

INTERIM FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

ISSUER DETAILS NAME OF ISSUER MONTELLO RESOURCES LTD.		FOR QUARTER ENDED Y M D 05 04 30			DATE OF REPORT Y M D 05 06 27		
ISSUER ADDRESS SUITE 2833 – 595 BURRARD STREET, P.O. BOX 49057							
CITY/ VANCOUVER		PROVINCE BC	POSTAL CODE V7X 1C4	ISSUER FAX NO. 604-689-8199	ISSUER TELEPHONE NO. 604-689-1799		
CONTACT PERSON PATRICK POWER		CONTACT'S POSITION PRESIDENT			CONTACT TELEPHONE NO. 604-689-1799		
CONTACT EMAIL ADDRESS ir@montello.com		WEB SITE ADDRESS www.montello.com					
DIRECTOR'S SIGNATURE “PATRICK POWER”		PRINT FULL NAME PATRICK POWER			DATE SIGNED Y M D 05 06 27		
DIRECTOR'S SIGNATURE “JEANNINE DAVIES”		PRINT FULL NAME JEANNINE DAVIES			DATE SIGNED Y M D 05 06 27		

MONTELLO RESOURCES LTD.
INTERIM FINANCIAL STATEMENTS
APRIL 30, 2005
(Unaudited – Prepared by Management)

Montello Resources Ltd.
#2833 – 595 Burrard Street
P.O. Box 49057
Vancouver, B.C.
V7X 1C4

NOTICE TO USERS

June 27, 2005

The accompanying interim financial statements have not been reviewed by an auditor.

“MONTELLO RESOURCES LTD.”

Montello Resources Ltd.
Balance Sheet
As at April 30, 2005
(Unaudited – Prepared by Management)

<u>ASSETS</u>	April 30, 2005	July 31, 2004
Current		
Cash	\$ 107,975	\$ -
Reclamation deposit	27,839	-
Marketable securities (Note 4)	19,163	10,163
Accounts receivable	38,078	17,841
Oil and gas inventory	<u>9,165</u>	<u>-</u>
	202,220	28,004
Investment (Note 5)	9,004	18,004
Property and equipment (Note 7)	16,538	-
Resource properties (Note 8)	<u>380,511</u>	<u>2,698</u>
	<u>\$ 608,273</u>	<u>\$ 48,706</u>

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current		
Bank indebtedness	\$ -	\$ 2,853
Accounts payable and accrued liabilities (Note 10 (c))	281,758	525,008
Advances from related party (Note 10 (d))	<u>6,297</u>	<u>6,297</u>
	288,055	534,158
Accounts payable (Notes 9(a) and 11)	-	65,000
Advances from affiliated company (Note 6)	<u>654,677</u>	<u>313,412</u>
	<u>942,732</u>	<u>912,570</u>
Shareholders' deficiency		
Share capital (Notes 9 and 17)	14,904,180	14,208,680
Deficit, per accompanying statement	<u>(15,238,639)</u>	<u>(15,072,544)</u>
	<u>(334,459)</u>	<u>(863,864)</u>
	<u>\$ 608,273</u>	<u>\$ 48,706</u>

Continuing operations (Note 1)

Contingent liability (Note 13)

Approved by the directors:

"Patrick Power"
 Director – Patrick Power

"Jeannine Davies"
 Director – Jeannine Davies

See accompanying notes.

Montello Resources Ltd.
Interim Statement of Operations and Deficit
Nine Months Ended April 30, 2005
(Unaudited – Prepared by Management)

	Three Months Ended April 30, 2005	Three Months Ended April 30, 2004	Nine Months Ended April 30, 2005	Nine Months Ended April 30, 2004
Expenses				
Accounting and audit	\$ 3,050	\$ 849	\$ 6,855	\$ 3,740
Bank charges and interest	357	290	903	727
Communications	125	-	125	65
Consulting fees	18,000	19,181	33,000	49,181
Filing fees	10,767	2,700	12,192	6,285
Interest on long-term debt	-	3,513	-	12,045
Legal fees	15,786	308	16,770	1,449
Management fees	29,003	15,000	44,003	45,000
Office	5,135	47	5,183	574
Property examination	(713)	-	15,275	-
Rent	7,777	7,500	15,277	22,069
Shareholder information	13,673	-	13,673	11,050
Transfer agent's fees	3,127	1,720	4,406	5,131
Travel and public relations	7,371	-	7,371	311
Website hosting	3,100	525	3,625	1,575
	116,558	51,633	178,658	159,202
Loss before undernoted items	(116,558)	(51,633)	(178,658)	(159,202)
Interest income	124	15	131	17
Foreign exchange	335	(180)	(3,235)	763
Gain on sale of marketable securities (Note 10(b))	-	223,625	-	223,625
Recovery of resource property costs written off	15,667	-	15,667	-
Write-off of resource properties	-	(20,554)	-	(123,851)
Net income (loss) for the period	(100,432)	151,273	(166,095)	(58,648)
Deficit, beginning of period	(15,138,207)	(13,977,039)	(15,072,544)	(13,767,118)
Deficit, end of period	\$ (15,238,639)	\$ (13,825,766)	\$ (15,238,639)	\$ (13,825,766)
Earnings (loss) per share	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ (0.01)

See accompanying notes.

Montello Resources Ltd.
Interim Statement of Cash Flows
Nine Months Ended April 30, 2005
(Unaudited – Prepared by Management)

	Three Months Ended April 30, 2005	Three Months Ended April 30, 2004	Nine Months Ended April 30, 2005	Nine Months Ended April 30, 2004
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	\$ (100,432)	\$ 151,273	\$ (166,095)	\$ (58,648)
Items not affecting cash:				
Recovery of resource property costs written off	(15,667)	-	(15,667)	-
Write-off of resource properties	-	20,554	-	123,851
	(116,099)	171,827	(181,762)	65,203
Changes in non-cash working capital items:				
Decrease (increase) in reclamation deposit	(27,839)	-	(27,839)	-
Decrease (increase) in marketable securities	-	6,999	-	(2,001)
Decrease (increase) in accounts receivable	(18,135)	(1,822)	(20,237)	(7,038)
Decrease (increase) in oil and gas inventory	(9,165)	-	(9,165)	-
Increase (decrease) in advance from related party	-	-	-	100
Increase (decrease) in accounts payable and and accrued liabilities	(237,379)	(20,962)	(227,583)	38,810
	(408,617)	156,042	(466,586)	95,074
Investing activities				
Investment	-	9,001	9,001	18,001
Purchase of property and equipment	(16,538)	-	(16,538)	-
Resource property expenditures	(178,174)	(20,554)	(377,813)	(22,901)
	(194,712)	(11,553)	(394,351)	(4,900)
Financing activities				
Shares issued	630,500	-	630,500	-
Retirement of debenture	-	(190,000)	-	(190,000)
Advances from (repayment to) affiliated company	19,125	45,450	341,265	99,693
	649,625	(144,550)	971,765	(90,307)
Increase (decrease) in cash during the period	46,296	(61)	110,828	(133)
Cash (bank indebtedness), beginning of period	61,679	231	(2,853)	303
Cash, end of period	\$ 107,975	\$ 170	\$ 107,975	\$ 170

Supplemental disclosure with respect to cash flows (Note 11)

See accompanying notes.

Montello Resources Ltd.
Notes to the Interim Financial Statements
April 30, 2005
(Unaudited - Prepared by Management)

1. **Continuing Operations**

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. Realization values may be substantially different from the carrying values as shown in the interim financial statements should the Company be unable to continue as a going concern.

2. **Nature of Operations**

The Company in the process of exploring its mineral properties and oil and gas properties and has not determined whether these properties contain reserves which are economically recoverable.

The recoverability of amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and future profitable production from the properties or proceeds from disposition.

3. **Significant Accounting Policies**

(a) **Resource properties**

(i) **Mineral properties**

Acquisition costs of mineral properties together with direct exploration and development expenditures thereon are deferred in the accounts. When production is attained these costs will be amortized. When deferred expenditures on individual producing properties exceed the estimated net realizable value, the properties are written down to the estimated value. Costs relating to properties abandoned are written off when the decision to abandon is made.

(ii) **Oil and Gas Properties**

The Company follows the full cost method of accounting for oil and gas operations in accordance with Canadian guidelines. Under this method, all costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized in cost centers on a country-by-country basis. Such costs include property acquisition costs, geological and geophysical studies, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead expenses directly related to these activities.

Depletion is calculated for producing properties by using the unit-of-production method based on proved or estimated reserves, before royalties, as determined by management of the Company or independent consultants. Sales or dispositions of oil and gas properties are credited to the respective cost centers and any gain or loss is recognized when all properties in a cost center have been disposed of, unless such sale or disposition significantly alters the relationship between capitalized costs and proved reserves of oil and gas attributable to the cost center. Costs of abandoned oil and gas properties are accounted for as adjustments of capitalized costs and written off to expense.

Montello Resources Ltd.
Notes to the Interim Financial Statements
April 30, 2005
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3. **Significant Accounting Policies** (continued)

A ceiling test is applied to each cost center and to the aggregate of all cost centers by comparing the net capitalized costs to the estimated future net revenues from production of proved reserves without discount, plus the costs of unproved properties net of impairment. In addition, the ceiling test for the aggregate of all cost centers is required to include the effects of future site restoration costs, general and administrative expenses, financing costs and income taxes. Any excess capitalized costs are written off in the current period as additional depletion. The calculation of future net revenues is based upon prices, costs and regulations in effect at each period-end.

The Company may write off an unproved property under one or more of the following conditions:

- (i) there are no firm plans for further drilling on the unproved property;
- (ii) negative results were obtained from studies of the unproved property;
- (iii) negative results were obtained from studies conducted in the vicinity of the unproved property;
- (iv) the remaining term of the unproved property does not allow sufficient time for further studies or drilling; or
- (v) unproved properties are assessed for impairment on an annual basis by applying factors that rely on historical experience.

(b) **Values**

The amounts shown for oil and gas properties, mineral properties, and deferred exploration costs represent costs to date, and do not necessarily represent present or future values, as they are entirely dependent upon the economic recovery of current and future reserves.

(c) **Cost of maintaining resource properties**

The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

(d) **Marketable securities**

Marketable securities are stated at lower of cost or market.

(e) **Investments**

The Company accounts for its investments using the cost method. Where in management's opinion there has been a loss in value that is other than a temporary decline, the carrying value is reduced to the estimated realizable value.

(f) **Property and equipment**

Property and equipment are reported at cost. Amortization is provided using the declining balance method at the rate of 20% per annum. Only one-half of the rate is used in the year of acquisition.

Montello Resources Ltd.
Notes to the Interim Financial Statements
April 30, 2005
(Unaudited – Prepared by Management)

3. **Significant Accounting Policies** (continued)

(g) **Stock-based compensation plan**

The Company accounts for options granted under its fixed stock option plan using the fair value based method of accounting for stock-based compensation. Accordingly, the fair value of the options at the date of the grant is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

(h) **Environmental expenditures**

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

(i) **Use of estimates**

The preparation of interim financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

(j) **Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For diluted loss per share, the dilutive effect has not been presented separately as it proved to be anti-dilutive.

Loss per share is calculated using the weighted-average number of shares outstanding during the period.

(k) **Income taxes**

Future income taxes are recorded using the asset and liability method. Using the asset and liability method, future 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 bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not a future tax asset will be recovered, it provides a valuation allowance against the excess.

Montello Resources Ltd.
Notes to the Interim Financial Statements
April 30, 2005
(Unaudited – Prepared by Management)

3. **Significant Accounting Policies** (continued)

(l) **Foreign currency translation**

Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates. Income and expense items are translated at the average exchange rate for the period. Translation gains and losses are reflected in loss for the period.

4. **Marketable Securities**

Marketable securities consist of shares in a public company related by a common director, which as at April 30, 2005 had a quoted market value of \$119,771 (July 31, 2004: \$106,709).

5. **Investment**

During the year ended July 31, 2001, the Company received 1,500,000 special warrants of Arctic Star Diamond Corp. (“Arctic Star”), a company related by a common director, at a deemed value of \$60,000 as part of the consideration for the sale of a resource property. During the year ended July 31, 2002, the Company exchanged these special warrants, for no additional consideration, into 1,500,000 common shares of Arctic Star (Notes 4 and 6). As at April 30, 2005, the Company has sold 796,000 (July 31, 2004: 796,000) of these shares.

6. **Advances from Affiliated Company**

Advances from affiliated company, related by a common director and in which the Company holds a minority interest, are non-interest bearing and have no specified terms of repayment.

7. **Property and equipment**

	<u>April 30, 2005</u>		<u>July 31, 2004</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Net Carrying Amount</u>
Machinery and equipment	\$ 13,907	\$ -	\$ 13,907	\$ -
Office equipment	<u>2,631</u>	<u>-</u>	<u>2,631</u>	<u>-</u>
	<u>\$ 16,538</u>	<u>\$ -</u>	<u>\$ 16,538</u>	<u>\$ -</u>

8. **Resource Properties**

	<u>April 30, 2005</u>	<u>July 31, 2004</u>
Morgan and Scott, Tennessee	\$ 377,813	\$ -
Fentress, Tennessee	<u>2,698</u>	<u>2,698</u>
	<u>\$ 380,511</u>	<u>\$ 2,698</u>

Montello Resources Ltd.
Notes to the Interim Financial Statements
April 30, 2005
(Unaudited – Prepared by Management)

8. **Resource Properties** (continued)

Acquisition costs and deferred exploration and development expenditures during the nine months ended April 30, 2005 and the year ended July 31, 2004 were as follows:

	<u>April 30,</u> <u>2005</u>	<u>July 31,</u> <u>2004</u>
Property acquisition costs		
Balance, beginning of period	\$ -	\$ 162,240
During period		
Additions	172,833	20,772
Written off	<u>-</u>	<u>(183,012)</u>
Balance, end of period	<u>172,833</u>	<u>-</u>
Deferred exploration expenditures		
Balance, beginning of period	2,698	1,024,000
During period		
Camp	-	7,413
Development costs	204,980	-
Drilling (recovery)	-	(3,642)
Written off	<u>-</u>	<u>(1,025,073)</u>
Balance, end of period	<u>207,678</u>	<u>2,698</u>
Total resource properties costs	<u>\$ 380,511</u>	<u>\$ 2,698</u>

(a) Morgan and Scott, Tennessee

During the nine months ended April 30, 2005, the Company paid \$172,833 toward the acquisition of various oil and gas leases covering lands and equipment located in Morgan and Scott Counties, Tennessee.

The various oil and gas leases are subject to a 5% production royalty.

(b) Fentress, Tennessee

During the year ended July 31, 2003, the Company acquired a five-year oil and gas lease covering lands located in Fentress County, Tennessee. To acquire the lease the Company paid US \$1,880 (Cdn \$2,698).

The property is subject to a 12.5% production royalty.

(c) Tennessee Gas Project, Tennessee

During the year ended July 31, 2001, the Company entered into agreements with Capital East Ventures (“Capital”) whereby the Company could earn a 66.6% interest, subject to a 15% overriding royalty, in two separate properties. The properties are certain oil and gas leases in Rogersville and Sneedville in Eastern Tennessee. For each property, the Company advanced US\$18,000 for seismic surveys, and was required to spend an additional US\$350,000 in drilling costs and additional completion costs to earn the 66.6% interest.

Montello Resources Ltd.
Notes to the Interim Financial Statements
April 30, 2005
(Unaudited – Prepared by Management)

8. **Resource Properties** (continued)

During the year ended July 31, 2002, the Company earned its interest in the Rogersville lease by incurring the required expenditures.

During the year ended July 31, 2003, the Company elected not to proceed with the Sneedville lease and wrote off the associated costs of \$38,081. During the year ended July 31, 2004, the Company abandoned the Rogersville lease and wrote off the associated costs of \$1,083,364.

The Company agreed to pay a finder's fee of 5% of the funds expended by the Company on the exploration of each property, and the issuance of 200,000 common shares. During the year ended July 31, 2002, the Company issued the 200,000 common shares at a deemed value of \$20,000 and paid \$23,632. As at July 31, 2004, the Company accrued a liability of \$29,379 for the remaining cash portion due. The Company paid the \$29,379 during the nine months ended April 30, 2005.

(d) Otish Mountain, Quebec

During the year ended July 31, 2002, the Company entered into an agreement to acquire a 50% joint venture interest in certain mineral claims located in Quebec. The Company acquired its interest by paying cash of \$100,000.

During the year ended July 31, 2003, the agreement was amended such that the Company could earn an additional 40% interest (90% total interest) in the property by payment of a further \$40,000 (not paid as at July 31, 2003).

During the year ended July 31, 2004, the claims lapsed and the Company wrote off all associated costs.

(e) Valemont, British Columbia

During the year ended July 31, 2001, the Company entered into two agreements with Commerce Resources Corp. whereby the Company could acquire a 100% interest in four mineral claims located in the Cariboo and Kamloops Mining Division, British Columbia. To acquire the interest the Company was required to pay cash of \$25,000 (paid) and staking costs of approximately \$35,000, and issue 400,000 common shares. During the year ended July 31, 2002, the Company issued the 400,000 common shares at a deemed value of \$28,000.

During the year ended July 31, 2003, the claims lapsed and the Company wrote off all associated costs. The Company reimbursed \$20,000 of staking costs during the year ended July 31, 2004, and wrote off the amount during the year then ended.

9. **Share Capital**

	<u>April 30,</u> <u>2005</u>	<u>July 31,</u> <u>2004</u>
Authorized:		
100,000,000 Common shares without par value		
Issued:		
79,437,130 Common shares	\$ <u>14,904,180</u>	\$ <u>14,208,680</u>

Montello Resources Ltd.
Notes to the Interim Financial Statements
April 30, 2005
(Unaudited – Prepared by Management)

9. **Share Capital** (continued)

- (a) Changes in issued common shares during the nine months ended April 30, 2005 and the year ended July 31, 2004 were as follows:

	<u>April 30, 2005</u>		<u>July 31, 2004</u>	
	Number of Shares	\$ Amount	Number of Shares	\$ Amount
Beginning of period	65,407,130	14,208,680	65,407,130	14,208,680
Issued for cash pursuant to private placement (Note 9(b))	12,730,000	630,500	-	-
Issued in settlement of accounts payable	1,300,000	65,000	-	-
End of period	<u>79,437,130</u>	<u>14,904,180</u>	<u>65,407,130</u>	<u>14,208,680</u>

- (b) During the nine months ended April 30, 2005, the Company issued 12,730,000 units for cash proceeds of \$630,500 (net of a \$6,000 finder's fee) pursuant to a private placement. Each unit consists of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to purchase an additional common share at an exercise price of \$0.10 per share, exercisable until December 16, 2006. As at April 30, 2005, all of the warrants remain outstanding.
- (c) During the year ended July 31, 2003, the Company issued 409,500 units for cash of \$49,140 pursuant to a private placement. Each unit consisted of one common share and one non-transferable share purchase warrant. Each warrant entitled the holder to purchase an additional common share at an exercise price of \$0.14 per share, exercisable until August 19, 2004. During the nine months ended April 30, 2005, the warrants expired unexercised.
- (d) As at April 30, 2005, outstanding warrants are as follows:

<u>Number of warrants</u>	<u>Exercise price</u>	<u>Expiry date</u>
3,449,666	\$0.15	February 8, 2006
12,730,000	\$0.10	December 16, 2006

During the year ended July 31, 2004, the Company agreed to extend the expiry date of 3,449,666 warrants initially expiring on February 8, 2004 by a period of two years to February 8, 2006.

- (e) (i) As at April 30, 2005, outstanding stock options to directors, consultants, and employees are as follows:

<u>Number of shares</u>	<u>Exercise price</u>	<u>Expiry date</u>
2,372	\$0.10	June 15, 2005
266,000	\$0.16	November 16, 2005
3,725,000	\$0.14	July 18, 2006
2,500,000	\$0.10	December 29, 2009

Montello Resources Ltd.
Notes to the Interim Financial Statements
April 30, 2005
(Unaudited – Prepared by Management)

9. **Share Capital** (continued)

- (e) (ii) A summary of the Company's stock options as at April 30, 2005 and the changes for the nine months then ended is presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance, beginning of period	4,395,372	\$0.14	1.74 years
Granted	2,500,000		
Expired/Exercised	<u>(402,000)</u>		
Balance, end of period	<u>6,493,372</u>	\$0.13	2.50 years
Number of options exercisable, end of period	<u>6,493,372</u>	\$0.13	2.50 years

10. **Related Party Transactions**

- (a) Related party transactions during the periods noted consist of:

	Three Months Ended April 30, 2005	Three Months Ended April 30, 2004	Nine Months Ended April 30, 2005	Nine Months Ended April 30, 2004
	\$	\$	\$	\$
Management fees incurred with directors	29,003	15,000	44,003	45,000
Accounting fees incurred with an officer	3,300	2,345	7,105	3,990
Rent incurred with a company related by a director in common	7,500	7,500	15,000	10,000

- (b) During the three months ended April 30, 2005, the Company sold Nil shares (three months ended April 30, 2004 – 400,000 shares; nine months ended April 30, 2005 – Nil shares; nine months ended April 30, 2004 – 400,000 shares) of Arctic Star Diamond Corp. (“Arctic Star”), a company related by a common director (Note 5). As a result, the Company recorded a gain on sale of marketable securities of \$Nil (three months ended April 30, 2004 - \$223,625; nine months ended April 30, 2005 - \$Nil; nine months ended April 30, 2004 - \$223,625).
- (c) As at April 30, 2005, accounts payable and accrued liabilities include \$15,858 (July 31, 2004: \$180,124) due to directors and \$5,593 (July 31, 2004: \$26,837) due to an officer of the Company.
- (d) As at April 30, 2005, advances from related party of \$6,297 (July 31, 2004: \$6,297) is due to a company related by a common director.

Montello Resources Ltd.
Notes to the Interim Financial Statements
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11. **Supplemental Disclosure of Non-Cash Operating, Investing and Financing Activities**

Significant non-cash transactions during the periods noted were:

	Three Months Ended		Nine Months Ended	
	April 30,		April 30,	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Shares issued in settlement of accounts payable	\$ <u>65,000</u>	\$ <u>-</u>	\$ <u>65,000</u>	\$ <u>-</u>

12. **Income Taxes**

A reconciliation of income taxes for the nine months ended April 30, 2005 at Canadian statutory rates with the reported income taxes is as follows:

	April 30,	April 30,
	2005	2004
Loss for the period	\$ <u>(166,095)</u>	\$ <u>(58,648)</u>
Income tax recovery at statutory rate of 35.62% (2004 – 37.62%)	\$ (64,744)	(22,051)
Non-deductible expenses	16,400	(26,112)
Unrecognized benefits of non-capital losses	49,199	48,163
Other	<u>(855)</u>	<u>-</u>
Total income tax recovery	\$ <u>-</u>	\$ <u>-</u>

The significant components of the Company's future income tax assets are as follows:

	April 30,	July 31,
	2005	2004
Future income tax assets		
Non-capital losses available for future periods	\$ 1,255,489	\$ 1,206,290
Resource deductions	<u>1,811,378</u>	<u>1,676,801</u>
	3,066,867	2,883,091
Valuation allowance	<u>(3,066,867)</u>	<u>(2,883,091)</u>
	\$ <u>-</u>	\$ <u>-</u>

As at April 30, 2005, the Company has not recorded the potential future income tax benefits of approximately \$3,525,000 (July 31, 2004: \$3,387,000) in non-capital losses which, if unutilized, expire through 2015.

Subject to certain restrictions, as at April 30, 2005, the Company has resource development and exploration expenditures of approximately \$5,085,000 (July 31, 2004: \$4,700,000) available to reduce taxable income of future years. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these interim financial statements and have been offset by a valuation allowance.

As at April 30, 2005, the Company also has \$140,828 (July 31, 2004: \$140,828) in capital loss carryforward.

Montello Resources Ltd.
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(Unaudited – Prepared by Management)

13. **Contingent Liability**

During the year ended July 31, 1997, the Company with other parties (the “Companies”), entered into an agreement with Supra Oil and Gas Corporation (“Supra”) whereby the Companies were allowed to view certain geophysical data pertaining to various properties in Alberta.

If the Companies decided to proceed to field operations, consideration was to be paid in two stages. Upon notification that they intended to go forward, the Companies would have to issue collectively \$150,000 of their shares pro-rata based on the October 29, 1997 closing market price of each of the Companies’ shares and fund (pro-rata) a \$250,000 exploration program which was to include drilling. Upon completing the drill program, had the Companies wished to continue work on the properties, they were to issue a further collective \$450,000 of their shares (pro-rata) and transfer a 10% interest in the properties to the private corporation.

During the year ended July 31, 1998, Supra filed a claim in the amount of \$150,000 and further damages against the Companies for payments not yet received. The Companies claim that the geophysical data was misrepresentational and induced the Companies to expend considerable costs in developing the properties. The Company has filed a Statement of Defence denying any liability. As at April 30, 2005, the lawsuit is still ongoing and the merit of the claim cannot be assessed.

14. **Segmented Information**

The Company operates in one segment. As at April 30, 2005, the Company has resource properties totalling \$380,511 (July 31, 2004: \$2,698) located in the United States. All other assets and operations are in Canada.

15. **Environmental Protection Practices**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

16. **Financial Instruments**

The Company’s financial instruments consist of cash, reclamation deposit, marketable securities, accounts receivable, accounts payable and accrued liabilities, and advances. Unless otherwise noted, it is management’s opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. As at April 30, 2005 and July 31, 2004, the fair value of receivables and payables approximate their carrying value due to the immediate short-term maturity of these instruments.

