MORGAN CREEK ENERGY CORP
Form 10QSB
May 15, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _______

Commission file number 0-25455

MORGAN CREEK ENERGY CORP.

(Exact name of small business issuer as specified in its charter)

NEVADA	201777817
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

10120 S. Eastern Avenue
Suite 200
Henderson, Nevada 89052

(Address of Principal Executive Offices)

(702) 566-1307

(Issuer's telephone number)

Securities registered pursuant to Section 12(b) of the Exchange Act:

None

(Title of class)

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, Par Value $0.001

(Title of class)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of issuer's knowledge, in definitive proxy of information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Applicable Only to issuers Involved in Bankruptcy Proceedings
During the Preceding Five Years.

N/A

Indicate by check mark whether the issuer has filed all documents and reports required to be filed by Section 12, 13 and 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes [ ] No [ ]

Applicable Only to Corporate Registrants

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Class	Outstanding as of May 4, 2007
Common Stock, $.001 par value	29,814,905

Transitional Small Business Disclosure Format (Check one:)

Yes [ ] No [X]

PART I

ITEM 1. FINANCIAL STATEMENTS

MORGAN CREEK ENERGY CORP.

FINANCIAL STATEMENTS

MARCH 31, 2007
(Unaudited)

4

MORGAN CREEK ENERGY CORP.

(An Exploration Stage Company)

FINANCIAL STATEMENTS

MARCH 31, 2007
(UNAUDITED)

STATEMENTS OF CASH FLOWS

NOTES TO FINANCIAL STATEMENTS

5

MORGAN CREEK ENERGY CORP.
(An Exploration Stage Company)

BALANCE SHEETS

		March 31, 2007
		(unaudited)
ASSETS		
CURRENT ASSETS		
Cash	$	5,778
Prepaid		13,755
		19,543
NON CURRENT ASSET		
Restricted cash (Note 7)		25,000
OIL AND GAS PROPERTIES, unproven (Note 3)		375,860
	$	420,393
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$	65,250
Due to related parties (Note 6)		686,386
		751,636
GOING CONCERN (Note 1)		
STOCKHOLDERS' EQUITY(DEFICIT) (Note 4)		
Common stock, 100,000,000 shares authorized with $0.001 par value		
Issued and outstanding		
29,814,905 common shares (December 31, 2006 - 29,814,905)		29,815
Additional paid-in-capital		3,972,363
Deficit accumulated during exploration stage		(4,333,421)
		(331,243)

$ 420,393

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

MORGAN CREEK ENERGY CORP.
(An Exploration Stage Company)

STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended March 31, 2007	Three months ended March 31, 2006
GENERAL AND ADMINISTRATIVE EXPENSES		
Investor relations	$ -	$ 75,000
Consulting fees	44,378	77,500
Management fees	61,739	15,000
Management fees - stock based compensation	-	-
Impairment of oil and gas properties (Note 3(a),(b),(c) and (d))	-	-
Office and general	26,945	13,454
Professional fees	54,602	11,080
NET LOSS	$ (187,664)	$ (192,034)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.00)	$ (0.00)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING-BASIC AND DILUTED	29,814,905	40,670,800

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

MORGAN CREEK ENERGY CORP.
(An Exploration Stage Company)

STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31, 2007	Three months March 31, 2
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$(187,664)	$(192,034
Adjustments to reconcile net loss to net cash used in operating activities:		
- Stock based compensation	-	-
- Impairment of oil and gas properties	-	-
- Prepaid expenses	-	-
- Due from related parties	-	200,000
- Due to related parties	32,675	(9,458
- Accounts payable and accrued liabilities	(81,767)	(5,930
NET CASH USED IN OPERATING ACTIVITIES	(236,756)	(7,422
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of oil and gas properties, net of recovery	(65,790)	-
Restricted cash deposits	(25,000)	
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(90,790)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds on sale of common stock	-	-
Advances from related parties	327,500	40,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	327,500	40,000
INCREASE (DECREASE) IN CASH	(46)	32,578
CASH, BEGINNING OF PERIOD	5,824	7,110
CASH, END OF PERIOD	$ 5,778	$ 39,688
SUPPLEMENTAL CASH FLOW INFORMATION AND NONCASH INVESTING AND FINANCING ACTIVITIES:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Common stock issued for acquisition of oil and gas property (Note 3)	$ -	$ -

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

MORGAN CREEK ENERGY CORP.
(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Morgan Creek Energy Corp. (the "Company") is an exploration stage company that was organized to enter into the oil and gas industry. The Company intends to locate, explore, acquire and develop oil and gas properties in the United States and within North America. The primary activity and focus of the Company is its leases in Texas ("Quachita Prospect"). To date the Company has acquired approximately 2,281 gross acres and is planning to drill its first well on the property, the Boggs 1 by the end of May 2007.

GOING CONCERN
The Company commenced operations on October 19, 2004 and has not realized any revenues since inception. As of March 31, 2007 the Company has a total deficit of $4,333,421 and a working capital deficiency of $707,103. The ability of the Company to continue as a going concern is dependent on raising capital to fund ongoing operations and carry out its business plan and ultimately to attain profitable operations. Accordingly, these factors raise substantial doubt as to the Company's ability to continue as a going concern. To date the Company has funded its initial operations by way of private placements of common stock and advances from related parties.

UNAUDITED INTERIM FINANCIAL STATEMENTS
The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principals for interim financial information and with the instructions to Form 10-QSB of Regulation S-B. They do not include all information and footnotes required by United States generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material changes in the information disclosed in the notes to the financial statements for the year ended December 31, 2006 included in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of Management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION
The Company was incorporated on October 19, 2004 in the State of Nevada. The Company's fiscal year end is December 31. The Company's financial statements are presented in US dollars.

BASIS OF PRESENTATION
These financial statements are presented in United States dollars and have been prepared in accordance with United States generally accepted accounting principles.

OIL AND GAS PROPERTIES
The Company follows the full cost method of accounting for its oil and gas operations whereby all costs related to the acquisition of methane, petroleum, and natural gas interests are capitalized. Under this method, all productive and non-productive costs incurred in connection with the exploration for and development of oil and gas reserves are capitalized. Such costs include land and lease acquisition costs, annual carrying charges of non-producing properties, geological and geophysical costs, costs of drilling and equipping productive and non-productive wells, and direct exploration salaries and related benefits. Proceeds from the disposal of oil and gas properties are recorded as a reduction of the related capitalized costs without recognition of a gain or loss unless the disposal would result in a change of 20 percent or more in the depletion rate. The Company currently operates solely in the U.S.A.

Depreciation and depletion of proved oil and gas properties is computed on the units-of-production method based upon estimates of proved reserves, as determined by independent consultants, with oil and gas being converted to a common unit of measure based on their relative energy content.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OIL AND GAS PROPERTIES (CONTINUED)

The costs of acquisition and exploration of unproved oil and gas properties, including any related capitalized interest expense, are not subject to depletion, but are assessed for impairment either individually or on an aggregated basis. The costs of certain unevaluated leasehold acreage are also not subject to depletion. Costs not subject to depletion are periodically assessed for possible impairment or reductions in value. If a reduction in value has occurred, costs subject to depletion are increased or a charge is made against earnings for those operations where a reserve base is not yet established.

Estimated future removal and site restoration costs are provided over the life of proven reserves on a units-of-production basis. Costs, which include production equipment removal and environmental remediation, are estimated each period by management based on current regulations, actual expenses incurred, and technology and industry standards. The charge is included in the provision for depletion and depreciation and the actual restoration expenditures are charged to the accumulated provision amounts as incurred.

The Company applies a ceiling test to capitalized costs which limits such costs to the aggregate of the estimated present value, using a ten percent discount rate of the estimated future net revenues from production of proven reserves at year end at market prices less future production, administrative, financing, site restoration, and income tax costs plus the lower of cost or estimated market value of unproved properties. If capitalized costs are determined to exceed estimated future net revenues, a write-down of carrying value is charged to depletion in the period.

ASSET RETIREMENT OBLIGATIONS

The Company has adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the related oil and gas properties

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Significant areas requiring management's estimates and assumptions are the determination of the fair value of transactions involving common stock and financial instruments. Other areas requiring estimates include deferred tax balances and asset impairment tests.

FINANCIAL INSTRUMENTS

The fair value of the Company's financial assets and financial liabilities approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

LOSS PER COMMON SHARE

Basic earnings per share includes no dilution and is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Dilutive earnings per share reflects the potential dilution of securities that could share in the earnings of the Company. Because the Company does not have any potentially dilutive securities, diluted loss per share is equal to basic loss per share.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax balances. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to the taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. As at December 31, 2006 the Company had net operating loss carryforwards, however, due to the uncertainty of realization, the Company has provided a full valuation allowance for the deferred tax assets resulting from these loss carryforwards.

STOCK-BASED COMPENSATION

On January 1, 2006, the Company adopted SFAS No. 123 (revised 2004) (SFAS No. 123R), SHARE-BASED PAYMENT, which addresses the accounting for stock-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. In January 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 107, which provides supplemental implementation guidance for SFAS No. 123R. SFAS No. 123R eliminates the ability to account for stock-based compensation transactions using the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and instead generally requires that such transactions be accounted for using a fair-value-based method. The Company uses the Black-Scholes-Merton ("BSM") option-pricing model to determine the fair-value of stock-based awards under SFAS No. 123R, consistent with that used for pro forma disclosures under SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION. The Company has elected the modified prospective transition method as permitted by SFAS No. 123R and accordingly prior periods have not been restated to reflect the impact of SFAS No. 123R. The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options, restricted stock, restricted stock units, and employee stock purchase plan shares that are ultimately expected to vest as the requisite service is rendered beginning on January 1, 2006 the first day of the Company's fiscal year 2006. Stock-based compensation expense for awards granted prior to January 1, 2006 is based on the grant date fair-value as determined under the pro forma provisions of SFAS No. 123.

Prior to the adoption of SFAS No. 123R, the Company measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB Opinion No. 25. The Company applied the disclosure provisions of SFAS No. 123 as amended by SFAS No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE, as if the fair-value-based method had been applied in measuring compensation expense. Under APB Opinion No. 25, when the exercise price of the Company's employee stock options was equal to the market price of the underlying stock on the date of the grant, no compensation expense was recognized.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2006, the FASB issued FSP EITF 00-19-02, Accounting for Registration Payment Arrangements ("FSP 00-19-2") which addresses accounting for registration payment arrangements. FSP 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, Accounting for Contingencies. FSP 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable generally accepted accounting principles without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of EITF 00-19-2, this guidance is effective for financial statements issued for fiscal years beginning after December 15, 2006 and interim periods within those fiscal years. The Company has determined the adoption of FSP 00-19-2 will not have a significant impact upon its financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This Statement permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on its financial position and results of operations.

NOTE 3 - OIL AND GAS PROPERTIES

(a) QUACHITA PROSPECT
The Company leased various properties totalling approximately 2,281 gross acres within the Quachita Trend within the state of Texas for a three year term in consideration for $312,963. The Company has a 100% Working Interest and a 77% N.R.I. in the leases.

(b) PETERS RANCH LEASE
On January 30, 2007 the Company acquired a 100% working interest, 77% net revenue interest, in two fully equipped South Texas oil leases; the Mata lease in Webb County and the Peters Ranch located in Duval County for $55,000. Each 40 acre lease is expected to be productive after completion of the rework program and the addition of extra equipment. Subsequent to the period on April 23, 2007 the Company reached an agreement to sell the property for $65,000.

NOTE 4 - STOCKHOLDERS' EQUITY

(a) SHARE CAPITAL

The Company's capitalization is 100,000,000 common shares with a par value of $0.001 per share.

On May 10, 2006, the directors of the Company approved a special resolution to undertake a forward split of the common stock of the Company on a 2 new shares for 1 old share basis whereby 10,167,700 common shares were issued pro-rata to shareholders of the Company as of the record date on May 10, 2006.

On July 26, 2006, the directors of the Company approved a special resolution to undertake a further forward split of the common stock of the Company on a 2 new shares for 1 old share basis whereby 20,335,400 common shares were issued pro-rata to shareholders of the Company as of the record date on August 8, 2006.

All references in these financial statements to number of common shares, price per share and weighted average number of common shares outstanding prior to the 2:1 forward stock split on May 10, 2006 and the 2:1 forward split on August 8, 2006 have been adjusted to reflect these stock splits on a retroactive basis, unless otherwise noted.

On December 19, 2006 a founding shareholder of the Company returned 12,000,000 restricted shares of common stock to treasury and the shares were subsequently cancelled by the Company. The shares were returned to treasury for no consideration to the shareholder

(b) PRIVATE PLACEMENTS

On November 26, 2004 the Company issued 1,550,000 shares of common stock at $0.10 per share for proceeds of $155,000.

On December 15, 2004 the Company issued 1,887,500 shares of common stock at $0.10 per share for proceeds of $188,750 and 660,200 shares of common stock at $0.50 per share for proceeds of $330,100.

On March 9, 2005 the Company issued 70,000 shares of common stock at a price of $0.50 per share for proceeds of $35,000.

On October 16, 2006 the Company completed a private placement consisting of 944,105 units with each unit comprised of one common share at $1.50 per share for proceeds of $1,416,158. The units consist of one common share and one non-transferable share purchase warrant exercisable at $3.00 per share for the period commencing on October 16, 2006 and ending on the day which is earlier of 24 months from the date of issuance of the units or 18 months from the effective date of a planned registration statement. Of this private placement, 563,333 of the units issued were in exchange for $845,000 previously advanced to the Company by a shareholder. The estimated fair value of the warrants at the date of grant of $592,210 was determined using the Black-Scholes option pricing model with an expected life of 2 years, risk free interest rate of 4.49%, a dividend yield of 0% and an expected volatility of 153%.

NOTE 4 - STOCKHOLDERS' EQUITY (CONTINUED)

(c) SHARE PURCHASE WARRANTS

There were 944,105 share purchase warrants issued and outstanding as of December 31, 2006. Share purchase warrants outstanding as of March 31, 2007 are:

Exercise price	Weighted average price	Number of warrants to purchase shares	Weighted average remaining In contractual life (in years)
$3.00	$3.00	944,105	1.80

A summary of the Company's stock purchase warrants as of March 31, 2007 and changes during the period is presented below:

	Number of Warrants	Weighted average exercise Price per share	Weighted average remaining In contractual life (in years)
Outstanding at December, 2006	944,105	-	-
Issued	-	-	-
Expired	-	-	-
Exercised	-	-	-
BALANCE MARCH 31, 2007	944,105	$ 3.00	1.50

NOTE 5 - STOCK OPTION PLAN

On April 3, 2006 the Board of Directors of the Company ratified, approved and adopted a Stock Option Plan for the Company in the amount of 5,000,000 shares with an exercisable period up to 10 years. In the event an optionee ceases to be employed by or to provide services to the Company for reasons other than cause, any Stock Option that is vested and held by such optionee maybe exercisable within up to ninety calendar days after the effective date that his position ceases. No Stock Option granted under the Stock Option Plan is transferable. Any Stock Option held by an optionee at the time of his death may be exercised by his estate within one year of his death or such longer period as the Board of Directors may determine. On December 12, 2006 the Board of Directors of the Company ratified and approved under the Company's existing Stock Option Plan the issuance of 1,850,000 shares for five years at $1.10 per share.

On December 12, 2006, the Company granted 1,350,000 stock options to officers and directors and 500,000 options to management of the Company at $1.10 per share. The term of these options are five years. The total fair value of these options at the date of grant was $1,527,170, or $1,114,421 and $412,749 respectively, and was estimated using the Black-Scholes option pricing model with an expected life of 3 years, a risk free interest rate of 4.49%, a dividend yield of 0% and expected volatility of 187% and has been recorded as a stock based compensation expense in the year.

A summary of the Company's stock options as of March 31, 2007 and changes during the period ended is presented below: There were 1,850,000 stock options granted in fiscal 2006.

	Number of Options	Weighted average exercise Price per share	Weighted average remaining In contractual life (in years)
Outstanding at December 31, 2006	1,850,000	-	-
Granted	-	-	-
Exercised	-	-	-
OUTSTANDING AT MARCH 31, 2007	1,850,000	$1.10	4.70

MORGAN CREEK ENERGY CORP.
(An Exploration Stage Company)

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2007
(unaudited)

NOTE 6 - RELATED PARTY TRANSACTIONS

INTERNATIONAL MARKET TREND, INC. ("IMT")
An officer and director of IMT, a private company, is a shareholder of the Company. During the period ended March 31, 2007 the Company paid IMT consulting expenses of $30,000 (2005 - $20,000). In addition during the period IMT advanced the Company $6,000. As of March 31, 2007 the Company owed IMT $26,164 which amount is unsecured and non-interest bearing, and has no specific repayment terms.

During the period ended March 31, 2007 a shareholder of the Company advanced $321,500 to the Company. The balance owing to this shareholder as of March 31, 2007 was $646,500 and bears interest at 8% per annum and has no specific repayment terms. As of March 31, 2007 total accrued interest was $13,722.

MANAGEMENT FEES
During the period ended March 31, 2007, the Company paid an officer and director $30,000 for management fees (March 2006 -$15,000).

As part of their compensation agreement the Company's chief Geologist and Operations Manager (hereafter referred to as "Executives") each receives and is assigned at time of acquisition up to a 1.5% overriding royalty interest in any oil and gas properties which are directly introduced by the Executives to the

Company. During the period ended March 31, 2007 the Company recorded related additional compensation to the Executives of the estimated fair value of $1,739 (March 2006 - $nil).

NOTE 7 - RESTRICTED CASH

Restricted cash consists of amounts restricted for more than 12 months and accordingly is included in non-current assets. Restricted cash consists of a $25,000 operating bond for the Company held by the Railroad Commission of Texas.

NOTE 8 - INCOME TAXES

The Company has adopted the FASB No. 109 for reporting purposes. As of December 31, 2006, the Company had net operating loss carry forwards of approximately $2,618,600 that may be available to reduce future years' taxable income through 2026. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements, as their realization is determined not likely to occur and accordingly, the Company has recorded a valuation allowance for the deferred tax asset relating to these tax loss carryforwards.

The Company reviews its valuation allowance requirements on an annual basis based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on the valuation allowance is generally reflected in current income.

A reconciliation of income tax computed at the federal and state statutory tax rates and the Company's effective tax rate is as follows:

	Year ended December 31, 2006	Year ended December 31, 2005
Federal income tax provision at statutory rate	35.0%	35.0%
States income tax provision at statutory rates, net of federal income tax effect	3.0%	7.0%
Total income tax provision	38.0%	42.0%

NOTE 8 - INCOME TAXES (CONTINUED)

The actual income tax provisions differ from the expected amounts calculated by applying the combined federal and state corporate income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

	2006	2005
Loss before income taxes	$ (3,918,002)	$ (204,026)
Corporate tax rate	38.00%	42.00%
Expected tax expense (recovery)	(1,488,841)	(85,690)
Decrease resulting from:		
Non-deductible stock option expenses	580,325	-
Valuation allowance	908,516	85,690
Future income tax provision (recovery)	$ -	$ -

The Company's deferred tax asset is as follows:

	2006	2005
Long-term deferred tax asset		
Net operating loss carry forwards	$ 995,063	$ 95,657
Valuation allowance	(995,063)	(95,657)
	$ -	$ -

As the criteria for recognizing future income tax assets have not been met due to the uncertainty of realization, a valuation allowance of 100% has been recorded for the current and prior year.

15

FORWARD LOOKING STATEMENTS

Statements made in this Form 10-QSB that are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 (the "Act") and Section 21E of the Securities Exchange Act of 1934. These statements often can be identified by the use of terms such as "may," "will," "expect," "believe," "anticipate," "estimate," "approximate" or "continue," or the negative thereof. We intend that such forward-looking statements be subject to the safe harbors for such statements. We wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. However, forward-looking statements are subject to risks, uncertainties and important factors beyond our control that could cause actual results and events to differ materially from historical results of operations and events and those presently anticipated or projected. We disclaim any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATION

GENERAL

Morgan Creek Energy Corp. is a corporation organized under the laws of the State of Nevada. After the effective date of our registration statement filed with the Securities and Exchange Commission (February 14, 2006), we commenced trading on the Over-the-Counter Bulletin Board under the symbol "MCRE:OB". We are engaged in the business of exploration of oil and gas bearing properties in the United States. Our shares are also traded on the Frankfurt Stock Exchange in Germany under the symbol "M6C".

Please note that throughout this Quarterly Report, and unless otherwise noted, the words "we," "our," "us," the "Company," or "Morgan Creek," refers to Morgan Creek Energy Corp.

CURRENT BUSINESS OPERATIONS

We are a natural resource exploration and production company currently engaged in the exploration, acquisition and development of oil and gas properties in the United States and within North America. Our primary activity and focus is our leases in Texas ("Quachita Prospect"). To date, we have acquired approximately 2,281 gross acres. We acquired a 100% working interest and a 77% net revenue interest in natural gas targeted Quachita Prospect leases. The leases are unproven and were acquired for approximately $312,963.

OIL AND GAS PROPERTIES

QUACHITA PROSPECT

As of March 31, 2007, we leased approximately 2,281 acres within the Ouachita Trend in the State of Texas for a three-year term in consideration of $312,963, which was paid during 2006 (the "Ouachita Lease"). We had previously identified seven separate potential areas of exploration interest and have carried out wide scale leasing on the first of these targets. As of the date of this Quarterly review

Report, we intend to secure all immediate rights relating to oil and gas in the areas providing control over any potential major structural play that develops as a result of this in-depth exploration.

As of the date of this Quarterly Report, we have received a permit for drilling of the twin well on the Quachita Prospect. The site has been cleared and the rathhole has been drilled. We anticipate further drilling will resume by June 2007.

SOUTH TEXAS PROSPECT

On approximately January 30, 2007, we acquired a 100% working interest in two fully equipped oil leases located in the State of Texas for aggregate consideration of $55,000. The Mata lease is located in Webb County and the Peters Ranch lease is located in Duval County (collectively, the "South Texas Lease"). As of the date of this Quarterly Report, we anticipate that the South Texas Leases will be productive after completion of the rework program and the addition of extra equipment. On April 23, 2007, we reached an agreement to sell our working interest in the South Texas Lease for $65,000.

RESULTS OF OPERATION

We have incurred recurring losses to date. Our financial statements have been prepared assuming that we will continue as a going concern and, accordingly, do not include adjustments relating to the recoverability and realization of assets and classification of liabilities that might be necessary should we be unable to continue in operation.

We expect we will require additional capital to meet our long term operating requirements. We expect to raise additional capital through, among other things, the sale of equity or debt securities.

THREE MONTH PERIOD ENDED MARCH 31, 2007 COMPARED TO THREE MONTH PERIOD ENDED MARCH 31, 2006

Our net loss for the three-month period ended March 31, 2007 was approximately ($187,664) compared to a net loss of $192,034 during the three-month period ended March 31, 2006 (a decrease of $4,370). During the three-month periods ended March 31, 2007 and March 31, 2006, we did not generate any revenue.

During the three-month period ended March 31, 2007, we incurred general and administrative expenses of approximately $187,664 compared to $192,034 incurred during the three-month period ended March 31, 2006 (a decrease of $4,370). These general and administrative expenses incurred during the three-month period ended March 31, 2007 consisted of: (i) consulting fees of $44,378 (2006: $77,500); (ii) management fees of $61,739 (2006: $15,000); (iii) office and general of $26,945 (2006: $13,454); and (iv) professional fees of $54,602 (2006: $11,080). During the three-month period ended March 31, 2007, we did not incur any expenses associated with investor relations as compared to $75,000 incurred during the three-month period ended March 31, 2006.

General and administrative expenses incurred during the three-month period ended March 31, 2007 compared to the three-month period ended March 31, 2006 decreased primarily due to the decrease in expenses associated with investor relations and consulting fee. During 2006, investor relation expenses were incurred relating to corporate marketing and pertaining to investor awareness. Consulting fees

decreased during the three-month period ended March 31, 2007 due to decrease in use of contract services. However, management fees increased during the three-month period ended March 31, 2007 compared to three-month period ended March 31, 2006 primarily due to emphasis on reliance of managerial services provided by our officers. General and administrative expenses generally include corporate overhead, financial and administrative contracted services, marketing, and consulting costs.

Of the $187,664 incurred as general and administrative expenses during the three-month period ended March 31, 2007, we incurred consulting expenses of $30,000 payable to International Market Trend, Inc. ("IMT"). In addition, IMT advanced us $6,000 during the three-month period ended March 31, 2007. As of March 31, 2007, we owed IMT $26,164, which is unsecured and non-interest bearing and has no definite repayment terms. An officer and director of IMT is also one of our shareholders.

Of the $187,664 incurred as general and administrative expenses during the three-month period ended March 31, 2007, an aggregate of $30,000 was incurred payable to a certain officer and director in management and consulting fees. We also incurred additional compensation to our Chief Geologist and Operations Manager in accordance with certain contractual arrangements that in the event we acquire an oil and gas property which was directly introduced to us by either our Chief Geologist or Operations Manager, we will assign up to a 1.5% overriding royalty interest. Therefore, during the three-month period ended March 31, 2007, we recorded additional compensation of $1,739.

Our net loss during the three-month period ended March 31, 2007 was ($187,664) or ($0.00) per share compared to a net loss of ($192,034) or ($0.00) per share during the three-month period ended March 31, 2006. The weighted average number of shares outstanding was 29,814,905 for the three-month period ended March 31, 2007 compared to 40,670,800 for the three-month period ended March 31, 2006.

LIQUIDITY AND CAPITAL RESOURCES

THREE-MONTH PERIOD ENDED MARCH 31, 2007

As at the three-month period ended March 31, 2007, our current assets were $19,533 and our current liabilities were $751,636, which resulted in a working capital deficiency of ($732,103). As at the three-month period ended March 31, 2007, current assets were comprised of: (i) $5,778 in cash; (ii) $13,755 in prepaid. As at the three-month period ended March 31, 2007, current liabilities were comprised of: (i) $65,250 in accounts payable and accrued liabilities; and (ii) $686,386 due to related parties.

As at the three-month period ended March 31, 2007, our total assets were $420,393 comprised of: (i) $44,533 in current assets; and (ii) $375,860 in unproven oil and gas properties. The increase in total assets during the three-month period ended March 31, 2007 from fiscal year ended December 31, 2006 was primarily due to the increase in valuation of the recently acquired unproven oil and gas properties and the increase in restricted cash consisting of a $25,000 operating bond held by the Railroad Commission of Texas.

As at the three-month period ended March 31, 2007, our total liabilities were $751,636 comprised entirely of current liabilities. The increase in liabilities during the three-month period ended March 31, 2007 from fiscal year ended

December 31, 2006 was primarily due to the increase in amounts due to related parties. See " - Material Commitments."

Stockholders' equity decreased from $143,579 for fiscal year ended December 31, 2006 to ($331,243) for the three-month period ended March 31, 2007.

CASH FLOWS FROM OPERATING ACTIVITIES

We have not generated positive cash flows from operating activities. For the three-month period ended March 31, 2007, net cash flows used in operating activities was ($236,756), consisting primarily of a net loss of ($187,664). Net cash flows used in operating activities was adjusted by $32,675 to reconcile costs due to related parties and by ($81,767) to reconcile accounts payable and accrued liabilities.

For the three-month period ended March 31, 2006, net cash flow used in operating activities was $(7,422), consisting primarily of a net loss of $(192,034). The change in net cash flows used in operating activities during the three-month period ended March 31, 2007 from the three-month period ended March 31, 2006 related primarily to the adjustment by $200,000 to reconcile amounts due from related parties.

CASH FLOWS FROM INVESTING ACTIVITIES

For the three-month period ended March 31, 2007, net cash flows used in investing activities was ($90,790) consisting of $65,790 for acquisition of the oil and gas properties and $25,000 for the restricted cash deposit relating to the bond held by the Railroad Commission of Texas. There were no cash flows from investing activities in the three-month period ended March 31, 2006.

CASH FLOWS FROM FINANCING ACTIVITIES

We have financed our operations primarily from either advancements or the issuance of equity and debt instruments. For the three-month period ended March 31, 2007, net cash flows from financing activities was $327,500 compared to $40,000 for the three-month period ended March 31, 2006 pertaining primarily to proceeds received from advances from related parties.

We expect that working capital requirements will continue to be funded through a combination of our existing funds and further issuances of securities. Our working capital requirements are expected to increase in line with the growth of our business.

PLAN OF OPERATION AND FUNDING

Existing working capital, further advances and debt instruments, and anticipated cash flow are expected to be adequate to fund our operations over the next six months. We have no lines of credit or other bank financing arrangements. Generally, we have financed operations to date through the proceeds of the private placement of equity and debt instruments. In connection with our business plan, management anticipates additional increases in operating expenses and capital expenditures relating to: (i) oil and gas operating properties; (ii) possible drilling initiatives on current properties and future properties; and (iii) future property acquisitions. We intend to finance these expenses with further issuances of securities, and debt issuances. Thereafter, we expect we will need to raise additional capital and generate revenues to meet long-term operating requirements. Additional issuances of equity or convertible debt securities will result in dilution to our current shareholders. Further, such securities might have rights, preferences or privileges senior to our common stock. Additional financing may not be available upon acceptable terms, or at all. If adequate funds are not available or are not available on acceptable terms, we may not be able to take advantage of prospective new business endeavors or opportunities, which could significantly and materially restrict our business operations.

During fiscal year ended December 31, 2006, we engaged in private placement offerings under Regulation D and Regulation S of the Securities Act pursuant to which we received gross proceeds of $1,416,157, of which $845,000 consisted of settlement of debt relating to amounts previously advanced to us by one of our shareholders.

MATERIAL COMMITMENTS

During the three-month period ended March 31, 2007, one of our shareholders advanced an aggregate of $321,500 to us. As of March 31, 2007, we owe this shareholder an aggregate of $646,500, which is subject to interest at the rate of 8% per annum and has no definite repayment terms. As of March 31, 2007, total accrued interest was $13,722.

PURCHASE OF SIGNIFICANT EQUIPMENT

We do not intend to purchase any significant equipment during the next twelve months.

OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this Annual Report, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

GOING CONCERN

The independent auditors' report accompanying our December 31, 2006 and December 31, 2005 financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The financial statements have been prepared "assuming that we will continue as a going concern," which contemplates that we will realize our assets and satisfy our liabilities and commitments in the ordinary course of business.

ITEM III. CONTROLS AND PROCEDURES

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that is designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

An evaluation was conducted under the supervision and with the participation of our management, including Marcus Johnson, our Chief Executive Officer ("CEO") and D. Bruce Horton, our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2007. Based on that evaluation, Messrs. Johnson and Horton concluded that our disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Such officers also confirm that there was no change in our internal control over financial reporting during the three-month period ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

AUDIT COMMITTEE REPORT

The Board of Directors has established an audit committee. The members of the audit committee are Mr. Marcus Johnson, Mr. Steven Jewett and Mr. D. Bruce Horton. One of the three members of the audit committee is "independent" within the meaning of Rule 10A-3 under the Exchange Act. The audit committee was organized in November 20, 2004 and operates under a written charter adopted by our Board of Directors.

The audit committee has reviewed and discussed with management our financial statements as of and for the three-month period ended March 31, 2007. The audit committee has also discussed with Dale Matheson Carr-Hilton LaBonte LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended, by the Auditing Standards Board of the American Institute of Certified Public Accountants. The audit committee has received and reviewed the written disclosures and the letter from Dale Matheson Carr-Hilton LaBonte LLP required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as amended, and has discussed with Dale Matheson Carr-Hilton LaBonte LLP their independence.

Based on the reviews and discussions referred to above, the audit committee has recommended to the Board of Directors that the financial statements referred to above be included in our Quarterly Report on Form 10-QSB for the three-month period ended March 31, 2007 filed with the Securities and Exchange Commission.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Management is not aware of any legal proceedings contemplated by any governmental authority or any other party involving us or our properties. As of the date of this Quarterly Report, no director, officer or affiliate is (i) a party adverse to us in any legal proceeding, or (ii) has an adverse interest to us in any legal proceedings. Management is not aware of any other legal proceedings pending or that have been threatened against us or our properties.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

No report required.

21

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No report required.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No report required.

ITEM 5. OTHER INFORMATION

No report required.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits:

31.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a).

31.2 Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a-14(a) or 15d-14(a).

32.1 Certification of Chief Executive Officer pursuant to Securities Exchange Act of 1934 Rule 13a- 14(b) or 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Financial Officer pursuant to Securities Exchange Act of 1934 Rule 13a- 14(b) or 15d-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

22

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MORGAN CREEK ENERGY CORP.

Dated: May 7, 2007

By: /s/ MARCUS M. JOHNSON

Marcus M Johnson, President and
Chief Executive Officer

Dated: May 7, 2007

By: /s/ D. BRUCE HORTON

D. Bruce Horton, Chief Financial Officer