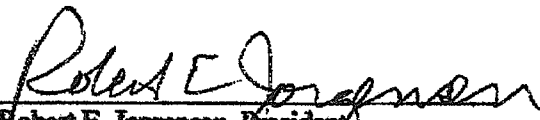
NOTE 14 – SUBSEQUENT EVENTS:

There were no subsequent events.

Certification of Management

The undersigned duly appointed and standing President of Monarch Gulf Exploration, Inc., a Washington corporation (the 'Company'), and the undersigned accountant for the Company, hereby certify the attached financial statements of the Company for the six months ended June 30, 2007, and the notes thereto, present fairly, in all material respects, the financial position of the Company and the results of operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States, consistently applied.

Dated: August 13, 2007


Robert E. Jorgensen, President


Heather Ernis, CPA