

**Montello Resources Ltd.**

**Financial Statements**

**For the Six Months Ended January 31, 2009**

## **NOTICE OF NO AUDITOR REVIEW**

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

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

# Montello Resources Ltd.

## Consolidated Balance Sheets

As at January 31, 2009

(Unaudited)

Canadian Funds

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ASSETS	2009	July 31, 2008
<b>Current</b>		
Cash	\$493,836	\$621,319
Accounts receivable and prepaid expenses	<u>259,795</u>	<u>1,554,128</u>
	698,731	1,213,638
<b>Property &amp; Equipment (Note 3)</b>	<u>6,561,992</u>	<u>9,827,181</u>
	\$7,260,723	\$11,040,819

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## LIABILITIES AND SHAREHOLDERS EQUITY

<b>Current</b>		
Accounts payable and accrued liabilities	\$663,923	\$1,315,246
Due to officers and directors	<u>90,225</u>	<u>-</u>
<b>Asset retirement obligation</b>	<u>351,144</u>	<u>268,155</u>
	1,105,322	1,583,401
<b>Shareholders' Equity</b>		
Share capital (Note 4a)	30,549,284	30,493,662
Contributed Surplus	4,078,462	4,008,616
Warrants (Note 4e)	916,385	916,485
Deficit	<u>(29,388,700)</u>	<u>(25,961,345)</u>
	6,155,431	9,457,418
	\$7,260,723	\$11,040,819

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Approved by the CFO and CEO

**“Mike Williams”**

Mike Williams -CFO

**“Peter Brown”**

Peter Brown CEO-Chairman

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

# Montello Resources Ltd.

## Consolidated Statements of Operations and Deficit

Six Months Ended January 31, 2009

(Unaudited)

Canadian Funds

	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2009	2008	2009	2008
<b>Revenue</b>				
Oil and gas sales	\$59,237	\$102,904	<b>\$157,599</b>	\$289,813
Royalty expense	(4,912)	(25,647)	<b>(25,904)</b>	(43,683)
Interest and other Income	2,770	10,841	<b>4,431</b>	17,281
	<u>57,104</u>	<u>88,098</u>	<u><b>136,126</b></u>	<u>263,411</u>
<b>Expenses</b>				
Production	147,291	33,131	<b>241,059</b>	93,483
General & Administration	318,630	150,949	<b>498,131</b>	299,625
Interest	766	2,518	<b>1,254</b>	2,518
Depletion, depreciation & accretion	21,170	59,941	<b>41,468</b>	118,462
Impairment loss	3,515,546	-	<b>3,515,546</b>	-
Stock based compensation	-	-	<b>69,846</b>	1,708,239
Foreign exchange (gain) loss	915,625	(137,475)	<b>(803,823)</b>	(108,499)
	<u>3,087,778</u>	<u>109,064</u>	<u><b>3,563,481</b></u>	<u>2,113,828</u>
<b>Loss for the period</b>	3,030,674	20,966	<b>3,427,355</b>	1,850,417
<b>Deficit, beginning of period</b>	26,358,026	23,594,688	<b>25,961,345</b>	21,765,237
<b>Deficit, end of period</b>	<u>\$29,388,700</u>	<u>\$23,615,654</u>	<u><b>\$29,388,700</b></u>	<u>\$23,615,654</u>

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

# Montello Resources Ltd.

## Notes to the Consolidated Financial Statements

Six Months Ended January 31, 2009

(Unaudited)

Canadian Funds

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### 1. BASIS OF PRESENTATION

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

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

### 2. NATURE OF OPERATIONS

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

### 3. PROPERTY & EQUIPMENT

	<b>January 31, 2009</b>	<b>July 31, 2008</b>	
	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
	Cost	Net Carrying Amount	Net Carrying Amount
Petroleum & natural gas properties			
- Canada	\$4,100,475	\$3,682,901	\$417,574
- United States	4,407,031	-	4,407,031
Office equipment	18,253	10,042	8,211
	<u>\$8,525,759</u>	<u>\$3,692,943</u>	<u>\$4,832,816</u>
			<u>\$9,827,181</u>

# Montello Resources Ltd.

## Notes to the Consolidated Financial Statements

Six Months Ended January 31, 2009

(Unaudited)

Canadian Funds

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### 4. SHARE CAPITAL

a: AUTHORIZED – Unlimited common shares without par value.

b: ISSUED

	Number of Shares	Value
Balance as at January 31, 2009	189,637,686	\$30,493,662
Issued for cash, net of fair value of warrants	1,887,720	99,532
Share subscription not honoured	(100,000)	(5,100)
Share issue cost	-	(31,321)
	191,425,406	\$30,556,773

c: Share capital transactions during the six months ended January 31, 2009:

In October 2008 the Company completed a private placement of 188,772 units for gross proceeds of \$101,420.00. The offering was comprised of a non-flow through portion and a flow through unit portion. The non-flow through unit portion priced at \$0.51 per unit which consisted of ten common shares and ten common share purchase warrants, with each warrant entitling the holder to purchase a common share at \$0.10 on or before May 29, 2009. The flow through unit portion priced at \$0.57 per unit consisted of four common shares and six flow through common shares and ten common share warrants each. Each warrant entitles the holder to purchase a common share at \$0.10 on or before May 29, 2009. Of the total proceeds, \$1,888.00 was allocated to the share purchase warrants. A subscriber for 100,000 common shares and 100,000 warrants did not complete the subscription for the amount of \$5,100.00.

d: Stock Option Plan

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

No options were granted during the six months ended January 31, 2009.

# Montello Resources Ltd.

## Notes to the Consolidated Financial Statements

Six Months Ended January 31, 2009

(Unaudited)

Canadian Funds

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The following table summarizes information on the options outstanding at January 31, 2009.

Number of Shares	Exercise Price	Expiry Date
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
<hr/> 16,286,500		

Subsequent to the quarter ended January 31, 2009, all outstanding stock options were surrendered, cancelled or expired.

### e: Share Purchase Warrants

A summary of the status of warrants issued and outstanding at October 31, 2008, including changes made during the six months ended January 31, 2009 is presented below:

Number of Warrants	Exercise Price	Value \$	Expiry Date
9,129,000	\$0.13	\$447,321	December 13, 2008
9,022,383	\$0.30	469,164	October 18, 2008
1,887,720	\$0.10	1,888	May 29, 2009
*(100,000)	\$0.10	(100)	May 29, 2009
<hr/> 19,939,103		<hr/> 918,273	

\* Less subscription not honoured.

## 5. RELATED PARTY TRANSACTIONS

a: During the six months ended January 31, 2009, the Company incurred management fees and consulting fees of \$83,117 (2007: \$61,133) with directors and officers of the Company.

b: During the six months ended January 31, 2009, the Company incurred accounting fees of \$25,149 (2007: \$30,778) with a company of which a former director (who resigned September 8, 2008) is an officer.

c: At January 31, 2009, accounts payable and accrued liabilities include \$90,225 (2007: \$20,320) due to directors and officers of the Company and related companies.