

**Montello Resources Ltd.**

**Financial Statements**

**For the Three Months Ended October 31, 2008**

## **NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

# Montello Resources Ltd.

## Consolidated Balance Sheets

As at October 31

ASSETS	2008	2007
<b>Current</b>		
Cash	\$1,192,819	\$3,404,718
Marketable securities	-	18,617
Accounts receivable and prepaid expenses	250,265	1,544,128
	<u>1,443,084</u>	<u>4,967,463</u>
<b>Property &amp; Equipment (Note 3)</b>	<u>9,940,357</u>	<u>2,347,832</u>
	<u>\$11,383,441</u>	<u>\$7,315,295</u>
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<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$1,831,163	\$1,397,460
<b>Asset retirement obligation</b>	<u>350,784</u>	<u>222,750</u>
	<u>2,181,947</u>	<u>1,620,210</u>
<b>Shareholders' equity</b>		
Share capital (Note 4)	30,562,685	26,630,385
Contributed surplus	4,078,462	1,829,119
Warrants (Note 4)	918,373	830,269
Deficit	(26,358,026)	(23,594,688)
	<u>9,201,494</u>	<u>5,695,085</u>
	<u>\$11,383,441</u>	<u>\$7,315,295</u>

Approved by the directors:

**“William R. Cawker”**

Director - William R. Cawker

**“Peter Brown”**

Director - Peter Brown

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

**Montello Resources Ltd.**  
**Consolidated Statement of Operations and Deficit**  
**Three Months Ended October 31**

	<u>2008</u>	<u>2007</u>
<b>Revenue</b>		
Oil and gas sales	\$98,362	\$186,909
Royalty expense	(20,992)	(18,036)
Interest income	1,652	6,440
	<u>79,022</u>	<u>175,313</u>
<b>Expenses</b>		
Production	93,768	60,352
General & Administration	179,501	148,676
Interest	488	-
Depletion, depreciation & accretion	20,298	58,521
Stock based compensation (Note X)	69,846	1,708,239
Foreign exchange (gain) loss	111,802	28,976
	<u>475,703</u>	<u>2,004,764</u>
<b>Loss for the period from operations</b>	<b>396,681</b>	<b>1,829,451</b>
<b>Deficit, beginning of year</b>	<u><b>25,961,345</b></u>	<u><b>21,765,237</b></u>
<b>Deficit, end of year</b>	<u><b>\$26,358,026</b></u>	<u><b>\$23,594,688</b></u>
<b>Loss per common share</b>	<u><b>\$0.002</b></u>	<u><b>\$0.011</b></u>
<b>Weighted average number of common shares outstanding</b>	<b>190,211,543</b>	<b>174,957,993</b>

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

**Montello Resources Ltd.**  
**Consolidated Statement of Cash Flows**  
**Three Months Ended October 31**

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	<u>2008</u>	<u>2007</u>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the period	<b>\$(396,681)</b>	\$(1,829,451)
Items not affecting cash		
Depletion, depreciation & accretion	<b>20,298</b>	58,521
Stock based compensation	<b>69,846</b>	1,708,239
	<b>(306,537)</b>	(62,691)
Changes in non-cash working capital items, net	<b>940,600</b>	(2,223,154)
	<b>634,063</b>	(2,285,845)
<b>Investing Activities</b>		
Additions to property & equipment	<b>(133,474)</b>	(1,827,514)
<b>Financing activities</b>		
Issuance of shares, net of issue cost	<b>70,911</b>	4,256,809
<b>Increase in cash during year</b>	<b>571,500</b>	143,450
<b>Cash, beginning of year</b>	<b>621,319</b>	3,261,268
<b>Cash, end of year</b>	<b>\$1,192,819</b>	\$3,404,718

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

# Montello Resources Ltd.

## Notes to the Consolidated Financial Statements

October 31, 2008

(unaudited)

Canadian Funds

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### 1. BASIS OF PRESENTATION

These unaudited consolidated financial statements have been prepared by the management in accordance with Canadian generally accepted accounting principles and on a basis consistent with the audited July 2008 financial statements. Accordingly, these unaudited interim statements should be read in conjunction with the notes contained in the Company's audited July 31, 2008 financial statements. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The financial statements have, in the management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

Certain prior period comparative figures have been reclassified to conform to the presentation used in the current period.

### 2. NATURE OF OPERATIONS

The Company's principal business activities include the evaluation, acquisition, exploration and development of oil and gas properties in Western Canada and Tennessee, USA. These consolidated financial statements include the accounts of the Company and its 100% interest in Montello Resources USA Ltd., which was incorporated in Delaware, USA on March 2, 2005.

### 3. PROPERTY & EQUIPMENT

	-----	October 31, 2008	-----	July 31, 2008
	Cost	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Petroleum & Natural Gas Properties				
-Canada	\$7,526,352	\$2,267,586	\$5,258,766	\$5,188,848
-United States	4,673,381	-	4,673,381	4,629,691
Office equipment	18,253	10,043	8,210	8,642
	<u>\$12,217,986</u>	<u>\$2,277,629</u>	<u>\$9,940,357</u>	<u>\$9,827,181</u>

# Montello Resources Ltd.

## Notes to the Consolidated Financial Statements

October 31, 2008

(unaudited)

Canadian Funds

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### 4. SHARE CAPITAL

a. Authorized:  
Unlimited common Shares without  
par value

b. Issued:

	Number of Shares	Value
Balance as at July 31, 2008	189,637,686	\$30,493,662
Issued for cash, net of fair value of warrants	1,887,720	99,532
Share issue cost	-	(28,621)
	<u>191,525,406</u>	<u>\$30,562,685</u>

c. Share capital transactions during the three months ended October 31, 2008:

In October 2008 the Company completed a private placement of 188,772 units for gross proceeds of \$101,420.00. The offering was comprised of a non flowthrough unit portion and a flowthrough unit portion. The non flowthrough unit portion priced at \$0.51 per unit which consisted of ten common shares and ten common share purchase warrants, with each warrant entitling the holder to purchase a common share at \$ 0.10 on or before May 29, 2009. The flowthrough unit portion priced at \$0.57 per unit consisted consisted of four common shares and six flow through common shares and ten common share warrants each. Each warrant entitles the holder to purchase a common share at \$0.10 on or before May 29, 2009. Of the total proceeds, \$1,888.00 was allocated to the share purchase warrants.

d. Stock Option Plan

The Company has a stock option plan for the benefit of directors, officers, employees and consultants administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. All share options granted vest immediately.

No options were granted during the three months ended October 31, 2008

**Montello Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
**October 31, 2008**  
**(unaudited)**  
**Canadian Funds**

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The following table summarizes information on the options outstanding at July 31, 2008:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
150,000	\$0.135	March 10, 2012
11,500	\$0.11	April 19, 2012
1,600,000	\$0.14	September 6, 2012
2,150,000	\$0.155	October 2, 2012
1,000,000	\$0.21	October 30, 2012
1,000,000	\$0.10	March 4, 2013
2,600,000	\$0.10	May 28, 2013
4,275,000	\$0.10	June 1, 2013
3,500,000	\$0.10	June 8, 2013
<u>16,286,500</u>		

e. Share Purchase Warrants

A summary of the status of warrants issued and outstanding at October 31, 2008, including changes made during the three months ended October 31, 2008 is presented below:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Value \$</u>	<u>Expiry Date</u>
9,129,000	\$0.13	\$447,321	December 13, 2008
9,022,383	\$0.30	\$469,164	October 18, 2008
1,887,720	\$0.10	\$1,888	May 29, 2009
<u>20,039,103</u>		<u>\$918,373</u>	

## 5. RELATED PARTY TRANSACTIONS

- a. During the three months ended October 31, 2008, the Company incurred management fees and consulting fees of \$83,117 (2007: \$61,133) with directors and officers of the Company.
- b. During the three months ended October 31, 2008, the Company incurred accounting fees of \$25,149 (2007: \$30,778) with a company of which a former director (who resigned September 8, 2008) is an officer.
- c. As at October 31, 2008, accounts payable and accrued liabilities include \$35,346 (2007: \$20,320) due to directors and officers of the Company.