

Montello Resources Ltd.
Management's Discussion and Analysis
For the Quarter Ended October 31, 2008

Date Submitted: January 6, 2009

The Company is a junior natural resource company engaged in the acquisition, exploration and development of oil and gas properties in Canada and the U.S.A. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol MEO. During the year the Company made changes to its Board of Directors and its management team. The new management team has been directed to evaluate all of Montello's properties and to develop a course of action to maximize their potential. This Management's Discussion and Analysis (MD&A) should be read in conjunction with the audited financial statements for the year ended July 31, 2008 and the related notes thereto.

Non-GAAP measures

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles (GAAP). All financial information is presented in Canadian dollars unless otherwise stated.

Production Information Definition

Production information is commonly reported in units of barrel of oil equivalents (boe). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosure of information may be misleading, particularly if used in isolation. Readers should also be aware that historical results are not necessarily indicative of future performance.

Forward Looking Statements

Certain of the information regarding Montello set forth in this report, including management's assessment of Montello's future plans and operations, contains forward looking statements that involve substantial risks and uncertainties. Many of these risks and uncertainties are beyond Montello's control including the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of oil and gas reserve estimates, environmental risks and competition from other explorers and producers, the lack of available qualified personnel, stock market volatility and the ability to access sufficient capital. The Company believes the expectations reflected in these forward looking statements and information are reasonable, but no assurance can be given that these expectations will prove to be correct, and such forward looking statements and information should not be unduly relied upon. Such forward looking statements and information speak only as of the date of this discussion and the Company does not undertake any obligation to publicly update or revise any forward looking statements or information, except as required by applicable laws.

Additional information related to the Company and its activities is available through the internet on the Company's Sedar profile at www.sedar.com. Readers are also referred to the risk factors described in other documents the Company files from time to time with securities regulatory authorities. Copies of these documents are available on the TSX Venture website www.tsx.com as well as the Company's website www.montello.com.

Business Overview

Montello is participating in potential high impact opportunities in Canada and the United States. At present it is involved in a drilling and completion program in Tennessee and in Alberta. Montello is involved in recompletion programs in wells with good potential to contribute significantly to additions to oil and gas reserves and production volumes. The Company has also invested in programs to improve production levels and reduce operating costs at its existing wells and facilities in Alberta. The changes to the Company's Board and management have resulted in a hands-on approach to its exploration, development and producing operations.

Overview From August 1, 2008 To October 31, 2008

On August 11, 2008, Peter C. Brown was appointed President and Chief Executive Officer, replacing William Cawker, who remains as Chairman and Director. Peter began his career as a Geochemist with Robertson Research and later specialized in structural geology and basin dynamics. Peter has extensive knowledge at "Sarcee-Jumping Pound" and at "Pincher Creek", both of which are well-known gas producing fields in Alberta. He has worked in areas as diverse as the North Sea and the foothills of the Andes and with such companies as Petro Canada, Lasmco, Bow Valley Resources, Crestar and Gulf Oil. He has 28 years experience in the Oil and Gas Industry, both internationally and domestically. Also on August 11th Michael Williams, B. Comm, FCA, of Calgary, Alberta, was appointed Chief Financial Officer to replace Joseph Dow, the Acting Chief Financial Officer while Phil Emrich was appointed Director. In September, Joseph Dow stepped down as a Director.

On August 12, 2008, the Company announced a non-brokered, no minimum amount, private placement of non-flow through units and flow through units to accredited investors and subject to qualification for potential foreign investors as well, was announced for up to CDN \$2,655,000, before the exercise of any warrants; the Non-Flow Through Unit portion for potential proceeds of up to \$1,657,500 if fully subscribed; the sale of the Flow Through Units with gross proceeds of CDN \$997,500.00. Proceeds would be used to pay for the costs of the offering, and in management's discretion to: develop prospects in Tennessee; Pincher Creek, Sarcee, Grouard, Mulligan, look at possible farm-ins, and general working capital purposes. The private placement closed on October 3, 2008 and 1,887,720 common shares were issued with 1,887,720 share purchase warrants at \$0.10 exercisable to May 29, 2009/ On October 3, 2008, the Company issued 1,877,720 common shares with proceeds of \$99,532.32 (less finders' fees of \$6,033.60) for net proceeds of \$93,498.72. There were 1,887,720 share purchase warrants exercisable at \$0.10 to May 29, 2009. There were 1,373,088 common shares issued at \$0.05 and 514,632 flow through shares at \$0.06.

On September 22, 2008, Montello provided notice re securing services to commence testing of its Tennessee High Point/ John Bowen #2 Deep Gas Well for evaluation of the gas zone identified on Schlumberger's cased hole logs announced on May 6, 2008. The Company also announced its intent to test the Chattanooga Shale zone in its wells given feedback re other operations in the region as well as sell its produced oil from the Highpoint #3 Test Well.

On October 15, 2008 Montello followed up on a news release of October 14, 2008 by our operator at Pincher Creek, Alberta which stated that equipment had been mobilized to initiate pump testing of the Brown Sand reservoir at the 100/01-11-004-29W4M discovery well. The Brown Sand was stimulated in October 2007, with flowing and swabbing indicated rates of 233 barrels per day of oil (+40 API) and minor solution natural gas. The well bore was subsequently

configured to production test the upper Cadomin formation reservoir. According to our operator, prior to sanding off, the Cadomin was producing with a steadily decreasing load fracture fluid cut to 18 per cent and 300 thousand cubic feet of sweet solution natural gas. Subsequent to a mandated ERCB (Energy Resources Conservation Board) hearing to address the placement of a 258-metre sweet solution natural gas conservation pipeline, a commingling application will be made to the relevant authorities to produce both the Brown Sand and Cadomin formation reservoirs. The hearing was initially scheduled for September 30 then re-set for the end of November/ early December 2008 and now is rescheduled for January 2009. Discussion will include potential tie in of the well directly into an existing system feeding Shell's Waterton gas plant, over land reclamation and compensation rights for landowners.

Liquidity & Financing

On October 3, 2008, the Company closed a private placement of 1,887,720 common shares with an attached share purchase warrant exercisable for a one year term. The gross proceeds of \$99,532 less costs of \$28,621 will be used for general working capital and CEE expenditures.

Selected Financial Information

The Company's fiscal year ends on July 31, of each year. The following is a summary of certain selected audited financial information for the last three completed fiscal years of the Company:

Summary of Annual Results

	2008	2007	2006
Revenues	\$575,974	\$ 397,162	\$ 363,351
Operation costs and royalties	300,514	236,859	49,854
Amortization & depletion	83,531	1,872,500	1,284,799
General and Administrative Expenses	4,019,762	1,829,900	1,440,072
Net Income (Loss)	(4,196,108)	(3,542,097)	(2,411,374)
Loss per share	\$0.02	\$0.03	\$0.02
Total Assets	11,040,819	4,202,972	2,777,523
Long Term Liabilities	268,154	219,729	496,825

Summary of Quarterly Results

	2008 Oct. 31	2008 July 31	2008 April 30	2008 Jan. 31
Total Revenues	\$100,004	\$182,389	\$104,060	\$102,904
Loss from operations	\$396,681	2,221,391	124,300	20,966
Loss per share	\$0.002	\$0.01	nil	nil

	2007 Oct. 31	2007 July 31	2007 April 30	2007 Jan. 31
Total Revenues	\$193,349	(\$22,594)	\$130,925	\$24,611
Loss from operations	1,829,451	1,605,854	1,308,862	456,557

Loss per share	\$0.01	\$0.01	\$0.01	nil
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Subsequent Events

On November 28, 2008, further to Montello's press release of May 6, 2008 regarding a proposed equalization arrangement, to be entered into between Montello and Nexgen Petroleum Corporation, with respect to the Bowen Block (the "Bowen Lands and Accompanying Assets") in Tennessee, Montello announces that it has revised the equalization arrangement with Nexgen by virtue of an amending agreement dated November 9, 2008 (the "Amended Agreement").

Prior to the Amended Agreement, and in accordance with contracts entered into between Montello and Nexgen Petroleum Corporation, Nexgen had been granted an option to acquire an undivided 15% working interest share of Montello's working interest in the Bowen Block by paying Montello up to \$1.25 Million (USD), to be applied towards Montello's expenditures in the Highpoint Project.

The Amended Agreement confirms that Nexgen has earned an undivided 7.5% working interest in the Bowen Block and provides the opportunity for Nexgen them with an option to earn an additional undivided 7.5% working interest from Montello, by making a onetime cash payment of USD \$400,000 (the "Option Amount") to Montello. The Option Amount must be paid on or before that date which is 90 days from the service rig release date (the "Option Period"). The service rig being utilized to test and complete the Rome Formation in the John Bowen No. 2 well was released on December 8, 2008.

Any portion of the Option Amount which is paid by Nexgen during the Option Period, shall be applied to the pro-rata earning of the Bowen block working interest from Montello. Where Nexgen elects to pay the entire Option Amount, Nexgen shall own an undivided 15% working interest and Montello shall retain an undivided 40% working interest in the Bowen Block. In the event that Nexgen does not exercise its right, then its working interest shall remain fixed at an undivided 7.5% working interest.

On another matter, the Company has been advised by its legal counsel that litigation is pending in the Morgan County, Circuit Court whereby Nabors Drilling USA, LP (the "Plaintiff") is suing Montello Resources Ltd. USA, the Company's wholly-owned subsidiary. The Plaintiff alleges that the sum of \$151,554.44 remains unpaid on an oil and gas well drilling contract. The Company contends that all obligations with respect to the John Bowen #2 Well contract being disputed were met in April, 2008. The Company intends to vigorously defend itself against this allegation and action.

On Dec 18, 2008, the Company provided a brief update that firstly, Montello continues to be committed to the testing of the shallow gas Chattanooga Shale in Tennessee as well as the oil zones in the John Bowen #1 and Morgan Highpoint #3 test wells, with programs being developed for both projects in the new year 2009. An overview on the Chattanooga shale formation was included at the bottom of this update.

Montello stated that it is monitoring the deep gas zone which has flowed mud filtrate and drilling fluid into the wellbore with an associated gas blow. In an attempt to facilitate hydrocarbon inflow into the wellbore, it conducted a nitrogen gas fracturing operation on the deep gas zone. Subsequent to the Nitrogen frac, where inert gas was recorded at surface, the well was to be shut in over December into the new year to allow a pressure build-up prior to re-opening the wellbore. Montello believes that the well bore sustained skin damage at the deep gas interval and will be investigating remedial options.

Also it was noted that the Alberta Energy Utilities Board hearing into the construction of the Pincher Creek pipeline which was to be held on December 6, 2008, was re-scheduled to January 22, 2009. The hearing is to review the issues surrounding the proposed pipeline tie-in of the Pincher Creek well located at 1-11-4-29 W4M. It has been reported in prior press releases that the said well has been production tested in both of the Cadomin and Brown Sand formations. Both formations have produced light gravity oil/condensate on test.

Full details of the news releases are available on the Company's website and www.sedar.com.