

MONTELLO RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED APRIL 30, 2009
(Unaudited)

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

Unaudited

Nine months ended April 30, 2009

ASSETS	April 30, 2009 (Unaudited)	July 31, 2008 (Audited)
Current	\$	\$
Cash	59,909	621,319
Accounts receivable, net allowance for doubtful accounts and prepaid expenses	412,934	592,319
	472,843	1,213,638
Property & equipment (Note 4)	5,970,285	9,827,181
	6,443,128	11,040,819
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	857,845	1,315,246
Asset retirement obligation	393,668	268,155
	1,251,513	1,583,401
Shareholders' equity		
Share capital (Note 6)	30,718,223	30,493,662
Contributed surplus (Note 6)	4,008,616	4,008,616
Warrants (Note 6)	916,485	916,485
Deficit	(30,451,709)	(25,961,345)
	5,191,615	9,457,418
	6,443,128	11,040,819

Approved by the directors:

"Arndt Roehlig"

Director – Arndt Roehlig

"Peter Brown"

Director – Peter Brown

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

Montello Resources Ltd.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

Unaudited

Nine months ended April 30, 2009

	For the Three Months Ended April 30,		For the Nine Months Ended April 30,	
	2009	2008	2009	2008
Revenue				
Oil and gas sales	\$ 10,011	\$ 84,060	\$ 167,610	\$ 373,873
Royalty expense	(1,820)	(2,758)	(27,724)	(46,441)
Other income	19,526	4,948	23,957	19,711
	<u>27,717</u>	<u>86,250</u>	<u>163,843</u>	<u>347,143</u>
Expenses				
Production	54,914	24,563	295,973	118,046
General & administration	115,517	135,408	613,648	435,033
Interest	880	-	2,134	-
Depletion, depreciation & accretion	61,651	48,930	103,119	167,392
Stock based compensation	-	-	-	1,708,239
Foreign exchange (gain) loss	(4,433)	1,649	123,787	(106,850)
	<u>228,529</u>	<u>210,550</u>	<u>1,138,661</u>	<u>2,321,860</u>
Loss for the period from operations	200,812	124,300	974,818	1,974,717
Impairment of property	-	-	3,515,546	-
Loss for the period	200,812	124,300	4,490,364	1,974,717
Deficit, beginning of period	30,250,897	23,615,654	25,961,345	21,765,237
Deficit, end of period	\$ 30,451,709	\$ 23,739,954	\$ 30,451,709	\$ 23,739,954

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

Montello Resources Ltd.
Consolidated Statements of Cash Flows
Unaudited
Nine months ended April 30, 2009

	For the Nine Months Ended April 30,	
	2008	2008
Cash provided by (used in)		
Operating activities		
Loss for the period	\$ (4,490,364)	\$ (1,974,717)
Items not affecting cash:		
Depletion, depreciation & accretion	228,73219	167,392
Stock based compensation	-	1,708,239
Asset retirement	3,515,546	
	<u>(746,186)</u>	<u>(99,086)</u>
Changes in non-cash working capital items, net	<u>(278,016)</u>	<u>(943,821)</u>
	<u>(1,024,202)</u>	<u>(1,042,907)</u>
Investing activities		
Additions to property & equipment	-	(5,435,319)
AFE advance	238,231	-
	<u>238,231</u>	<u>(5,435,319)</u>
Financing activities		
Issuance of shares, net of issue costs	224,561	4,675,699
Advances from (to) affiliated company	-	-
	<u>224,561</u>	<u>4,675,699</u>
Increase (decrease) in cash during the period	<u>(561,410)</u>	<u>(1,802,527)</u>
Cash, beginning of period	<u>621,319</u>	<u>3,261,268</u>
Cash, end of period	<u>\$ 59,909</u>	<u>\$ 1,458,741</u>

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

MONTELLO RESOURCES LTD.
Notes to the Consolidated Financial Statements
Unaudited
Nine months ended April 30, 2009

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 Montello Resources Ltd. (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. In 2006 the Company purchased 100% of the issued and outstanding shares of Montello Resources Ltd., which was subsequently dissolved.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a basis consistent with those followed in the most recent audited financial statements. These unaudited interim consolidated financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements. Therefore readers are advised to refer to the Company’s annual audited financial statements for the year ended July 31, 2008 for additional information.

Capital Disclosures

The Company has adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1535, Capital Disclosures effective November 1, 2008. Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Financial Statement Presentation

CICA Handbook Section 1400 General Standards of Financial Statement Presentation: The CICA accounting standards board amended section 1400 to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after April 1, 2008. The adoption of this amendment on August 31, 2008 did not have a significant impact on the Company’s financial result or position.

Recent Accounting Pronouncements

The CICA has issued the following new accounting standards:

In 2006, Canada’s Accounting Standards Board (AcSB) ratified a strategic plan that will result in the convergence of Canadian GAAP, as used by public companies, with International Financial Reporting Standards (“IFRS”) over a transitional period. The AcSB has developed and published a detailed implementation plan, with a changeover date for fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of the changeover from Canadian GAAP to IFRS.

MONTELLO RESOURCES LTD.
Notes to the Consolidated Financial Statements
Unaudited
Nine months ended April 30, 2009

4. PROPERTY AND EQUIPMENT

	2009		2008	
	Cost	Accumulated Amortization and Write-Down	Net Carrying Amount	Net Carrying Amount
Petroleum & natural gas properties				
-Canada	\$ 7,530,924	\$ 5,839,743	\$ 1,691,180	\$ 5,188,848
-United States	4,271,305	-	4,271,305	4,629,691
Office equipment	18,253	10,453	7,800	8,642
	\$ 11,820,481	\$ 5,850,196	\$ 5,970,285	\$ 9,827,181

Due to inactivity the lands will be returned to the T'sui Tina Band in May and will be potentially renegotiated. Due to lack of activity and the potential to lose the lands, Montello has reported an impairment loss of CAD\$3,515,546.

5. RELATED PARTY TRANSACTIONS

- a) During the nine months ended April 30, 2009 the Company incurred management fees of \$97,000 to a former director of the Company.
- b) During the nine months ended April 30, 2009 the Company incurred management fees of \$80,500 to a director and officer of the Company.
- c) During the nine months ended April 30, 2009 the Company incurred management fees of \$60,521 to an officer of the subsidiary of the Company.
- d) During the nine months ended April 30, 2009 the Company incurred management fees of \$54,000 to a former officer of the Company.

All related party transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties.

As of April 30, 2009 accounts payable and accrued liabilities include amounts owing to an officer of the Company in the amount of \$16,800 (2008 - \$Nil). The amounts were unsecured with no specific terms for interest or repayment.

MONTELLO RESOURCES LTD.
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6. SHARE CAPITAL

	April 30, 2009 (Unaudited)	July 31, 2008 (Audited)
(a) Authorized: Unlimited Common shares without par value		
(b) Issued: 199,325,406 Common shares (2008: 189,637,686 shares)	\$ 30,753,732	\$ 30,493,662

(c) Changes in issued common shares during the nine months ended April 30, 2009 and year ended July 31, 2008 are as follows.

	April 30, 2009 (Unaudited)		July 31, 2008 (Audited)	
	Number of Shares	Value	Number of Shares	Value
Beginning of year	189,637,686	\$ 30,493,662	142,363,552	21,130,478
Issued for private placement	9,687,720	260,070	8,202,166	1,049,877
Issued for flow through private placement	-	-	480,000	62,400
Issued for exercise of warrants	-	-	12,928,780	1,625,206
Fair value transfer on exercise of warrants	-	-	-	538,301
Issued for exercise of stock options	-	-	13,999,855	1,617,717
Fair value transfer on exercise of stock options	-	-	-	1,139,262
Share issue costs	-	(35,509)	-	(168,579)
Issued for oil and gas assets (Note 4 (b))	-	-	11,663,333	3,499,000
End of year	199,325,406	30,753,732	189,637,686	\$ 30,493,662

During the year ended July 31, 2008, the Company issued 12,928,780 units of common shares 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.

During the year ended July 31, 2008, 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.

During October, 2008 the Company completed a private placement by issuing 930,000 non-flow through units at \$0.05 per unit and flow through units at \$0.06 per unit. Each unit consists of one common share and one common share purchase warrant that entitles the holder to purchase one common share of the Company at \$0.10 per share on or before May 29, 2009.

During February, 2009 the Company completed a private placement by issuing 7,550,000 non-flow through units at \$0.025 per unit and 350,000 flow through units at \$0.025 per unit. Each unit consists of one common share and one common share purchase warrant that entitles the holder to purchase one common share of the Company at \$0.05 per share on or before February 25, 2010.

MONTELLO RESOURCES LTD.
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6. **SHARE CAPITAL** (Continued)

(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%

	Number of Options	Average Exercise Price
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 and April 30, 2009	16,286,500	\$0.12

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6. **SHARE CAPITAL** (Continued)

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
<u>16,286,500</u>		

(e) Share purchase warrants outstanding

The Company has the following share common share purchase warrants outstanding at April 30, 2009:

Number of Warrants	Exercise Price	Expiry Date
1,787,720	\$0.10	May 29, 2009
7,900,000	\$0.05	February 25, 2010
<u>9,687,720</u>		

7. **SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS**

Significant non-cash transactions during the nine months ended April 30, 2009 and year ended July 31, 2008 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.

8. **SEGMENTED INFORMATION**

The Company operates in one segment. As at July 31, 2008, the Company has resource properties totalling \$4,271,305 (July 31, 2008: \$4,629,691) located in the United States and \$1,691,180 (2007: \$5,188,848) located in Canada. All other assets and operations are in Canada.

9. 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.

10. 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.

11. 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.

12. 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.

MONTELLO RESOURCES LTD.
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12. FINANCIAL RISK FACTORS

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.

(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.

13. COMPARATIVE FIGURES

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

14. SUBSEQUENT EVENTS

Montello has signed a Letter of Intent to sell its operated properties in the Mulligan area, with an Alberta numbered company. Montello will receive the sum of One Hundred and Ten thousand dollars for all its rights and tangibles. The numbered company have placed \$50,000.00 in a escrow account and are completing their due diligence.

Montello has also signed a letter of intent with Texokcan Extreme Partner to sell its non-operated interests in the Mulligan area. Both companies are negotiating the fine points and a sum of \$22,500.00 will be placed in an escrow account until the adjustments have been agreed to.

Montello has also accepted an offer of US\$248,000.00 for its surface rights in the John Bowen lands. Montello will keep the mineral rights, the 2 boreholes, the access road and a four acre tract surrounding the well bores. Currently the land is being resurveyed and closing is anticipated in the month of July.