

Montello Resources Ltd.

Financial Statements

For the Nine Months Ended April 30, 2008

(Unaudited)

Montello Resources Ltd.

Consolidated Balance Sheets

(Unaudited)

Canadian Funds

	ASSETS		
	<u>April 30, 2008</u>	<u>July 31, 2007</u>	
Current			
Cash	\$ 1,458,741	\$ 3,261,268	
Marketable securities	-	18,617	
Accounts receivable and prepaid expenses	<u>282,119</u>	<u>344,248</u>	
	<u>1,740,860</u>	<u>3,624,133</u>	
Property & equipment (Note 3)	<u>9,390,554</u>	<u>578,839</u>	
	<u>\$ 11,131,414</u>	<u>\$ 4,202,972</u>	
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 1,396,167	\$ 2,420,734	
Asset retirement obligation	<u>264,517</u>	<u>219,729</u>	
	<u>1,660,684</u>	<u>2,640,463</u>	
Shareholders' equity			
Share capital (Note 4)	30,722,218	21,130,478	
Contributed surplus	1,799,415	1,107,230	
Warrants (Note 4e)	689,051	1,090,038	
Deficit	<u>(23,739,954)</u>	<u>(21,765,237)</u>	
	<u>9,470,730</u>	<u>1,562,509</u>	
	<u>\$ 11,131,414</u>	<u>\$ 4,202,972</u>	

Approved by the directors:

"William R. Cawker"

Director – William R. Cawker

"Joseph Dow"

Director – Joseph Dow

See accompanying notes.

Montello Resources Ltd.

Consolidated Statements of Operations and Deficit

For the Nine Months Ended April 30, 2008

(Unaudited)

Canadian Funds

	For the Three Months Ended April 30,		For the Nine Months Ended April 30,	
	2008	2007	2008	2007
Revenue				
Oil and gas sales	\$ 84,060	\$ 130,925	\$ 373,873	\$ 457,836
Royalty expense	(2,758)	(14,931)	(46,441)	(48,570)
Interest income	4,948	9,758	19,711	16,122
	86,250	125,752	347,143	425,388
Expenses				
Production	24,563	136,786	118,046	276,565
General & administration	135,408	579,498	435,033	934,803
Interest	-	-	-	40,000
Depletion, depreciation & accretion	48,930	240,212	167,392	628,022
Stock based compensation	-	117,301	1,708,239	648,617
Foreign exchange (gain) loss	1,649	90,817	(106,850)	85,371
	210,550	1,164,614	2,321,860	2,613,378
Loss for the period from operations	124,300	1,038,862	1,974,717	2,187,990
Recovery of P&NG costs	-	455,282	-	455,282
Loss for the period	124,300	583,580	1,974,717	1,732,708
Deficit, beginning of period	23,615,654	19,575,802	21,765,237	18,426,674
Deficit, end of period	\$ 23,739,954	\$ 20,159,382	\$ 23,739,954	\$ 20,159,382

See accompanying notes.

Montello Resources Ltd.
Consolidated Statements of Cash Flows
For the Nine Months Ended April 30, 2008
(Unaudited)
Canadian Funds

	For the Three Months Ended April 30,		For the Nine Months Ended April 30,	
	2008	2007	2008	2007
Cash provided by (used in)				
Operating activities				
Loss for the period	\$ (124,300)	\$ (583,580)	\$ (1,974,717)	\$ (1,732,708)
Items not affecting cash:				
Depletion, depreciation & accretion	48,930	240,212	167,392	628,022
Stock based compensation	-	117,301	1,708,239	648,617
	(75,370)	(226,067)	(99,086)	(456,069)
Changes in non-cash working capital items, net	1,008,691	466,701	(943,821)	1,385,571
	933,321	240,634	(1,042,907)	929,502
Investing activities				
Additions to property & equipment	(411,880)	(459,944)	(5,435,319)	(541,071)
Recovery of P&NG costs	-	455,282	-	455,282
	(411,880)	(4,662)	(5,435,319)	(85,789)
Financing activities				
Issuance of shares, net of issue costs	241,834	(6,353)	4,675,699	3,282,368
Advances from (to) affiliated company	-	-	-	(272,696)
	241,834	(6,353)	4,675,699	3,009,672
Increase (decrease) in cash during the period	(763,275)	229,619	(1,802,527)	3,853,385
Cash, beginning of period	695,466	3,724,289	3,261,268	100,523
Cash, end of period	\$ 1,458,741	\$ 3,953,908	\$ 1,458,741	\$ 3,953,908

See accompanying notes.

Montello Resources Ltd.

Notes to the Consolidated Financial Statements

April 30, 2008

(Unaudited)

Canadian Funds

1. BASIS OF PRESENTATION

These unaudited interim 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, 2007 financial statements. Accordingly these unaudited interim statements should be read in conjunction with the notes contained in the Company's audited July 31, 2007 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.

3. PROPERTY & EQUIPMENT

	April 30, 2008			July 31, 2007
	Cost	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Petroleum & natural gas properties				
-Canada	\$ 7,356,466	\$ 2,341,760	\$ 5,014,705	\$ 457,639
-United States	4,366,752	-	4,366,752	110,560
Office equipment	18,253	9,156	9,097	10,640
	<u>\$ 9,390,554</u>	<u>\$ 2,350,916</u>	<u>\$ 9,390,554</u>	<u>\$ 578,839</u>

Montello Resources Ltd.
Notes to the Consolidated Financial Statements
April 30, 2008
(Unaudited)
Canadian Funds

4. SHARE CAPITAL

a. Authorized:
Unlimited Common shares without
par value

b. Issued:

	<u>Number of shares</u>	<u>Value</u>
Balance as at July 31, 2007	142,363,552	\$ 21,130,478
Issued for cash, net of fair value of warrants	8,202,166	1,268,887
Issued for cash pursuant to flow thru private placement	480,000	62,400
Issued for oil & gas assets	11,663,333	3,499,000
Issued for cash on exercise of warrants	12,828,780	1,625,206
Issued for cash on exercise of stock options	14,224,855	1,635,217
Fair value transfer on exercise of stock options	-	1,104,300
Fair value transfer on exercise of warrants	-	538,301
Share issue costs	-	(141,571)
Balance as at January 31, 2008	<u>189,762,686</u>	<u>\$ 30,722,218</u>

Montello Resources Ltd.

Notes to the Consolidated Financial Statements

April 30, 2008

(Unaudited)

Canadian Funds

- c. Share capital transactions during the six months ended April 30, 2008:
- i. In October 2007 the Company completed a private placement of 8,202,166 units @ \$0.18 per unit for gross proceeds of \$1,476,390. The units consist of one common share and one share purchase warrant exercisable into one common share @ \$0.30. \$138,726 of issue costs were incurred including 820,217 broker warrants exercisable into one common share @ \$0.30.
 - ii. During the nine months ended April 30, 2008 the company issued 12,828,780 common shares on exercise of share purchase warrants ranging from \$0.11 to \$0.20 per share for total cash proceeds of \$1,625,206.
 - iii. During the six months ended January 31, 2008 the company issued 14,224,855 common shares on exercise of stock options at various prices ranging from \$0.10 to \$0.155 for total cash proceeds of \$1,635,217. The fair value assigned to these exercised options of \$1,104,300 has been transferred to share capital from contributed surplus.
 - iv. In the second quarter, 480,000 shares were issued for cash at \$0.13 per share pursuant to a flow thru subscription agreement.
 - v. Also in the second quarter, 11,663,333 shares were issued at a deemed value of \$0.30 per share in exchange for certain oil & gas assets in Alberta, Canada.
- d. Stock option plan

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.

A summary of the status of the stock option plan as of April 30, 2008 and changes during the period then ended is presented below:

	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
Granted	2,900,000	\$0.14
Granted	3,529,868	\$0.155
Granted	9,900,000	\$0.21
Balance, January 31, 2008	<u>15,341,368</u>	<u>\$0.19</u>

Montello Resources Ltd.

Notes to the Consolidated Financial Statements

April 30, 2008

(Unaudited)

Canadian Funds

d. options continued

The following table summarizes information about options outstanding at April 30, 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
2,600,000	\$0.14	September 6, 2012
2,679,868	\$0.155	October 2, 2012
9,900,000	\$0.21	October 30, 2012
<u>15,341,368</u>		

The Company has recorded stock-based compensation expense of \$ **1,708,239** for the nine months ended April 30, 2008. The compensation expense is determined based on the fair value of the options at the grant date. The fair value of each option granted is estimated on the date of granting the options using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	<u>April 30, 2008</u>
Risk free rate	6.0%
Expected volatility	56.0%
Annual dividend yield	0.0%
Expected life of options	5 years

Montello Resources Ltd.

Notes to the Consolidated Financial Statements

April 30, 2008

(Unaudited)

Canadian Funds

e. Warrants

A summary of the status of warrants issued and outstanding at April 30, 2008 and changes during the period then ended, is presented below:

	<u>Number of Warrants</u>	<u>Average Exercise Price</u>	<u>Expiry Date</u>
Balance, July 31, 2007	30,921,658	\$0.11-\$0.20	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
Balance, April 30, 2008	<u>18,481,383</u>	<u>\$0.21</u>	

The Company has the following share common share purchase warrants outstanding at April 30, 2008:

<u>Number of Warrants</u>	<u>Exercise Price</u>	<u>Value \$</u>	<u>Expiry Date</u>
9,459,000	\$0.13	463,491	December 13, 2008
<u>9,022,383</u>	<u>\$0.30</u>	<u>225,560</u>	<u>October 18, 2008</u>
<u>18,481,383</u>		<u>689,051</u>	

Montello Resources Ltd.

Management Discussion and Analysis

**THIRD QUARTER ENDED
APRIL 30, 2008**

Date Submitted: JUNE 30, 2008

Montello Resources Ltd.
Management Discussion and Analysis
For the Second Quarter Ended April 30, 2008

OVERALL PERFORMANCE

General

The Company is a junior natural resource company engaged in the acquisition, exploration and development of natural resource (oil and gas) properties. 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 hired a new management team and appointed a new Board of Directors. It was the objective of the new board to evaluate all of Montello's investments, and to develop, abandon, and/or acquire investments to maximize returns by the Company and to improve its working capital position. This Management Discussion and Analysis ("MD&A") of Montello Resources Limited (the "Company") provides analysis of the Company's financial results for the first quarter ended April 30, 2008. It should be read with the unaudited financial statements ended January 31, 2007 and related notes attached thereto. The Company is incorporated in the Province of Alberta (extra-provincially registered in the Province of British Columbia).

Non- Gap Measures

All financial information in this MD&A is prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), as an indicator of the Company's performance. All financial information is presented in Canadian dollars unless otherwise indicated.

Production Information Definition

Production information is commonly reported in units of barrel of oil equivalent ("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 boes may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Forward-Looking Statements

Certain 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 known and unknown risks and uncertainties. These risks and uncertainties, many of which are beyond Montello's control, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, and competition from other Producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. 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 included in this discussion 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, 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 continues to position itself into potential high impact drilling opportunities at Highpoint and no less importantly, in Alberta, Canada. Montello's growth strategy via the drill bit is to seek farm in projects preferably as a non operator in shallow plays, re-completions, etc. back home in Alberta, with future potential revenues directed south to US operations. We are open however, to exploring Merger and/or Acquisition (M&A) opportunities as primary interest solely in the Tennessee Highpoint Play tends to overshadow potential developing opportunities in Alberta.

Canadian Phoenix Resources Corp. of Calgary, currently the operator of the Sarcee Project, held a partners meeting in early February, 2008 to discuss various possibilities of recompleting the original borehole and isolating previous formation damage for the suspended 10,957 foot 12-13-23-4 W5M cased potential Rundle Gas Well ("12-13 Well"). One of the alternatives is to cut a window in the casing and drill a new section of clean hole.

Montello and the rest of the Working Interest Group have reviewed the 3D Seismic and are awaiting an update of the emergency response plan (ERP) as well as a report regarding any further information on acid leakage from the first stimulation effort within the already discovered gas column. Montello subsequently in May and June, has met and discussed with at least two other WI Partner's regarding submission of an independent operatorship notice to take over the project as it was expected that operations would commence after spring break-up. This has not happened.

Montello's current share of this operation is 8.5% and as yet the Company has not received an AFE from Canadian Phoenix. The initial potential capital outlay estimated at Sarcee was under 300,000 dollars.

On March 4, 2008, Montello spud the Morgan Highpoint #3 Test Well. On March 5, 2008 the Company announced funding was in place to cover costs for the John Bowen #2, and drilling of the Morgan Highpoint #3 and #4 Test Wells. The outstanding monies included USD \$800,000 owed by a JV Partner to cover off contract service providers. On March 10, 2008 after encountering hydrocarbons below the intermediate casing in the Morgan Highpoint #3 Test Well, it was secured and operations suspended as a precautionary measure. The drilling rig was released and moved to the Morgan Highpoint #4 Test Well location.

The participating interests in the Morgan Highpoint # 3, # 4, and #5 Test Wells were announced as Montello the Operator, paying 15% of all costs associated with both the Morgan Highpoint # 3 and # 4 Test Wells to earn a 35% interest in the associated production spacing units. Austin Developments Corp. paying 20% of the costs to earn a 30% interest, Blackrock Petroleum Corp. now called Nexgen Petroleum Corp., paying 60% of the costs to earn a 30% interest and Park Place Energy Corp. paying 5% of the costs to earn a 5% interest.

On March 19, 2008, the initial drilling of the Morgan Highpoint #4 Test Well was completed and the drill rig, as well as Strata and Weatherford's under balanced drilling equipment, was moved over to the Highpoint #3 Test Well where a barefoot completion was conducted.

On March 27, 2008 Montello announced putting the Morgan Highpoint # 3 "Discovery" Well on production and that it had encountered hydrocarbons in the Highpoint # 4 Test" Well. In excess of 250 barrels of 42 Degree API oil flowed to surface during an eight-hour production test on the #3 well. These initial results led to the decision to place it on production. Initial cumulative flush production was approximately 720 barrels from a fractured reservoir.

On April 15, 2008, Montello announced commencement of drilling on the Morgan Highpoint #5. The much-anticipated logging evaluation process of the John Bowen #2 and #1 Wells were able to be done with the concurrent logging of the Morgan Highpoint #3, #4 and #5 Test Wells. The Open Hole Logs for the Morgan Highpoint #3, #4, #5 Wells were conducted by Weatherford Services. Schlumberger ran cased hole logs on the John Bowen #1 and #2 Wells. Cumulative review of all the logs led to the planning of the current projected exploration-stimulation-completion program to be undertaken this summer.

Montello on behalf of the JV Partnership, requested from State of Tennessee Oil and Gas Officials to put the wells on tight-hole status while it finalizes remaining logistics for the upcoming stimulation-exploration- completion programs scheduled for the Morgan Highpoint #3, #4, #5 Wells, which should determine their commercial viability. Montello recently also successfully renewed key insurance policies for Control of Well, Surface Property, Commercial General Liability, as well as D&O Liability Coverage in preparation for this next key stage of work at Highpoint.

On April 15, 2008, as a follow up to the news release of March 5, 2008, Montello cancelled a planned acquisition of various shallow oil and gas assets and leases in Central and Northwestern Alberta from a private Alberta Oil and Gas Company. The acquisition had been negotiated on a 100% equity basis at a deemed value of \$0.13 per share and was subject to third party engineering valuation and TSX Venture Exchange Approval.

On March 31, 2008, Montello provided an update on Grouard NW Alberta regarding the successful drilling of the 10-3 and 1-15 wells which were tested with estimated production of 25 to 35 boepd per well. They are still presently behind pipe as part of a gathering system proposed to be tied into a close-by Alberta Co-Op Facility. Montello did not move forward on a proposal from the operator Northern Sun Exploration for a 30% to 35% interest and was recently turned down on an offer for 100% ownership. Montello hopes to engage in further discussions. Offset wells in the area have produced 1 to 1.5 bcf. There is a planned infrastructure project that can create third party water disposal revenue and substantially reduce operating costs for other existing stranded gas wells. There are also up to six potential follow up exploration and development wells that have been identified here by the operator. Grouard represents a lower risk play given the multi-zone oil and gas potential. A new royalty framework will not affect the economics given that we will be able to produce the wells longer at a marginal less productive rate thus avoid any increased royalty rate.

Subsequent to April quarter ended in May, 2008, Pennine Petroleum Corporation called a partners meeting to update the Joint Venture group on its recent activities and the timing of production from this significant discovery. Montello was informed that negotiations between Pennine and the land owners vis a vis a pipeline agreement and the ability to build a pipeline had reached an impasse and that Pennine had gone to the surface rights board and the ERCB for a ruling. To this date Montello is not aware of the results of this ruling. It was however agreed at

the operations meeting that the lower Brown Sand zone, in the 1-11-4-29W4 well, a zone that is believed to be 100% condensate should be brought on to production while negotiations for the pipeline continue. Montello will be approaching the operator Pennine Petroleum Corporation in the first week in July for a detailed update on their program and if not satisfied will consider various options including contesting operatorship of this well.

PROPERTY EXPLORATION PLANS AND WORK PROGRAMS STATUS

The Company plans to continue exploration work on its currently held resource properties, subject to availability and timing of financing. For properties in which the Company is the operator, results of exploration programs, including technical disclosure are prepared by or under the supervision of a qualified person. For properties in which the Company is not the operator, results of exploration programs are provided to the Company by the project operator.

OIL AND GAS PROPERTIES

Highpoint Joint Venture Project, Morgan County, Tennessee

In 2006, Montello entered into a Farm-out Agreement with Austin Developments Ltd. whereby Austin advanced US\$2,400,000 towards the drilling and completion the John Bowen #2 Test Well to earn an undivided Net 40% Working Interest. Prior to the August 15, 2007 spudding of the John Bowen #2 Well, Montello brought in an additional partner, now Park Place Energy, for a net 5% interest. Montello and its JV Partners have subsequently expanded the Highpoint Project lands to 1500 acres. On November 14, 2007, Montello announced drilling to T.D. of 9,580 feet, commencement of conditioning of the hole, and contracting of Halliburton for logging. On November 21, 2007 the well was announced as cased to 9,557 feet and on December 17, 2007 the JV Partnership announced that due to logistical and technical issues, testing and evaluation would be deferred to the New Year. Unanticipated funding delays from one of our JV Partners delayed operations until March 4, 2008 when a multi well drilling program commenced on the vertical wellbores of the Morgan Highpoint #3, #4, and #5 Wells and open hole logging being completed on them by Weatherford with cased hole logging of the John Bowen #2 and #1 wells all being completed by Schlumberger before the end of April, 2008. Subsequent production testing on the Morgan Highpoint #3 Well identified various issues led to a request to State of Tennessee Oil and Gas Authorities for tight hole status so that the JV partners could plan for further exploration-stimulation-completion work this summer. Funding, paperwork, equipment and services logistics are being worked on at the time of writing.

Sarcee, Alberta

Canadian Phoenix Resources Corp. of Calgary, current operator of the Sarcee Project held a partners meeting in February, 2008, to discuss recompleting the original borehole and isolating some formation damage in the suspended 10,957 foot 12-13-23-4 W5M cased potential Rundle Gas Well ("12-13 Well"). The plan has been to cut a window in the casing and drill a new section of clean hole. Montello's operations and geological personnel subsequently reviewed 3D Seismic whereby the operator and JV Partners felt that such a new hole should be drilled along the strike of the structure keeping within the already discovered gas column. Montello and the rest of the Working Interest (WI) Group have been waiting for an update of the emergency response plan (ERP) as well as any further information re acid leakage from the stimulation effort by the previous operator. Montello subsequent to quarter end April 30, 2008 has either formally met with or discussed with at least two other WI Partner's, about the submission of an independent operators notice to take over the project as it was expected that operations would

commence after spring break-up. This has not happened. Montello's current share of this operation is 8.5% and as yet the Company has not received an AFE from Canadian Phoenix. The initial potential capital outlay estimated for the Sarcee Project was under 300,000 dollars.

Montello under a previous farm-out agreement owned an 2.50 percent working interest in 2,560 acres on four sections of land. These lands contain one well and one identified drilling location. Montello increased its holding from 2.5 % to an undivided 8.5% by concluding an agreement with Vanguard Exploration Corp. on November 1, 2007. The sale lands include from the base of the Mannville Formation to basement underlying Sections 12, 13, 14 and 23 in Twp. 23 Rge. 4 W5M (2,560 acres), located on the T'suu Tina Reserve approximately 15 miles west of Calgary Alberta. Included in the acquisition was Vanguard's 6% interest in the suspended 10,957 foot 12-13-23-4 W5M cased potential Rundle Gas Well ("12-13 Well) for \$3,499,000 and paid in full by Montello issuing 11,663,333 common shares to Vanguard, valued at \$0.30 per share, from treasury, subject to a 4 month hold period. This transaction received follow up approval by the applicable regulatory authorities.

Pincher Creek Project, SW Alberta

In May of 2008, Pennine Petroleum Corporation called a partners meeting to update the Joint Venture group on its recent activities and the timing of production from this significant discovery. Montello was informed that negotiations between Pennine and the land owners vis a vis a pipeline agreement, and the ability to build a pipeline had reached an impasse and that Pennine had gone to the surface rights board and the ERCB for a ruling. To this date Montello is not aware of the results of this ruling. It was however agreed at the operations meeting that the lower Brown Sand zone, in the 1-11-4-29W4 well, a zone that is believed to be 100% condensate should be brought on to production while negotiations for the pipeline continue.

Montello will be approaching the operator Pennine Petroleum Corporation in the first week in July for a detailed update on their program and if not satisfied will talk to the other partners about a change of operatorship.

The goal has been to tie into Buffalo-Choice Petroleum's gas line as soon as right of way agreements were completed and surface access granted by local land owners. Negotiations unfortunately however reached an unexpected impasse with land owners. At one point, negotiations were thought to be at an advanced stage.

Back in January, 2008, the operator held a partners meeting to discuss the status of the pumping system. As Montello understands it, the down-hole pump seized possibly due to an influx of frac sand. Pennine as we understand, achieved the necessary stable flow, before the pump seized, with over 200+ bbls of condensate a day from just the Cadomin including gas. The 1-11 well was then shut in pending the construction of a pipeline.

Montello has a 25% working interest in the discovery well 1-11, that is capable of producing high grade condensate from 2 zones with associated gas. Montello being pleased with the results, exercised its option to participate in the drilling of a deep well, the 6-12, just 500 yards to the east of this discovery. This well is anticipated to encounter the same two zones discovered in the 1-11 well, but structurally up dip. The original plan has been to test the deeper Rundle formation offsetting some of the original discovery wells in the Pincher Creek Gas Field but in an anticipated zone of virgin pressure. The operator subsequently applied for the license for this well but given delays on the pipeline right of way, Montello now anticipates it to be spud well after the current target month of August, 2008. Montello can presently earn an estimated undiluted working interest of 20 % in the 6-12-4-29W4 well besides in a follow up well for its participation.

By way of background, Montello entered into a farm-in agreement to participate in the Mannville Re-Completion of the Pennine et al Pinch Ck 1-11-4-29W4M well at Pincher Creek, southwestern Alberta. By farming into the PN&G rights held by Pennine Petroleum Corporation, Montello also forwarded a fee to Pennine thus earning the right to exercise an option for the right to earn a further 25% of all of Pennine's interests at Pincher Creek. Montello is participating as to a minimum of 25% Gross interest in the Pennine Pinch Ck 100/ 01-11-004-29W4M well. The recompletion of the well was initiated on August 30, 2007 and was recompleted in the Brown and Cadomin sands with initial swabbing rates of up to 337 barrels of condensate and 500 Mcf per day natural gas. The success of this well has resulted in enhanced prospectivity in these zones throughout the joint venture partnership's petroleum and natural gas rights in the area

The Pincher Creek Field 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 to date has produced some 600 BCF of gas and 1 million plus barrels of associated liquids from the Mississippian-age carbonates of the Turner Valley (Rundle) formation.

Grouard Joint Venture, Alberta

On December 4, 2007, Montello farmed in on two successful exploration test wells, the 10-3 and 1-15, in the Grouard area of NW Alberta, approximately 325 kms northwest of Edmonton. The Company paid 50% of all costs to earn a 35% working interest in the wells which had multi-zone targets with total depths of approximately 850 meters. The wells were tested and both deemed successful with estimated production of 25 to 35 boed per well with Montello holding 35% of each well. The wells are behind pipe, part of a gathering system proposed to be tied in preferably to a close-by Alberta Co-Op Facility. Montello did not move forward on a proposal from present Operator Northern Sun Exploration for a 30% to 35% interest and was recently turned down on an offer for 100% ownership. Montello hopes to engage in further discussions. Offset wells in the area have produced 1 to 1.5 bcf. A planned infrastructure project will also create third party water disposal revenue and substantially reduce operating costs for the existing stranded gas wells and at least the six follow up exploration and development wells have been identified.

Montello farmed in on these two wells pursuant to a November, 2007, farm-in agreement which gives Montello the right to participate in other contingent offset wells. Both the 10-3 and 1-15 test wells were successful multi-zone targets into the Debolt Formation. On December 6, 2007, the two multi-zone gas wells were drilled and the logs for the wells were reviewed. The 1-15 gas well subsequently tested at 4.4 decs per day of gas (26 boe / day) un-stimulated and given that the pipeline infrastructure and facility are not yet 100% complete, the 1-15 was only tested out of one zone and one set of perforations, but it does show gas production that would warrant a tie in. The 10-3 well was tested as a gas/oil well and it is producing minor amounts of gas and oil from the first zone perforated. There are other zones of interest (by-pass pay) that look good on logs in both the 10-3 and 1-15 wells that are not yet evaluated with the game-plan being to further test them after the initial zones deplete.

Grouard represents a lower risk play given the multi-zone oil and gas potential. A new royalty framework will not affect the economics given that we will be able to produce the wells longer at a marginal less productive rate thus avoid any increased royalty rate.

Mulligan (Peace River Arch), Alberta

The Company owns various working interests in 6,720 acres of land in the Mulligan area in Northern Alberta. This asset contains four producing oil wells, one producing gas well, four shut-in gas wells; one shut-in oil well and two identified drilling locations with water-flood possibilities and voidage replacement enhancement opportunities.. The Company continues to work on enhancing the Mulligan properties and is starting to demonstrate potential upside from “water flood / voidage replacement” with pressure maintenance techniques to increase production in the Charlie Lake Oil Zone in Section -81-8 W6M. With summer 2007 approval of a water-flood enhancement scheme by the “AEUB” (Alberta Energy & Utility Board) in place, re-work of the injection well 6-23-81-8W6M well was completed to try and enhance oil production in the Charlie Lake Oil Formation at Mulligan was commenced. Up to two potential re-completions and two new drilling locations have been reviewed to develop the proved non-producing and probable reserves provided successful negotiation with Joint Venture Partners. Economics have been poor on our smaller interest properties due to overhead, so we are looking to relinquish operatorship on them to better focus on our larger opportunities in Township 82-8-W6 at Mulligan

Stock Options Granted

During the quarter ended April 30, 2008, the Company granted the following options: March 5, 2008, 1 million options at \$0.10 expiring March 4, 2013 to consultants and on May 28, 2008, 2.6 million options at \$0.10 expiring May 27, 2013 to a director.

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

	2007	2006	2005
Revenues	\$ 397,162	\$ 363,351	\$ -
Operation costs and royalties	236,859	49,854	-
Amortization & depletion	1,872,500	1,284,799	-
General and Administrative Expenses	1,829,900	1,440,072	948,817
Net Income (Loss)	(3,542,097)	(2,411,374)	(942,756)
Loss per share	(.03)	(0.02)	(0.01)
Total Assets	4,202,972	2,777,523	1,631,562
Long Term Liabilities	219,729	496,825	1,279,407

Summary of Quarterly Results

	2008 April 30	2008 Jan. 31	2007 Oct. 31	2007 July 31
Total Revenues	89,008	102,904	193,349	34
Loss from operations	124,300	20,966	1,829,451	1,808
Loss per share	nil	nil	\$(0.10)	(.01)

	2007 April 30	2007 Jan. 31	2006 Oct. 31	2006 July 31
Total Revenues	131	24,611	274,818	237
Loss from operations	584	456,557	692,510	1,467
Loss per share	nil	nil	nil	(.02)

RESULTS OF OPERATIONS

The Company **lost** \$ 124,300 on revenues of \$ 89,008 in the quarter ending April 30, 2008. The Company has a total loss of \$ 1,974,717 for the fiscal year to date. Operating expense on producing oil & gas properties were \$118,046 for the nine months. General and administrative expense has been cut in half for the first three quarters of this fiscal year at \$435,033 (2007 - \$ 934,803). For the nine months ended April 30, 2008 investment activities in resource property expenditures were \$ 5,435,319 including properties purchased for shares valued at \$3,499,000 (\$2007 - \$ 541,071).

LIQUIDITY AND SOLVENCY

The nine months ended April 30, 2008 the Company recorded a net loss of \$ 1,974,717 (2007 - \$ 1,732,708) but improved its quarterly loss for the three months ended April 30, 2008 to \$124,300 (2007- \$583,580). The Company had a working capital surplus of \$80,176 as compared to \$983,670 July 31, 2007.

FINANCING ACTIVITIES

During the quarter ended April 30, 2008, the Company issued 1,275,000 common shares for the exercises of options with proceeds \$191,250; the Company issued 411,000 common shares for the exercise of warrants with proceeds of \$53,430.

Since incorporation Montello's capital resources have been limited. In addition to having to rely upon cash generated from operations, the Company has had to rely upon the sale of equity for cash required for administration, acquisition(s) and exploration program(s). It is unlikely that significant cash would be generated from operations if management didn't continue to pursue significant drilling projects with the potential for revenue. The Company intends to strongly pursue its goals of engaging in the acquisition, exploration and development of oil and gas properties on both sides of the Canadian and US border. While there can be no assurance that financing, whether debt or equity, will always be available in the amount(s) required at any particular time or for any particular period or, if available, that it can be obtained on satisfactory terms. The Company is currently interested in looking at agreements to acquire interests in additional projects or Oil and Gas Properties.

The availability of equity capital to junior resource companies is affected by commodity prices, global economic conditions, and economic conditions and government policies in the countries of operation, among other things. These conditions are beyond the control of the management of the Company and have a direct effect on the Company's ability to raise equity capital. The

Company's working capital and liquidity fluctuate in proportion to ongoing project commitments or debt - equity financing activities. The Company requires a certain amount of liquid capital in order to sustain its operations and in order to meet various obligations as specified under the Company's resource property acquisition agreements. Should the Company fail to obtain future equity financing due to reasons as described above, it will not be able to meet these obligations and may lose its interests in properties covered by an agreement. Further, should the Company be unable to obtain sufficient equity financing for working capital, it may be unable to take on or meet ongoing operational commitments.

Exploration and development of natural resources involve substantial expenditures and a high degree of risk. Few properties which are explored are ultimately developed into producing properties. Accordingly, the Company has no material revenue, writes off its natural resource properties from time to time, and operates at a loss.

DIVIDEND RECORD AND POLICY

The Company has not declared any dividends since incorporation and does not intend to declare dividends in the foreseeable future. As the Company generates earnings, it expects that they will be retained to finance future growth.

CAPITAL RESOURCES

The Company is presently entering contractual obligations and commitments in conjunction with its Joint Venture Partners for material expenditures at Morgan Highpoint in Tennessee.

OFF-BALANCE SHEET ARRANGEMENT

The Company does not have any off-balance sheet arrangements.

RELATED PARTY TRANSACTIONS

During the nine months ended April 30, 2008, the Company incurred management fees of \$75,000 with a company owned by a director and officer, accounting fees of \$29,705 with a director; \$32,275 with a company owned by a director, for providing corporate liaison consulting services. The Company incurred administration fees of \$17,500 with a company owned by an officer.

CRITICAL ACCOUNTING ESTIMATES

Not applicable to venture issuers.

CHANGES IN ACCOUNTING POLICIES

The Company has not changed any of its accounting policies.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

It is management's opinion that the fair value of the Company's cash and cash equivalents, reclamation deposit, marketable securities, accounts receivable, accounts payable and accrued liabilities, and advances approximate their carrying value due to the relatively short periods to the maturity of the instruments.

The maximum credit risks exposure for all financial assets is the carrying value of those assets. None of the Company's financial instruments are denominated in U.S. dollars, and the Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

SUBSEQUENT EVENTS

Subsequent to the quarter ended April 30, 2008, the Company granted the following options: June 2, 2008, 4,275,000 options at \$0.10 expiring June 1, 2013 to directors, consultants and employees and on June 9, 2008, 3.5 million options at \$0.10 to directors, consultants and employees expiring on June 8, 2013.

In May, 2008, Pennine Petroleum Corporation called a partners meeting to update the Joint Venture group on its recent activities and the timing of production from this significant discovery. Montello was informed that negotiations between Pennine and the land owners vis a vis a pipeline agreement and the ability to build a pipeline had reached an impasse and that Pennine had gone to the surface rights board and the ERCB for a ruling. To this date Montello is not aware of the results of this ruling. It was however agreed at the operations meeting that the lower Brown Sand zone, in the 1-11-4-29W4 well, a zone that is believed to be 100% condensate should be brought on to production while negotiations for the pipeline continue. Montello will be approaching the operator Pennine Petroleum Corporation in the first week in July for a detailed update on their program and if not satisfied will consider various options.

On May 6, 2008, Montello as Operator of the Morgan Highpoint Project announced that the analysis and interpretation work was completed with respect to the cased hole logs recently run by Schlumberger on the John Bowen # 1 and #2 Wells. The John Bowen # 2 logs indicate that there is a potential gas zone at 8,275 feet in the Rome formation that has approximately 17 feet of interpreted net pay.

This potential gas zone has never been produced in the State of Tennessee as no wells have been cased for production to this depth in Tennessee prior to Montello et al drilling the John Bowen #2 Well. The logs on the John Bowen #2 Well confirm the presence of gas which is consistent with what was seen in samples as well as what was recorded on the gas detector at the 8,275 foot level when the well was drilling. Although it is premature to say what kind of reserves there may be attributable to the John Bowen #2 Well or what production rates may be achieved, we are anticipating that there may be significant pressures and flow rates encountered based upon how deep the zone is.

Montello continues to prepare a completion program subject to partner approval that includes perforating the potential gas bearing zone of interest and then stimulating it, depending on the flow rates that are achieved. Preliminary discussions have been held with field personnel with respect to delivering gas from the John Bowen #2 Well into Spectra's East Tennessee pipeline system that is located approximately 1 mile away from the John Bowen #2 Well. Montello has been informed that there is significant excess capacity available and that the pipeline is part of the main gas transmission system that runs across the United States.

Montello views this potential gas discovery as the opening up of another play fairway for the Company and its partners in Tennessee which would complement the recently announced oil discovery in the Morgan Highpoint #3 Well. Completion work on the oil zone identified on the logs in the John Bowen #2 Well, which is the same zone encountered at the Morgan Highpoint #3 Discovery Well, will be addressed after the completion work is conducted on the deep potential gas bearing zone at 8,275 feet. In addition, now that the cased hole logs run by Schlumberger on the John Bowen #1 Well have been analyzed and interpreted, the JV Partnership is reviewing potential re-completion options in the fractured interval that was identified and never previously perforated.

Prior to Montello having Schlumberger run the cased hole logs on this well, there were no modern logs available to analyze as to how best to re-complete the well. Based on the interpretation of the logs that Montello now has on both of the John Bowen Wells and the Morgan Highpoint #3, #4 and #5 Wells, it is "believed" that the John Bowen #1 and the other wells are in close proximity to a high pressure fracture regime. The Partnership is therefore reviewing directional drilling methods for exploration, stimulation and completion of the three altogether in order to try and better identify the fracturing in an effort to extract higher volumes that have been previously encountered in the area.

Montello also announced on May 6, 2008, that it was in the process of finalizing an arrangement with Blackrock Petroleum Corp. pursuant to which Blackrock Petroleum will carry Montello for a total of \$1.25 million in future costs attributable to Montello's interest in the Morgan Highpoint Project, in exchange for being assigned a 15% interest in and to the John Bowen #1 and #2 Wells along with the outright ownership of both a 15% interest, in and to the surface rights and mineral rights underlying the 110 acres comprising the Bowen Lands as well as a 15% interest in and to the lease applicable to the 50 acres which comprise the spacing unit for the John Bowen #2 deep well-bore, hereinafter collectively referred to as the "Bowen Assets". At such point in time as closing occurs, ownership in and to the Bowen Assets will be 40% Montello, 40% Austin Developments Corp., 15% Blackrock Petroleum and 5% Park Place Energy Corp.

To avoid the potential for any competitive drainage issues amongst the JV Partners going forward, Montello and Austin have further agreed to grant to Blackrock Petroleum after the oil and gas zones identified on the John Bowen #1 & #2 Well logs have been tested, a right of first refusal to acquire at fair market value, based on a complete engineering evaluation, a further 5% interest from Montello and a 10% interest from Austin in and to the Bowen Assets where the ownership in the Bowen Assets could become Montello 35%, Austin 30%, Blackrock Petroleum 30%, and Park Place Energy 5%. The JV Partners have also agreed to enter into a 10 mile Area of Mutual Interest (AMI) outside of the Bowen Assets, where the participation rights will be Montello 35%, Austin 30%, Blackrock Petroleum 30%, and Park Place 5%.

On May 8, 2008 Montello as Operator of the Morgan Highpoint Project announced holdings of 1500 acres at Highpoint, surface location plans for a potential Highpoint #6 Well, and the conclusion of an extended production test on the Morgan Highpoint #3 Well. In less than 10 full days of production testing, while Montello recovered in excess of 800 barrels of light sweet high gravity oil, the Weatherford Fracture Imaging Log run on the Morgan Highpoint #5 Well, confirmed the presence of an extensive fracture network when compared to the other logs recently run on #1, #2, #3, and #4.. The daily production rate in the Morgan Highpoint #3 Well sharply declined to approximately 15 barrels of oil per day which mirrors the decline rates recorded on other wells drilled to a similar depth in the southern portion of the Appalachians. Montello however, after conferring with a number of service companies specializing in unique completion techniques, obtained approval from its partners to proceed with a summer 2008 program designed with the goal to exponentially increase daily production rates as well as

significantly improve the ultimate recovery rates that are typically achieved from wells in the area.

Logistics are being finalized at the time of writing June, 2008, to mobilize specialized equipment from Canada and the United States to perform the remaining contemplated exploration-stimulation-completion programs on #3, #4, and #5 wells. They were anticipated to commence within four to six weeks of the May 8, 2008 news release but various factors have delayed the program including mobilizing equipment, services, crews, financing, etc. A deposit of USD \$50,000 has been forwarded to the main contractor at Highpoint.

Without acquiring any additional mineral leases, if the scheduled completion programs are as successful as contemplated, Montello and its partners are positioned to conduct a multi-well drilling program consisting of over 20 shallow oil wells and 2 additional deep gas wells. Based on the knowledge and understanding that Montello now has of both the shallow oil play and the deep gas play recently identified in the John Bowen #2 Well, Montello and its partners are now aggressively pursuing acquiring additional mineral leases and drilling / re-completion opportunities in Morgan County, Tennessee.

On June 2, 2008 Montello announced key management changes, Mr. Phil Emrich as the new president of our wholly owned private operating subsidiary Montello Resources Ltd. USA, Mr. Peter Brown as COO of Montello Resources Ltd in addition to his duties as VP of Exploration-Geology, Mr. Wes Hansen of Remote Directional Services in the new position of Consulting VP of Drilling Operations -Domestic, and Mr. Ross Moulton as our new Consulting Manager of Geology for the Sarcee Project -Southern Alberta. Marc Davis resigned as Director on June 9, 2008.

The Company granted the following options: June 2, 2008, 4,275,000 options at \$0.10 expiring June 1, 2013 to directors, consultants and employees and on June 9, 2008, 3.5 million options at \$0.10 to directors, consultants and employees expiring on June 8, 2013.

Full details can be viewed on the SEDAR website at www.sedar.com or at www.montello.com.

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures for the Company. Due to its small size of operations, there is lack of segregation of duties within the Company's internal control systems. It is unlikely that segregation of duties can be properly addressed until the Company grows to a significant size. In order to compensate for the weaknesses in its internal control systems, the management has retained a private accounting company experienced with junior oil and gas companies to assist with its financial reporting and disclosures process.

However, the Company's management, including the Chief Executive Officer, believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.