

Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

MONARCH ENERGY LIMITED

Three and Six Months ended March 31, 2011 and 2010

**MANAGEMENT'S COMMENTS ON
UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 the Company discloses that these interim financial statements of Monarch Energy Limited have been prepared by and are the responsibility of the Company's management.

These financial statements have not been reviewed or audited by the Company's independent external auditors.

MONARCH ENERGY LIMITED

Consolidated Balance Sheets
(Unaudited – Prepared by Management)

	March 31, 2011	September 30, 2010
Assets		
Current assets:		
Cash	\$ 76,725	\$ 428,926
Amounts receivable (note 4)	33,032	11,310
Prepaid expenses	13,047	10,000
	<u>122,804</u>	<u>450,236</u>
Equipment (note 5)	1,698	1,997
Mineral property (note 6)	1,995,929	-
Reclamation bond	27,634	27,634
	<u>\$ 2,148,065</u>	<u>\$ 479,867</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 210,371	\$ 1,592,369
Due to related parties (note 9)	-	103,008
	<u>210,371</u>	<u>1,695,377</u>
Asset retirement obligation (note 7)	61,248	57,932
	<u>271,619</u>	<u>1,753,309</u>
Shareholders' equity:		
Capital stock (note 8)	17,915,841	15,943,341
Contributed surplus (note 8(c))	1,591,009	1,271,009
Deficit	(17,630,404)	(18,487,792)
	<u>1,876,446</u>	<u>(1,273,442)</u>
	<u>\$ 2,148,065</u>	<u>\$ 479,867</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

“George Langdon” Director

“Michael Turko” Director

MONARCH ENERGY LIMITED

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Unaudited – Prepared by Management)

Three and six months ended March 31, 2011 and 2010

	Three months ended March 31,		Six months ended March 31,	
	2011	2010	2011	2010
Revenue				
Petroleum and natural gas sales	\$ 26,335	\$ 31,748	\$ 65,440	\$ 65,218
Royalties	(5,890)	(5,059)	(7,466)	(8,342)
	<u>20,445</u>	<u>26,689</u>	<u>57,974</u>	<u>56,876</u>
Expenses				
Accretion of asset retirement obligation	1,658	1,658	3,316	3,316
Consulting	13,660	-	31,160	-
Depletion	-	2,014	-	4,027
Depreciation	150	221	299	443
Filing fees	14,214	7,799	17,074	9,349
Foreign exchange (gain) loss	62,571	(124,448)	17,695	(144,443)
Investor relations	4,623	606	4,673	656
Management fees	7,000	15,000	7,000	30,000
Office and miscellaneous	4,861	3,940	7,814	4,593
Printing	1	7	6	31
Production expenses	20,241	125,917	37,475	163,714
Professional fees	73,838	13,371	99,584	47,527
Project evaluation	-	(4,409)	-	26,215
Rent	5,015	5,077	11,972	10,154
Stock-based compensation	320,000	-	320,000	-
Transfer agent fees	7,020	3,455	9,351	4,301
Transportation costs	907	164	2,449	1,042
Travel	1,172	-	2,108	-
	<u>(536,931)</u>	<u>(50,372)</u>	<u>(571,976)</u>	<u>(160,925)</u>
Loss before other items	(516,486)	(23,683)	(514,002)	(104,049)
Other items				
Interest income	-	98	-	98
Gain on settlement of debt	-	-	21,897	-
Loss from continuing operations	(516,486)	(23,585)	(492,105)	(103,951)
Gain on disposal of subsidiary	1,284,426	-	1,284,426	-
Income from discontinued operations	65,067	-	65,067	-
Net income (loss) for the period	833,007	(23,585)	857,388	(103,951)
Deficit, beginning of period	(18,463,411)	(18,393,782)	(18,487,792)	(18,313,416)
Deficit, end of period	<u>\$ (17,630,404)</u>	<u>\$ (18,417,367)</u>	<u>\$ (17,630,404)</u>	<u>\$ (18,417,367)</u>
Loss per share, basic and diluted			\$ (0.00)	\$ (0.00)

See accompanying notes to consolidated financial statements.

MONARCH ENERGY LIMITED

Consolidated Statements of Cash Flows
(Unaudited – Prepared by Management)

Three and six months ended March 31, 2011 and 2010

	Three months ended March 31,		Six months ended March 31,	
	2011	2010	2011	2010
Cash flows used in operating activities:				
Income (loss) from continuing operations for the period	\$ (516,486)	\$ (23,585)	\$ (492,105)	\$ (103,951)
Items not involving cash:				
Accretion of asset retirement obligation	1,658	1,658	3,316	3,316
Depletion	-	2,014	-	4,027
Depreciation	150	221	299	443
Stock-based compensation	320,000	-	320,000	-
Gain on disposition of subsidiary	1,284,426	-	1,284,426	-
Income from discontinued operations	65,067	-	65,067	-
Changes in non-cash operating working capital:				
(Increase) decrease in amounts receivable	(5,307)	23,062	(21,723)	16,169
(Increase) decrease in prepaid expenses	10,782	772	(3,047)	772
Increase (decrease) in accounts payable and accrued liabilities	(1,310,349)	(14,257)	(1,381,997)	55,023
Net cash used in operating activities	(150,059)	(10,115)	(225,764)	(24,201)
Cash flows from financing activities:				
Increase in amounts due to related parties	-	7,558	(103,008)	30,000
Net cash from financing activities	-	7,558	(103,008)	30,000
Cash flows from investing activities:				
Addition of mineral property	(1,995,929)	-	(1,995,029)	-
Shares acquisition of mineral property	1,972,500	-	1,972,500	-
Net cash from investing activities	(23,429)	-	(23,419)	-
Increase (decrease) in cash	(173,488)	(2,557)	(352,201)	5,799
Cash, beginning of period	250,213	55,967	428,926	47,611
Cash, end of period	\$ 76,725	\$ 53,410	\$ 76,725	\$ 53,410
Supplementary information:				
Income taxes paid			\$ -	\$ -
Interest paid			-	-
Non-cash financing and investing transactions:				
Petroleum and natural gas properties reduction upon adjustment of asset retirement obligation			-	-
Petroleum and natural gas expenditures included in accounts payable			-	-

See accompanying notes to consolidated financial statements.

MONARCH ENERGY LIMITED

Notes to the Unaudited Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)

Six months ended March 31, 2011 and 2010

1. NATURE AND CONTINUANCE OF OPERATIONS:

Monarch Energy Limited (“the Company”) was incorporated in British Columbia and is engaged in the exploration and development of petroleum and natural gas and mineral properties.

The Company is in the process of exploring its petroleum and natural gas and mineral properties and has yet to determine whether its properties contain reserves that are economically recoverable. The recoverability of amounts shown for petroleum and natural gas properties and minerals is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development of its properties, confirmation of the Company’s interest in the underlying permits and licenses, and future profitable production or proceeds from the disposition of the Company’s properties.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing.

The current market conditions and volatility increase the uncertainty of the Company’s ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets.

During the six months ended March 31, 2011 and 2010, the Company recorded losses of approximately \$492,000 and \$104,000 from continuing operations respectively. The Company realized a cash inflow of approximately \$2,190,000 for the six month period ending March 31, 2011 compared to a cash outflow of approximately \$(24,000) for the six month period ending March 31, 2010. As at March 31, 2011, the Company had an accumulated deficit of approximately \$17,630,000 and a working capital deficiency of approximately \$88,000.

2. BASIS OF PRESENTATION:

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles have been condensed or omitted.

These interim consolidated financial statements should be read together with the 2010 audited annual financial statements and the accompanying notes. In the opinion of the Company, these unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

MONARCH ENERGY LIMITED

Notes to the Unaudited Interim Consolidated Financial Statements
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Six months ended March, 2011 and 2010

3. RECENT ACCOUNTING PRONOUNCEMENTS:

New accounting standards:

Effective for the year ended September 30, 2010, the Company adopted new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”), as listed below. These standards were adopted on a prospective basis and are primarily related to disclosures. There were no adjustments recorded to the opening balance sheet items or deficit as a result of the Company’s initial adoption of these standards.

Goodwill and intangible assets

Effective October 1, 2009, the Company adopted the CICA Handbook Section 3064, “Goodwill and Intangible Assets”, which replaced Section 3062, “Goodwill and Other Intangible Assets”. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. The adoption of this standard did not have a significant effect on these financial statements.

Business combinations, consolidated financial statements and non-controlling interest

Effective October 1, 2009, the Company adopted the CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-Controlling Interests”. These sections replaced the former Section 1581, “Business Combinations”, and Section 1600, “Consolidated Financial Statements”, and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008).

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS International Accounting Standards (“IAS”) 27, Consolidated and Separate Financial Statements.

These standards are effective January 1, 2011, however early adoption is permitted. The Company adopted these sections on October 1, 2009, the adoption of these sections did not have a significant effect on the Company’s financial statements.

MONARCH ENERGY LIMITED

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Six months ended March, 2011 and 2010

3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Future accounting policies

International Financial Reporting Standards (“IFRS”)

In 2006 the Canadian Accounting Standards Board (“AcSB”) published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's existing GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. For the Company the transition date will be October 1, 2011 and this will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. The Company has completed the diagnostic phase of planning for the implementation of IFRS. It has determined that the principal areas of impact will be IFRS 1 – first time adoption; presentation of financial statements; asset retirement obligations; impairment of assets; flow through shares and share-based payments. The Company expects its detailed analysis of relevant IFRS requirements and of IFRS 1 will be complete by the end of its fiscal quarter ending June 30, 2011, along with its determination of changes to accounting policies and choices to be made. The Company has not yet reached the stage where a quantified impact of conversion on its financial statements can be measured. The Company expects to complete its quantification of financial statement impacts by the end of its fiscal year ending September 30, 2011.

4. AMOUNTS RECEIVABLE:

	March 31, 2011	September 30, 2010
HST	\$ 16,251	\$ 2,971
Petroleum and natural gas sales, net	16,781	8,339
	\$ 33,032	\$ 11,310

5. EQUIPMENT:

	March 31, 2011	September 30, 2010
Computer equipment	\$ 5,264	\$ 5,264
Office equipment	2,679	2,679
	7,943	7,943
Accumulated depreciation	(6,245)	(5,946)
	\$ 1,698	\$ 1,997

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6. MINERAL PROPERTY:

Odd Twins Property

On January 6, 2011, the Company announced it has entered into a Letter of Intent with Tectonics Inc. (“Tectonics”), of Calgary, Alberta, for the acquisition of an interest in mineral properties located on and offshore Long Point, on the Port au Port Peninsula, Newfoundland and Labrador. The acquisition will be a related party transaction, as the principal of Tectonics is George S. Langdon, who is the President and a director of the Company. Accordingly the acquisition was subject to approval by the disinterested shareholders of the Company.

The Company obtained a 60% working interest (subject to a 2% NSR) in Mineral License 016508M, comprising 68 claims (approx. 1700 hectares, 4352 acres); Mineral License 018019M, comprising 121 claims (approx. 3025 hectares, 7744 acres); Mineral License 018035M, comprising 121 claims (approx. 3025 hectares, 7744 acres); and Mineral License 018387M comprising 3 claims (approx. 75 hectares, 290 acres) (collectively, the “licensed area”). The Company has agreed to enter into a joint venture with the holder of the remaining 40% interest for the exploration, development and exploitation of the licensed area. The consideration paid for the working interest will be the issuance to Tectonics or its assigns of 39,450,000 shares of the Company, following a 1.75:1 consolidation, at a deemed price of \$0.05 per share.

The acquisition and related matters has been approved by the TSX Venture Exchange

7. ASSET RETIREMENT OBLIGATION:

The following table presents the reconciliation of the beginning and ending aggregate carrying amounts of the obligation associated with the retirement of the Company’s petroleum and natural gas properties:

	March 31, 2011	September 30, 2010
Asset retirement obligation, beginning of the period	\$ 57,932	\$ 51,300
Accretion expense	3,316	6,632
Asset retirement obligation, end of the period	\$ 61,248	\$ 57,932

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$60,906 (September 30, 2010 - \$60,906). The obligation was calculated using a credit-adjusted risk free discount rate of 10% and an inflation rate of 2%. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of the costs expected to occur between 2011 and 2015.

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Notes to the Unaudited Interim Consolidated Financial Statements
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8. CAPITAL STOCK:

(a) Authorized:

Unlimited number of common shares without par value.

(b) Issued:

	Number of shares	Stated value
Balance, September 30, 2010	53,226,852	\$ 15,943,341
Issuance of shares for mineral property	39,450,000	1,972,500
Balance, March 31, 2011	92,676,852	\$ 17,915,841

As at March 31, 2011 there are no shares held in escrow.

On January 25, 2011, the Company consolidated its common shares on the basis of one new share for every 1.75 old shares. As at September 30, 2010, the number of unconsolidated outstanding common shares was 93,146,991. The number of common shares outstanding following the consolidation is 53,226,852.

(c) Contributed surplus:

Balance, September 30, 2010	\$ 1,271,009
Fair-value of stock-based compensation	320,000
Balance, March 31, 2011	\$ 1,591,009

(d) Stock options:

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price, minimum price, or a discounted price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options issued to consultants vest at 25% every three months. Options to directors and employees fully vest immediately upon granting but the common shares on exercise are subject to a four month hold period from the date of grant.

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Notes to the Unaudited Interim Consolidated Financial Statements
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Six months ended March, 2011 and 2010

8. CAPITAL STOCK (continued):

(d) Stock options (continued):

The Company measures compensation costs using the fair value-based method for employee and non-employee stock options. Compensation costs have been determined based on the fair value of the options at the grant date using the Black-Scholes option-pricing model. Compensation expense of \$320,000 was recorded in the statement of operations for the three month period ended March 31, 2011 compared to \$Nil in the corresponding period ended March 31, 2010.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted or revalued during the year:

	2011	2010
Risk-free interest rate	1.57%	-
Expected life of options	5 years	-
Annualized volatility	218%	-
Dividend rate	0	-

The continuity of common share stock options for the six months ended March 31, 2011 is as follows:

Exercise price	Expiry date	September 30, 2010	Granted	Cancelled/ expired	Exercised	March 31, 2011
\$0.35	October 23, 2011	485,714	-	485,714	-	-
0.53	March 11, 2012	371,429	-	371,429	-	-
0.53	May 21, 2012	757,143	-	757,143	-	-
0.10	February 1, 2016	-	5,300,000	-	-	5,300,000
		1,614,286	5,300,000	1,614,286	-	5,300,000
Weighted average exercise price		\$0.47	\$ 0.10	\$ 0.47	\$ -	\$0.10
Weighted average remaining life						5 years

9. RELATED PARTY TRANSACTIONS AND AMOUNTS DUE:

During the six months ended March 31, 2011 and 2010, the Company was charged the following amounts by an officer, directors and companies controlled by directors of the Company:

	2011	2010
Consulting fees	\$ 31,160	\$ -
Management fees	7,000	30,000
	\$ 38,160	\$ 30,000

All related party transactions were incurred in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

MONARCH ENERGY LIMITED

Notes to the Unaudited Interim Consolidated Financial Statements
(Unaudited – Prepared by Management)

Six months ended March, 2011 and 2010

10. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT:

The Company is exposed in varying degrees to a number of risks arising from financial instruments. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Board approves and monitors the risk management process.

The types of risk exposure and the way in which such exposures are managed are as follows:

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company's exposure to credit risk includes cash, short-term investments and amounts receivable. The risk exposure is limited to their carrying amounts at the balance sheet date.

Cash and short-term investments are held as cash deposits maintained with one financial institution. The risk is mitigated because the financial institution is a prime Canadian bank.

Amounts receivable primarily consist of HST refunds due and revenues due from the sale of oil and gas. To reduce credit risk, the Company regularly reviews the collectability of the amounts receivable and there is no indication that these amounts will not be fully recoverable.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity financings. The Company manages its liquidity risk by actively forecasting, planning, reviewing and monitoring expenditures and commitments and anticipating financing requirements.

(c) Market risk:

Market risk is the risk of loss that may arise from changes in market factors. The significant market risks to which the Company is exposed are currency and interest rate risk.

(i) Currency risk

The Company currently has foreign property interests, which gives rise to a risk that earnings and cash flows may be negatively impacted by fluctuations in foreign exchange rates. To the date of these financial statements, the Company has not entered into foreign currency contracts to mitigate this risk.

(ii) Interest rate risk

Fluctuations in interest rates impact the value of cash and cash equivalents. The Company's policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institution. The Company manages risk by monitoring changes in interest rates in comparison to prevailing market rates. As of March 31, 2011, the Company did not have any investment certificates.

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10. FINANCIAL RISK EXPOSURE AND RISK MANAGEMENT (continued):

(iii) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatility. The Company closely monitors commodity prices of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

11. DISCONTINUED OPERATIONS

On January 6, 2011, the Company entered into an agreement with a third party to sell its' UK subsidiary Monoil Limited and wholly owned subsidiary Monoil UK Limited. For the consideration of USD\$1, a third party company will assume all interests or equity of any person (including any right to acquire, option or right of pre-emption) or any mortgage, charge, pledge, lien, assignment, hypothecation, security, interest, title, retention or any other security or arrangement.

Proceeds on Disposition	<u>\$ 1</u>
Less: Net liabilities at date of disposition	
Discontinued operations	(65,067)
Accounts payable	<u>(1,284,426)</u>
	<u>(1,349,493)</u>
 Gain on disposition	 \$ 1,349,493
