

MONTELLO RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT
JULY 31, 2008 AND 2007
CANADIAN DOLLARS

Index

	Page
AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Consolidated Balance Sheets	2
Consolidated Statements of Operations, Comprehensive Loss and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 20

The logo for Charlton & Company, featuring the word "Charlton" in a white, serif font on a black rectangular background.

p | 604.683.3277
f | 604.684.8464

Charlton & Company
CHARTERED ACCOUNTANTS

SUITE 1735, TWO BENTALL CENTRE
555 BURRARD STREET
BOX 243
VANCOUVER, BC V7X 1M9

AUDITORS' REPORT

To: the Shareholders of
Montello Resources Ltd.

We have audited the consolidated balance sheets of Montello Resources Ltd. as at July 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2008 and 2007, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Charlton & Company"

CHARTERED ACCOUNTANTS

Vancouver, British Columbia
November 28, 2008

Montello Resources Ltd.

Consolidated Balance Sheets

As at July 31

ASSETS	2008	2007
Current	\$	\$
Cash	621,319	2,036,768
Restricted cash	-	1,224,500
Marketable securities (Note 4)	-	18,617
Accounts receivable, net allowance for doubtful accounts and prepaid expenses	592,319	344,248
	1,213,638	3,624,133
Property & equipment (Note 6)	9,827,181	578,839
	11,040,819	4,202,972
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,315,246	2,420,734
Asset retirement obligation	268,155	219,729
	1,583,401	2,640,463
Shareholders' equity		
Share capital (Note 7)	30,493,662	21,130,478
Contributed surplus (Note 8)	4,008,616	1,107,230
Warrants (Note 7 (e))	916,485	1,090,038
Deficit	(25,961,345)	(21,765,237)
	9,457,418	1,562,509
	11,040,819	4,202,972

Approved by the directors:

"William R. Cawker"

Director – William R. Cawker

"Peter Brown"

Director – Peter Brown

Montello Resources Ltd.

Consolidated Statements of Operations, Comprehensive Loss and Deficit Years Ended July 31

	2008	2007
Revenue	\$	\$
Oil and gas sales	552,613	397,162
Royalty expense	(55,939)	(78,208)
Interest income	23,360	54,202
	<u>520,034</u>	<u>373,156</u>
Expenses		
Production	244,576	158,651
General & administration	643,247	1,235,638
Interest	2,718	20,157
Depletion, depreciation & accretion	83,531	1,872,500
Stock based compensation (Note 8)	3,936,231	648,617
Foreign exchange (gain) loss	(186,091)	(20,310)
(Gain) loss on sale of marketable securities	(8,070)	-
	<u>4,716,142</u>	<u>3,915,253</u>
Loss for the period from operations	4,196,108	3,542,097
Future income tax recovery	-	(203,535)
Loss and comprehensive loss for the year	4,196,108	3,338,562
Deficit, beginning of year	21,765,237	18,426,675
Deficit, end of year	25,961,345	21,765,237
Loss per common share	0.15	0.03
Weighted average number of common shares outstanding	179,105,715	130,687,564

Montello Resources Ltd.
Consolidated Statements of Cash Flows
Year Ended July

	2008	2007
Cash provided by (used in)	\$	\$
Operating activities		
Loss for the period	(4,196,108)	(3,338,562)
Items not affecting cash:		
Depletion, depreciation & accretion	83,531	1,872,500
Stock based compensation	3,936,231	648,617
Future income tax recovery	-	(203,535)
Gain on sale of marketable securities	(8,070)	-
	(184,416)	(1,020,980)
Changes in non-cash working capital items, net	(1,353,559)	1,320,425
	(1,537,975)	299,445
Investing activities		
Additions to property & equipment	(5,786,796)	(144,058)
Proceeds from sale of marketable securities	26,587	-
	(5,760,209)	(144,058)
Financing activities		
Issuance of shares, net of issue costs	4,658,235	3,289,285
Advances to affiliated company	-	(272,696)
	4,658,235	3,016,589
(Decrease) increase in cash during the year	(2,639,949)	3,171,976
Cash, beginning of year	3,261,268	89,292
Cash, end of year	621,319	3,261,268
Changes in non-cash working capital items consist of:		
(Increase) decrease in accounts receivable and prepaid expenses	(248,071)	18,084
(Decrease) in accounts payable and accrued liabilities	(1,105,488)	1,302,341
	(1,353,559)	1,320,425

Supplemental disclosure with respect to non-cash transactions (Note 10)

1. CONTINUING OPERATIONS

These consolidated 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 financial statements should the Company be unable to continue as a going concern.

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. The Company purchased 100% of the issued and outstanding shares of Montello Resources Ltd. in fiscal 2006. This company was subsequently dissolved.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company, its 100% interest in Montello Resources USA Ltd. Corp. which was incorporated in Delaware, USA on March 2, 2005.

(b) Petroleum and natural gas properties and production equipment

The company follows the Canadian accounting standards guideline on full cost accounting for its petroleum and gas operations, whereby all costs associated with the acquisition of, exploration for and the development of petroleum and natural gas reserves, including asset retirement costs, are capitalized and accumulated in a single cost centre. Such costs include lease acquisition, drilling, geological and geophysical expenditures, lease rentals on non-producing properties, equipment costs and overhead expenses directly related to exploration and development activities.

Proceeds from the disposition of petroleum and natural gas properties are accounted for as a reduction of capitalized costs, with no gain or loss recognized, unless such disposition would alter the rate of depletion and depreciation by 20% or more.

Depletion and depreciation of petroleum and natural gas properties is calculated using the unit of production method based upon production volumes, before royalties, in relation to total proved petroleum and natural gas reserves, as estimated by independent engineers. In determining costs subject to depletion, the Company includes estimated future costs to be incurred in developing proved reserves and excludes estimated salvage values. The cost of undeveloped properties are excluded from costs subject to depletion until it is determined that proved reserves are attributable to the property or impairment has occurred. For depletion and depreciation purposes, natural gas volumes are converted to equivalent oil volumes based upon a relative energy content of six thousand cubic feet of natural gas to one barrel of oil.

3. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(b) **Petroleum and natural gas properties and production equipment** (continued)

Direct costs relating to the acquisition, exploration and development of mineral properties, including interest on borrowings directly related to a property, are capitalized on an area of interest basis. When the company is the operator of a project and incurs costs on behalf of joint venture partners, these costs are periodically charged back to the partners and are recorded as operator recoveries. Operator recoveries are credited to exploration costs. Cumulative expenditures will be charged against income, through unit-of-production depletion, when properties are developed to the stage of commercial production. Where the company's exploration commitments for an area of interest are preformed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. If an area of interest is abandoned or management determines there is a permanent and significant decline in value, the related costs are charged to operations.

(c) **Ceiling test**

Under the full cost method of accounting, a "ceiling test" is performed to recognize and measure impairment, if any, of the carrying amount of petroleum and natural gas properties. Impairment is recognized if the carrying amount of petroleum and natural gas properties, less the cost of undeveloped properties not subject to depletion, exceeds the estimated future cash flows are based on a forecast of prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is then measured by comparing the adjusted carrying amount to the estimated discounted future cash flows from the company's proved and probable reserves. The future cash flows are discounted at the risk-free interest rate, using forecasted prices and costs, and are exclusive of indirect costs such as interest charges, general and administrative expenses and future income taxes.

(d) **Joint operations**

Substantially all of the company's exploration, development and production activities are conducted jointly with others. These financial statements reflect only the company's proportionate interest in such activities.

(e) **Marketable securities**

Marketable securities are stated at lower cost or market value.

(f) **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances with banks and short-term deposits with original maturities of less than three months.

(g) **Office equipment**

Office equipment is stated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) **Per share amounts**

Basic losses per common share are computed by dividing loss by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds assumed to be used to purchase common shares of the company at the average market price during the year.

(i) **Stock-based compensation**

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.

(j) **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.

(k) **Use of estimates**

The preparation of financial statements in accordance 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 year. Actual results could differ from these estimates.

The timely preparation of financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates that affect the amounts of assets, liabilities, revenues and expenses as they primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, actual results could differ from those estimated.

Specifically, the amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties, the provision for asset retirement obligation costs, the ceiling test calculation and the tax provision are based on estimates of proved reserves, production rates, commodity prices, future costs and other relevant assumptions. The estimates of future volatility of the company's share price, expected lives of the options, expected dividends to be paid by the company, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to shareholders. To recognize the foregone tax benefits to the company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers. The tax effect is recorded on the date that the renouncement forms are filed with the taxation authorities.

(m) 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 year 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.

(n) 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 year. Translation gains and losses are reflected in loss for the year.

(o) Revenue recognition

Revenue from petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating transportation, and production based royalties are recognized in the same period in which the related revenue is earned.

(p) Asset retirement obligation

The fair value of estimated asset retirement obligations (“ARO”) is recognized in the financial statements in the period in which they are identified and a reasonable estimate of fair value can be made. The ARO includes the costs of abandonment of petroleum and natural gas wells, dismantling and removing tangible equipment, and returning land to its original condition. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Asset retirement costs for petroleum and natural gas assets are amortized using the unit of production method and are included in the depletion, depreciation and amortization on the statement of operations.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Asset retirement obligation (continued)

Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion expense on the statement of operations. Any revisions to the original estimate of cost or the timing of the cash outflows may result in a charge to the ARO. Actual expenditures incurred to abandon petroleum and natural gas properties reduce the ARO liability.

(q) Risk management

The Company is engaged in resource exploration and development and is accordingly exposed to environmental risks associated with such activity. The Company would only record liabilities for site reclamation when reasonably determinable and when such costs can be reliably quantified. Management is of the opinion that the Company addresses environmental risk and compliance in accordance with industry standards and specific project environmental requirements.

(r) Accounting standards newly adopted

On August 1, 2007, the Company adopted several new accounting standards related to accounting changes, financial instruments, comprehensive income, hedges, capital disclosures and inventories that were issued by the Canadian Institute of Chartered Accountants ("CICA"). The new CICA standards are as follows:

Section 1506, Accounting Changes

This Section establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this Section allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information. Furthermore, this Section requires disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. Such disclosures are provided below. The adoption of this Section had no effects on the financial statements for the period ended July 31, 2008.

Section 3855, Financial Instruments – Recognition and Measurement

This Section establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other liabilities.

Financial assets and liabilities classified as held for trading are required to be measured at fair value, with gains and losses recognized in net earnings.

3. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(r) **Accounting standards newly adopted** (continued)

Financial assets classified as held to maturity, loans and receivables and financial liabilities (other than those held for trading) are required to be measured at amortized cost using the effective interest method of amortization.

Available for sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in other comprehensive income. Investments in equity instruments classified as available for sale that do not have a quoted market price in an active market should be measured at cost.

The Company classified its financial instruments as follows:

- Cash and cash equivalents are classified as held for trading.
- Accounts receivable is classified as loans and receivables.
- Accounts payable and accrued liabilities are classified as other liabilities.

Section 1530, *Comprehensive Income*

This Section establishes standards for reporting and presenting of comprehensive income which is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net earnings.

As there were no other comprehensive items, comprehensive loss for the period was equal to the net loss for the period.

Section 3865, *Hedges*

This Section establishes standards for how hedge accounting may be applied. The Company currently does not have any hedges in place, and therefore this standard has no impact on the financial statements.

Going Concern

In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of a company's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going-concern. This new section is effective for years beginning on or after January 1, 2008. The amendment of this Section does not have a significant impact on the financial statements.

3. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(r) **Accounting standards newly adopted** (continued)

Section 1535, Capital Disclosures

This Section which specifies the disclosure of information that enables users of an entity's financial statements to evaluate its objectives, policies and processes for managing capital such as qualitative information about its objectives, policies and processes for managing capital, summary quantitative data about what the entity manages as capital, whether it has complied with any capital requirements and, if it has not complied, the consequences on non-compliance. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007. The Company has included the additional capital disclosures in Note 15.

Section 3862, Financial Instruments Disclosures

Section 3863, Financial Instruments Presentation

These sections replace Section 3861, *Financial Instruments Disclosure and Presentation*, revising and enhancing disclosure requirements while carrying forward its presentation requirements. These new Sections will place increased emphasis on disclosure about the nature and extent of risk arising from financial instruments and how the entity manages those risks. The mandatory effective date is for annual and interim financial statements for years beginning on or after October 1, 2007. The Company has included the additional financial instrument disclosures in Note 16.

Section 3031, Inventories

This Section prescribes the accounting treatment for inventories. In particular, this Section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The mandatory effective date is for annual and interim financial statements for years beginning on or after January 1, 2008. The adoption of this Section does not have an impact on these financial statements.

(s) **Future accounting changes**

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement of comparative amounts reported by the Company. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

MONTELLO RESOURCES LTD.
Notes to the Consolidated Financial Statements
July 31, 2008 and 2007

4. MARKETABLE SECURITIES

Marketable securities consisted of shares in a public company related by a common director, which as at July 31, 2007 had a quoted market value of \$38,411 and book value of \$18,617. All marketable securities were disposed of during the year.

5. ADVANCES FROM AFFILIATED COMPANY

Companies that were previously considered affiliated with Montello Resources Ltd. no longer met the conditions under which they were considered affiliated. As a result, any monies owed to these companies have been reclassified under accounts payable.

6. PROPERTY AND EQUIPMENT

	2008			2007	
	Cost	Accumulated Amortization and Write-Down	Net Carrying Amount	Net Carrying Amount	
Petroleum & natural gas properties					
-Canada	\$ 7,441,332	\$ 2,252,484	\$ 5,188,848	\$	457,639
-United States	4,629,691	-	4,629,691		110,560
Office equipment	18,253	9,611	8,642		10,640
	\$ 12,089,276	\$ 2,262,095	\$ 9,827,181	\$	578,839

- (a) At July 31, 2008, the depletion calculation excluded undeveloped land and unproved properties of \$4,755,550 (2007 - \$726,239) from cost centre. No 2008 and 2007 general and administrative expenses have not been capitalized nor included in property and equipment.

The Company has performed a ceiling test as at July 31, 2008. The Company compared estimated future cash flows from productions of oil and natural gas reserves with the carrying value of the property and equipment as at July 31, 2008. The test did not indicate impairment in the oil and natural gas reserves. In fiscal 2007, a write-down of \$1,146,261 was included in the depletion, amortization and accretion of oil and gas properties on the consolidated statement of operations.

- (b) During the year ended July 31, 2008, the Company purchased certain oil and gas assets from Vanguard Exploration Corp. Consideration for the acquisition of \$3,499,000 was settled through the issue of 11,663,333 shares of the Company at a deemed price of \$0.30 per share.

MONTELLO RESOURCES LTD.
Notes to the Consolidated Financial Statements
July 31, 2008 and 2007

7. SHARE CAPITAL

	2008	2007
(a) Authorized: Unlimited Common shares without par value		
(b) Issued: 189,637,686 Common shares (2007: 142,363,552 shares)	\$ 30,493,662	\$ 21,130,478

(c) Changes in issued common shares during the years ended July 31, 2008 and 2007 were as follows:

	2008		2007	
	Number of Shares	Value	Number of Shares	Value
Beginning of year	142,363,552	21,130,478	103,438,343	\$ 17,980,440
Issued for cash (Note 7 (c) (i)), net of fair value of warrants	8,202,166	1,049,877	12,720,000	648,720
Issued for cash pursuant to a flow through share private placement (Note 7 (c) (ii))	480,000	62,400	6,419,000	795,896
Issued for cash on exercise of warrants (Note 7 (c) (iii))	12,928,780	1,625,206	7,700,000	770,000
Fair value transfer on exercise of warrants (Note 7 (c) (iii))	-	538,301		
Issued for cash on exercise of stock options (Note 7 (c) (iv))	13,999,855	1,617,717	4,172,000	428,600
Fair value transfer on exercise of stock options	-	1,139,262	-	290,681
Issued for settlement of convertible debenture	-	-	7,914,209	506,508
Tax effect of flow through expenditures renounced	-	-	-	(203,535)
Share issue costs	-	(168,579)	-	(86,832)
Issued for oil and gas assets (Note 6 (b))	11,663,333	3,499,000	-	-
End of year	189,637,686	\$ 30,493,662	142,363,552	\$ 21,130,478

Changes in issued common shares during the year ended July 31, 2008 was as follows:

- (i) The Company completed a private placement of 8,202,166 units at \$0.18 per unit for gross proceeds of \$1,476,390. The units consist of one common share and one share purchase warrant exercisable at \$0.30 per share. The Company issued 8,202,166 warrants in connection with this private placement for a fair value of \$426,513. 820,217 number of warrants were issued to brokers.
- (ii) The Company issued 480,000 units pursuant to a flow through arrangement at \$0.13 per unit for gross proceeds of \$62,400.

7. SHARE CAPITAL

- (c) Changes in issued common shares during the year ended July 31, 2008 were as follows: (continued)
- (iii) 12,928,780 units of common shares were issued by the Company on exercise of share purchase warrants at various prices ranging from \$0.11 to \$0.20 per share for total proceeds of \$1,625,206. The fair value assigned to these warrants exercised of \$538,301 has been transferred to share capital.
 - (iv) The Company issued 13,999,855 common shares on exercise of stock options at various prices ranging from \$0.10 to \$0.11 for total cash proceeds of \$1,617,717. The fair value assigned to these options exercised of \$0.155 has been transferred to share capital from contributed surplus.
- (d) Stock options

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.

For the year ended July 31, 2008, the Company recorded stock-based compensation expenses totalling \$3,936,231.

The fair value of each option granted was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions for the awards granted since the beginning of the year:

Risk-free interest rate	2.9 – 4.2%
Expected life of options	5 years
Annualized volatility	152.12% - 161.28%
Dividend rate	0.00%

MONTELLO RESOURCES LTD.
Notes to the Consolidated Financial Statements
July 31, 2008 and 2007

7. **SHARE CAPITAL** (continued)

(d) Stock option plan (continued)

A summary of the status of the stock option plan as of July 31, 2008 and changes during the year then ended is presented below:

	<u>Number of Options</u>	<u>Average Exercise Price</u>
Balance, July 31, 2007	13,311,355	\$0.11
Exercised	(2,919,834)	\$0.10
Exercised	(6,944,121)	\$0.11
Exercised	(877,000)	\$0.105
Exercised	(1,500,000)	\$0.13
Exercised	(350,000)	\$0.135
Exercised	(358,900)	\$0.15
Exercised	(850,000)	\$0.155
Exercised	(300,000)	\$0.14
Cancelled	(200,000)	\$0.15
Cancelled	(1,000,000)	\$0.14
Cancelled	(529,868)	\$0.155
Cancelled	(8,900,000)	\$0.21
Granted	2,900,000	\$0.14
Granted	3,529,868	\$0.155
Granted	9,900,000	\$0.21
Granted	11,375,000	\$0.10
Balance, July 31, 2008	16,286,500	\$0.12

The following table summarizes information about 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
16,286,500		

MONTELLO RESOURCES LTD.
Notes to the Consolidated Financial Statements
July 31, 2008 and 2007

7. SHARE CAPITAL

- (e) Share purchase warrants outstanding

A summary of the status of Warrants issued and outstanding at July 31, 2008 and changes during the year then ended, is presented below:

	Number of Warrants	Average Exercise Price	Expiry Date
Balance, July 31, 2007	30,921,658	\$0.11-\$020	September 15, 2007 to December 13, 2008
Exercised	(750,000)	\$0.20	November 18,2007
Exercised	(7,914,209)	\$0.11	September 30, 2008
Exercised	(903,571)	\$0.20	March 21, 2008
Exercised	(3,261,000)	\$0.13	December 13, 2008
Granted	9,022,383	\$0.30	October 18,2008
Expired	(2,039,565)	\$0.20	September 15, 2007
Expired	(1,078,884)	\$0.20	November 18, 2007
Expired	(5,515,429)	\$0.20	March 21, 2008
Expired	(330,000)	\$0.13	May 29, 2008
Balance, July 31, 2008	18,151,383	\$0.21	

The Company has the following share common share purchase warrants outstanding at July 31, 2008:

Number of Warrants	Exercise Price	Value \$	Expiry Date
9,129,000	\$0.13	447,321	December 13, 2008
<u>9,022,383</u>	\$0.30	<u>469,164</u>	October 18, 2008
18,151,383		916,485	

8. CONTRIBUTED SURPLUS

	2008
Balance, beginning of year	\$ 1,107,230
Additions	
Stock-based compensation	3,936,231
Reductions	
Reclassify options exercised	(1,139,261)
Expired warrants	<u>104,416</u>
Balance, end of year	\$ 4,008,616

MONTELLO RESOURCES LTD.
Notes to the Consolidated Financial Statements
July 31, 2008 and 2007

9. RELATED PARTY TRANSACTIONS

- (a) During the year ended July 31, 2008, the Company incurred management fees and consulting fees of \$203,280 (2007: \$217,130) with directors and officers of the Company.
- (b) During the year ended July 31, 2008, the Company incurred accounting fees of \$172,884 (2007: \$30,778) with a director of the Company.
- (c) During the year ended July 31, 2008, the Company incurred rent of \$ nil (2007: \$1,625) with a company related by a director in common.
- (d) As at July 31, 2008, accounts payable and accrued liabilities include \$ nil (2007: \$20,320) due to directors and an officer of the Company.

10. SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS

Significant non-cash transactions during the years ended July 31 were as follows:

Year ended July 31, 2008:

The Company purchased certain oil and gas assets from Vanguard Exploration Corp. for a consideration of \$3,499,000. This was settled through issuance of 11,663,333 common shares of the Company at a deemed price of \$0.30 per share.

Year ended July 31, 2007:

The Company extinguished the \$870,562 convertible loan payable by issuing 7,914,209 units under a debt restructuring agreement.

11. INCOME TAXES

A reconciliation of income taxes for the years ended July 31, 2008 and 2007 at Canadian statutory rates with the reported income taxes is as follows:

	<u>2008</u>	<u>2007</u>
Loss for the year	\$ (4,196,108)	\$ (3,338,562)
Income tax recovery at statutory rate of 30.5% (2007: 32.12%)	\$ (1,279,813)	(1,072,346)
Non-deductible expenses	1,830,240	744,994
Unrecognized benefits of non-capital losses	530,323	341,540
Other	77,888	(14,188)
Renounced exploration expenditures	-	(203,535)
Total income tax recovery	<u>\$ 1,158,638</u>	<u>\$ (203,535)</u>

MONTELLO RESOURCES LTD.
Notes to the Consolidated Financial Statements
July 31, 2008 and 2007

11. INCOME TAXES (continued)

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

	<u>2008</u>	<u>2007</u>
Future income tax assets		
Non-capital losses available for future periods	\$ 2,377,311	\$ 1,354,949
Resource deductions	1,376,860	1,996,442
Taxable losses and others	127,040	104,657
	<u>3,881,211</u>	<u>3,456,048</u>
Valuation allowance	(3,881,211)	(3,456,048)
	<u>\$ -</u>	<u>\$ -</u>

As at July 31, 2008, the Company has not recorded the potential future income tax benefits of approximately \$7,794,461 (2007: \$4,218,398) in non-capital losses which, if unutilized, expire through 2028.

Subject to certain restrictions, as at July 31, 2008, the Company has resource development and exploration expenditures of approximately \$14,330,835 (2007: \$6,783,773) 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 financial statements and have been offset by a valuation allowance.

As at July 31, 2008, the Company also has \$359,179 (2007: \$359,179) in capital loss carryforward.

12. SEGMENTED INFORMATION

The Company operates in one segment. As at July 31, 2008, the Company has resource properties totalling \$4,629,691 (2007: \$110,560) located in the United States and \$5,162,738 (2007: \$457,639) located in Canada. All other assets and operations are in Canada.

13. 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.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, accounts payable and accrued liabilities. 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 July 31, 2008 and 2007, the fair value of receivables and payables approximate their carrying value due to the immediate short-term maturity of these instruments.

15. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

16. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to receivables. The Company has no significant concentration of credit risk arising from operations. The receivables include goods and services tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to its receivables is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company believes it has adequate cash flows and cash on hand to discharge its financial obligations.

Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt therefore, interest rate risk is minimal.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars; therefore, foreign currency risk is minimal.

16. FINANCIAL RISK FACTORS (continued)

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

17. SUBSEQUENT EVENTS

Subsequent to July 31, 2008:

In October 2008, the Company closed a private placement of 1,827,720 common shares. The purchase price of the non-flow through units were allocated at \$0.05 per common share and \$0.001 per common share warrant. Gross proceeds of \$91,350 were raised.

The private placement common shares have a hold period to February 4, 2009. Finder's fees of \$6,033.60 were paid to an arm's length individual.

- (b) On November 20, 2008, the Company announced a non-brokered flow through private placement of 1,550,000 units priced at \$0.31 per unit for gross proceeds of \$480,500.

Each unit is comprised of four non-flow through common shares, six flow through common shares for a total of ten common shares as well as ten common share purchase warrants exercisable at \$0.05 per share, with a one year term.

The foregoing is subject to regulatory approval.

- (c) During the year, litigation was brought against the Company by a drilling contractor. Settlement payment was made and accepted by the contractor. Subsequent to year end, the contractor has sued the Company for an additional \$151,554. Management and Counsel of the Company believe this lawsuit will be unsuccessful.

18. COMPARATIVE FIGURES

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

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

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.

OPERATIONS

Tennessee

On March 4, 2008 Montello commenced drilling the Morgan Highpoint #3 test well in Morgan County, Tennessee. After encountering hydrocarbons below the intermediate casing, the well was secured and operations suspended as a precautionary measure. The drilling rig was then moved to the Morgan Highpoint #4 test well. On March 27, 2008 Montello announced that the Morgan Highpoint #4 well had encountered hydrocarbons and that the #3 well had been placed on production. The #3 well produced in excess of 250 barrels of 42 degree during an eight hour production test and a total of 720 barrels of flush production from a fractured reservoir before the pressure dropped. The Company concluded that the zone required stimulation to be produced. An arrangement was made to use the Petrojet process to effect this process. Montello's new management reviewed the Petrojet process and concluded that it was risky and expensive and a conventional stimulation process would be more effective. In the meantime the deep gas in the John Bowen #2 well will be tested in the fall of 2008.

On April 15, 2008 the Company announced the commencement of drilling at the Morgan Highpoint #5 well. All of the wells have been logged and suspended while testing and completion programs to determine commercial viability were being finalized. Montello paid 15.00% of the costs of drilling Highpoint #3, 4 and 5 and holds a 35.00% working interest in these wells.

Montello has prepared programs for the stimulation and completion of the wells in Morgan County Tennessee and has held discussions with the gas pipeline operator in the area and has determined that there is significant pipeline capacity available within a short distance of the wells.

Montello and its JV Partners Austin Developments Ltd., Nexgen Petroleum Corp., signed a letter dated July 5, 2008 formally confirming Farm-out and Participation agreements dated March 10 and April 11, 2008, whereby Nexgen Petroleum Corp was confirmed as having earned 30% undivided working interests in the said test wells and farm out lands for the Lavender #1, Southeast #1, and Southeast #2 Wells (otherwise known as the Morgan Highpoint Project Wells #5, #3, and #4). This letter also stated that from and after July 1, 2008 all operations on these Farm-out lands and test wells would be governed by CAPL Operating Procedure including the Accounting Procedure.

Immediately subsequent to this on July 7, 2008, a Joint Operating and Equalization Agreement was also formally signed by the Morgan Highpoint JV Partners with regards to anticipated operations to be carried out in the "Bowen Block / Bowen Lands". From and after July 1, 2008, all operations on these Farm-out lands and test wells would also be governed by CAPL Operating Procedure including the Accounting Procedure and 2000 CAPL Transfer Procedure.

Also subject to specific terms, for example, based on economic viability of the John Bowen #2 Well, Nexgen could elect to earn an additional undivided 5% working interest in the Bowen Block from Montello at prevailing natural gas commodity evaluation by commissioning at its sole cost, risk and expense, an engineering report from a mutually agreeable reputable, oil and gas evaluation engineering firm based on a 100% working interest in the proven probable oil and gas assets of the Bowen Block. Montello must be provided with a final copy of the evaluation upon receipt by Nexgen and it must be prepared using assumptions and methodology guidelines outlined in the Canadian Oil and Gas evaluation Handbook and in accordance with National Instrument 51-101, Standards for Disclosure for Oil and Gas utilizing a discount rate of 12.5% on possible future cash flows. Notice would be given in writing per terms and timelines specified in the agreement. Nexgen may but is not obligated to go forward and if Nexgen either fails or elects not to go forward then it will have no further right to acquire an interest pursuant to provisions set out in the agreement.

Pincher Creek

Montello entered into a farm-in agreement to participate in the recompletion of the Pincher Creek 1-11-4-29W4 well. By farming into the petroleum and natural gas rights in the lands held by Pennine Petroleum Corporation, The Company earned a 25.00% interest before payout, 15.00% after payout in a discovery well that is capable of producing high grade condensate and associated gas from two zones. By paying an additional fee Montello earned a 25.00% in the remainder of Pennine's interests at Pincher Creek.

The recompletion of the well was initiated on August 30, 2007 and resulted in completions in the Cadomin and Brown Sand with initial swabbing rates of up to 337 barrels of condensate and 500 Mcf. per day of natural gas. The success of this well enhanced the prospectivity of the group's lands in the area.

There have been delays in getting the necessary approvals to build a short pipeline to handle the associated sweet gas from the 1-11-4-29W4 well. A hearing on the pipeline is expected to take place shortly. Subsequent to the year end a test of the Brown Sand produced 327 Bbls. of light oil over a 33 hour period. When put on pump the bottom hole pump seized due to overheating. The well was then shut-in.

Montello has exercised its option to participate in the drilling of a deep well, 6-12-4-29W4 located 500 yards east of the 1-11 discoveries. An application for the drilling of this well has been made but due to the delays in the pipeline approval the Company anticipates a spud date in 2009.

Pincher Creek has been one of the most prolific fields in Alberta. It is a structurally controlled, over-thrusted imbricate stack that has been producing since 1947 and has produced some 600 Bcf. of gas and over one million barrels of associated liquids from the Mississippian-age carbonates of the Turner Valley (Rundle) formation.

Mulligan

The Company owns working interests in 6,720 acres in the Mulligan area of Northern Albert. This property contains two producing oil wells, two producing gas wells, one injection well and six shut-in wells. Subsequent to year end Montello began work on enhancing the Mulligan field by construction of a pipeline, increasing injection of water under the waterflood project, well workovers and a geological review of the field for possible new drilling locations. Production to Montello's interest in the year ended averaged 14 barrels of oil and NGL's and 21 Mcf. of natural gas per day. The field experienced several months of low production volumes of less than one barrel per day to the Company's working interest. The work performed after year end is designed to improve field performance.

Sarcee

Montello, under a farmout agreement held a 2.50% interest in 2,560 acres of petroleum and natural gas rights on lands in the T'suu Tina Reserve. In November 2007, the Company increased its interest to 8.50% by issuing 11,663,333 shares to the vendor of the interest. With the P&NG rights Montello acquired a 8.50% interest in the 12-13-23-4W5 cased potential Rundle gas well. A second drilling location has been identified on these lands. The Company and other non-operators are proposing to re-enter the existing wellbore for a recompletion attempt.

Grouard

In December 2007 Montello, under a farmin agreement participated in the drilling of two exploratory wells in the Grouard area of Northwestern Alberta. Under the farmin agreement the company paid 50.00% of the drilling, completion and equipping costs to earn a 35.00% interest. By participating in the wells Montello earned a 35.00% interest in 1,470 gross acres of P&NG rights with additional drilling locations. Both of the earning wells were production tested and deemed capable of gas production of 150 Mcf. Per day. A gathering system is required to place the wells on production.

Grouard represents a low risk play with multi-zone oil and gas potential.

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 \$99,532.32 less \$6,033.60 (finders' fees) were 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 July 31	2008 April 30	2008 Jan. 31	2007 Oct. 31
Total Revenues	\$182,389	\$104,060	\$102,904	\$193,349
Loss from operations	2,221,391	124,300	20,966	1,829,451
Loss per share	\$0.01	nil	nil	\$0.01

	2007 July 31	2007 April 30	2007 Jan. 31	2006 Oct. 31
Total Revenues	(\$22,594)	\$130,925	\$24,611	\$ 274,818
Loss from operations	1,605,854	1,308,862	456,557	692,380
Loss per share	\$0.01	\$0.01	nil	nil

Subsequent Events

On August 11, 2008, Peter C. Brown was appointed President and Chief Executive Officer, replacing William Cawker, who was appointed Chairman and Director. At the same time,

Michael Williams was appointed as Chief Financial Officer to replace Joseph Dow, the Acting Chief Financial Officer and Phil Emrich was appointed Director. In September, Joseph Dow resigned as Director.

The Company announced the advisory assistance of Mr. Darrell Davidson of Calgary, Alberta who has 30 years of business management experience that encompasses "Pipeline and Power Line Right of Way Management", as well as Land Brokerage for the resource industry for surface, freehold and crown mineral and oil and gas leases in British Columbia, Alberta, and Saskatchewan

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, in the United States was announced for up to CDN \$2,655,000, before the exercise of warrants; the Non-Flow Through Unit portion for potential proceeds of up \$1,657,500 if fully subscribed; the sale of the Flow Through Units with gross proceeds of CDN \$997,500.00. Proceeds 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 an Operational Activity Update was provided 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.

On October 15, 2008 Montello followed up on a news release of October 14, 2008 by Pennine Petroleum Corp., 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.

On November 20, 2008, Montello Resources Ltd. announced the commencement of operations for the testing-completion of the John Bowen #2 deep gas zone. The rig arrived on site November 18, 2008.

The Company also announced, subject to regulatory approval, its intention to proceed with a non-brokered flow through private placement unit financing consisting of up to 1,550,000 units priced at \$0.31 per unit. The unit comprised of (4) four non-flow through common shares, (6) six flow through common shares for a total of 10 common shares as well as (10) ten common share purchase warrants potentially on the same basis exercisable at (5) five cents each, with a one year term. Proceeds of up to \$480,500 from the offering would be used to develop prospects in Morgan County, Tennessee, and advance exploratory-completion activities on various Alberta joint venture properties. Exercise of all warrants would provide the Company additional gross proceeds of \$775,000.00. Sixty percent of the proceeds received from the sale of the flow through units would be used to incur qualifying Canadian exploration expenses, which could be

renounced in favour of purchasers for the 2008 and/or 2009 taxation year depending on closing.

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 is currently being utilized to test and complete the Rome formation deep gas zone, in the John Bowen No. 2 well.

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.

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