

MONTELLO RESOURCES LTD.

Interim Consolidated Financial Statements

January 31, 2010

(Expressed in Canadian dollars)

(Unaudited)

Responsibility for Financial Statements

The accompanying financial statements for Montello Resources Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company's auditors. Management believes the financial statements are free of material misstatement and present fairly, in all material respects, the financial position of the Company as at January 31, 2010 and July 31, 2009 and the results of its operations and its cash flows for the periods ended January 31, 2010 and 2009.

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

MONTELLO RESOURCES LTD.

Consolidated balance sheets

As at January 31, 2010 and the Year Ended July 31, 2009

(Expressed in Canadian dollars)

	January 31, 2010 \$ (unaudited)	July 31, 2009 \$
Assets		
Current Assets		
Cash and cash equivalents	10,215	297,962
GST receivable	44,231	37,553
Prepaid expenses	24,114	5,101
	78,560	340,616
Restricted cash	30,343	30,343
Oil and gas properties (Note 3)	6,432,631	6,432,631
	6,541,534	6,803,590
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	933,243	903,111
Due to related parties (Note 9)	10,704	29,042
	943,947	932,153
Asset retirement obligations (Note 4)	59,269	47,596
	1,003,216	979,749
Shareholders' Equity		
Share capital (Note 5)	30,712,240	30,712,240
Contributed surplus (Note 6)	4,974,844	4,974,844
Deficit	(30,148,766)	(29,863,243)
	5,538,318	5,823,841
	6,541,534	6,803,590

Nature of operations and continuance of business (Note 1)

Approved on behalf of the Board:

/s/ "Peter Brown"

Peter Brown, Director

/s/ "Dennis Petke"

Dennis Petke, Director

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

MONTELLO RESOURCES LTD.

Interim Consolidated statements of operations, comprehensive loss, and deficit
Six Months Ended January 31
(Expressed in Canadian dollars)
(Unaudited)

	For the Three Months Ended January 31,		For the Six Months Ended January 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue				
Oil and gas sales	-	59,237	6,942	157,599
Royalty expense	(2,511)	(4,912)	(8,045)	(25,904)
	(2,511)	54,325	(1,103)	131,695
Depletion, depreciation and accretion	5,821	21,170	11,673	41,468
Foreign exchange loss (gain)	1,931	(915,625)	(2,526)	(803,823)
General and administrative	124,574	319,387	218,821	499,385
Production costs	11,304	147,291	56,453	241,059
Stock-based compensation	-	-	-	69,846
Write-down of oil and gas properties	-	3,515,546	-	3,515,546
	143,630	3,087,769	284,421	3,563,481
Loss before other income	(146,141)	(3,033,444)	(285,524)	(3,431,786)
Other income				
Interest and other income	-	2,770	-	4,431
	-	2,770	-	4,431
Loss for the period	(146,141)	(3,030,674)	(285,524)	(3,427,355)
Deficit, beginning of period	(30,002,626)	(26,358,026)	(29,863,243)	(25,961,345)
Deficit, end of period	(30,148,767)	(29,388,700)	(30,148,767)	(29,388,700)
Loss per share, basic and diluted	-	(0.02)	-	(0.02)
Weighted average shares outstanding	199,325,406	191,425,406	199,325,406	190,225,430

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

MONTELLO RESOURCES LTD.

Interim Consolidated statements of cash flows
Six Months Ended January 31
(Expressed in Canadian dollars)
(Unaudited)

	2010	2009
	\$	\$
Operating activities		
Net loss for the year	(285,524)	(3,427,355)
Items not affecting cash:		
Depletion, depreciation and accretion	11,673	41,468
Stock-based compensation	–	69,846
Write-down of oil and gas properties	–	3,515,546
Changes in non-cash operating working capital:		
Accounts receivable, GST receivable and prepaid expenses	(25,691)	332,524
Accounts payable and accrued liabilities	30,133	(651,323)
Due to related parties	(18,338)	90,225
	(287,747)	(29,069)
Investing activities		
Additions to oil and gas properties	–	(154,036)
	–	(154,036)
Financing activities		
Issuance of shares, net of issuance costs	–	55,622
	–	55,622
Change in cash and cash equivalents	(287,747)	(127,483)
Cash and cash equivalents, beginning of period	328,305	621,319
Cash and cash equivalents, end of period	40,558	493,836
Cash and cash equivalents consists of:		
Cash	10,215	463,836
Term deposits	30,343	30,000
	40,558	493,836
Supplemental disclosures:		
Interest paid	–	–
Income tax paid	–	–

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

MONTELLO RESOURCES LTD.

Notes to the interim consolidated financial statements
Six Months Ended January 31, 2010
(Expressed in Canadian dollars)
(Unaudited)

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

Montello Resources Ltd. (the "Company") is engaged in the acquisition, exploration and development of oil and natural gas properties in western Canada and Tennessee, USA.

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 carrying values as shown in these consolidated financial statements should the Company be unable to continue as a going concern. As at January 31, 2010, 2010, the Company has incurred cumulative losses of \$30,148,766 and has a working capital deficiency of \$865,388. The Company's ability to meet its obligations and maintain its operations is contingent upon attaining profitable operations, successful completion of additional financing arrangements and the continuing support of its creditors. Management is also aware that significant material uncertainties exist, related to current economic conditions that could cast significant doubt upon the Company's ability to continue to finance its operations. These factors represent a liquidity risk and create doubt as to the ability of the Company to continue as a going concern. The financial statements do not reflect adjustments which may be required should the Company be unable to raise additional funds to continue operations.

2. BASIS OF PRESENTATION

The consolidated financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles. The financial statements include the accounts of the Company and its wholly owned subsidiary, Montello Resources USA Ltd. All inter-company transactions and balances have been eliminated upon consolidation. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position and the results of operations for the interim period presented herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or for any future period. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for the Year Ended July 31, 2009 have been omitted.

3. OIL AND GAS PROPERTIES

	Cost \$	Accumulated depletion \$	Write-down \$	January 31, 2010 Net carrying value \$	July 31, 2009 Net carrying value \$
Canada	7,000,435	2,379,551	2,330,661	2,290,223	2,290,223
United States	4,142,408	—	—	4,142,408	4,142,408
	11,142,843	2,379,551	2,330,661	6,432,631	6,432,631

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Six Months Ended January 31, 2010
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4. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligations were estimated by management based on the Company's net ownership interest in all wells and facilities. This includes all estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. As at January 31, 2010, the Company has estimated the net present value of its total asset retirement obligations to be \$59,269 (July 31, 2008 - \$346,905) based on total estimated cash flows to settle the obligations of \$178,018. These obligations are expected to be settled during the period from 2010 to 2020. The estimated cash flows have been discounted using an average credit-adjusted risk free rate of return of 12.5% and an inflation rate of 2%.

The following table reconciles the asset retirement obligations:

	January 31, 2009 \$	July 31, 2009 \$
Balance, beginning of period	47,596	346,905
Liabilities incurred	-	-
Liabilities disposed through capital dispositions	-	(266,664)
Changes in prior year estimates	-	(69,016)
Accretion	11,673	36,971
Balance, end of period	59,269	47,596

5. SHARE CAPITAL

Common Shares

Authorized: Unlimited number of common shares without par value

Issued and outstanding:

	Number of shares	\$
Balance, July 31, 2008	189,637,686	30,493,662
Issued pursuant to private placements – non flow-through	8,823,088	253,677
Issued pursuant to private placements – flow-through	864,632	40,143
Share issuance costs	-	(13,227)
Fair value of warrants issued pursuant to private placements	-	(49,743)
Reduction from renunciation of flow-through tax benefit	-	(12,272)
Balance, July 31, 2009 and January 31, 2010	199,325,406	30,712,240

6. CONTRIBUTED SURPLUS

	\$
Balance, July 31, 2008	4,925,101
Fair value of warrants issued pursuant to private placements	49,743
Balance, July 31, 2009 and January 31, 2010	4,974,844

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Notes to the interim consolidated financial statements
Six Months Ended January 31, 2010
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7. SHARE PURCHASE WARRANTS

The following table summarizes the continuity of share purchase warrants:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, July 31, 2008	18,151,383	0.22
Issued	9,687,720	0.06
Expired	(19,939,103)	0.21
Balance, July 31, 2009 and January 31, 2010	7,900,000	0.05

As at January 31, 2010, the following share purchase warrants were outstanding:

Number of warrants outstanding	Exercise price \$	Expiry date
7,900,000	0.05	February 25, 2010

8. 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.

The following table summarizes the continuity of the Company's stock options:

	Number of options	Weighted average exercise price \$
Outstanding, July 31, 2008	16,286,500	0.12
Cancelled	(16,286,500)	0.12
Outstanding, July 31, 2009 and January 31, 2010	–	–

9. RELATED PARTY TRANSACTIONS

During the six months ended January 31, 2010 the Company was involved in the following related party transactions:

- Management fees of \$60,000 (2009 – \$31,225) were paid or accrued to the Chief Executive Officer.
- Management fees of \$45,000 (2009 – \$Nil) were paid or accrued to the Chief Executive Officer and the Chief Financial Officer of the Company.
- Management fees of \$1,000 (2008 - \$nil) were paid to a former director of the Company,

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9. RELATED PARTY TRANSACTIONS (Continued)

(d) As at January 31, 2010, the Company owes \$2,907 (July 31, 2009 - \$Nil) to the Chief Executive Officer of the Company which is non-interest bearing, unsecured, and due on demand.

(e) As at January 31, 2010, the Company owes \$7,797 (July 31, 2009 - \$7,750) to the Chief Financial Officer of the Company which is non-interest bearing, unsecured, and due on demand.

These transactions were in the normal course of operations and have been recorded at their exchange amounts, which are the amounts agreed upon by the transacting parties.

10. SUBSEQUENT EVENTS

On March 31, 2010 the Company signed a promissory note for a loan of \$37,500 from Tosca Capital Corp. ("Tosca"), a private Vancouver company that bears interest at 10% per annum beginning November 1, 2010 and with a maturity date of April 30, 2011.

On May 31, 2010 the Company signed a promissory note for a loan of \$50,000 from Tosca Capital Corp., a private Vancouver Company that bears interest at 10% per annum beginning November 1, 2010 and with a maturity date of April 30, 2011.

On July 31, 2010 the Company signed a promissory note for a loan of \$12,500 from Tosca Capital Corp., a private Vancouver Company that bears interest at 10% per annum beginning November 1, 2010 and with a maturity date of April 30, 2011.

On August 22, 2010, Montello entered into a Letter of Intent with Tosca Capital Corp. of Vancouver, British Columbia to sell a 5% working interest in its Pincher Creek Oil and Gas asset for \$250,000. Tosca is the general manager of Pincher Creek Limited Liability Partnership of Vancouver.

On August 6, 2010, the Company received USD\$12,500 from the sale of an un-utilized pump jack on the Morgan High Point #3 property. The pump jack was sold to potential farm-in partners who Montello has been negotiating with on a farm-in agreement. The expectation is that the cost of drilling new wells and the cost of working over certain wells will be paid entirely for by the party farming in.

On September 13, 2010, Montello entered into a settlement agreement with Pennine to resolve all claims against Pennine and Desmond Smith. The settlement and the related releases are subject to court approval.