

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act"), or any state securities laws. Accordingly, except as permitted by the Underwriting Agreement (as herein defined) and pursuant to exemptions from the registration requirements of the 1933 Act and applicable state securities laws, these securities may not be offered or sold within the United States. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of the Corporation, at Suite 1000, 500 – 4th Avenue, S.W., Calgary, Alberta T2P 2V6 (telephone (403) 691-7725) and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

NEW ISSUE

September 24, 2009



\$10,082,500
5,450,000 Common Shares

and

\$6,042,000
2,650,000 Flow-Through Shares

This short form prospectus qualifies the distribution of (i) 5,450,000 common shares ("**Common Shares**") of Monterey Exploration Ltd. ("**Monterey**" or the "**Corporation**") at a price of \$1.85 per Common Share; and (ii) 2,650,000 Common Shares ("**Flow-Through Shares**") to be issued on a "flow-through" basis pursuant to the *Income Tax Act* (Canada) (the "**Tax Act**") at a price of \$2.28 per Flow-Through Share (collectively, the "**Offering**"). The Common Shares and the Flow-Through Shares are referred to in this short form prospectus, collectively, as the "**Offered Shares**". See "*Plan of Distribution*".

The Corporation will, on or before December 31, 2010, incur and, effective on or before December 31, 2009, renounce to each subscriber of Flow-Through Shares Canadian Exploration Expense (defined herein) in an amount equal to the aggregate purchase price paid by such subscriber. See "*Canadian Federal Income Tax Considerations*".

The issued and outstanding Common Shares are currently listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol "MXL". On September 10, 2009, the last complete trading day before the date of the public announcement of the Offering, the closing price of the Common Shares on the TSX was \$2.10. The respective price of the Common Shares and the Flow-Through Shares offered under this short form prospectus was determined by negotiation between the Corporation and Cormark Securities Inc. ("**Cormark**" or the "**Lead Underwriter**"), on its own behalf and on behalf of FirstEnergy Capital Corp., Acumen Capital Finance Partners Limited, Wellington West Capital Markets Inc. and Salman Partners Inc. (collectively, the "**Underwriters**"). See "*Plan of Distribution*". The TSX has conditionally approved the listing of the Offered Shares. The listing of the Offered Shares is subject to the Corporation fulfilling all of the requirements of the TSX on or before December 16, 2009.

Price:

\$1.85 per Common Share
\$2.28 per Flow-Through Share

	Price to the Public	Underwriters' Fee ⁽¹⁾	Net Proceeds to the Corporation ⁽¹⁾⁽²⁾
Per Common Share	\$1.85	\$0.0925	\$1.7575
Total	\$10,082,500	\$504,125	\$9,578,375
Per Flow-Through Share	\$2.28	\$0.114	\$2.166
Total	\$6,042,000	\$302,100	\$5,739,900
Total Offering	\$16,124,500	\$806,225	\$15,318,275

Notes:

- (1) Upon closing of the Offering, the Corporation will pay the Underwriters a cash commission equal to 5% of the gross proceeds of the Offering. The Underwriters will also be reimbursed for their legal and other expenses reasonably incurred in connection with the Offering. See "*Plan of Distribution*".

- (2) Before deducting expenses of the Offering, estimated to be \$225,000, which will be paid from general funds of the Corporation.

The Underwriters, as principals, conditionally offer the Common Shares for sale, subject to prior sale, if, as and when issued by the Corporation and delivered to and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*" and subject to approval of certain legal matters relating to the Offering on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Burstall Winger LLP. Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "*Plan of Distribution*".

The Underwriters have agreed to act as, and the Corporation has appointed the Underwriters as, the sole and exclusive agents of the Corporation to offer the Flow-Through Shares for sale, provided that in the event that less than 2,650,000 Flow-Through Shares are sold by the Underwriters as agents, the Underwriters have agreed to purchase as principals the Flow-Through Shares not sold by the Underwriters as agents in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*" and subject to approval of certain legal matters relating to the Offering on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Burstall Winger LLP.

The Underwriters propose to offer the Common Shares initially at the offering prices specified above. After a reasonable effort has been made to sell all of the Common Shares at the price specified, the Underwriters may subsequently reduce the selling prices to investors from time to time in order to sell any of the Common Shares remaining unsold. Any such reduction will not affect the proceeds received by the Corporation. See "*Plan of Distribution*".

It is expected that closing will occur on or about October 1, 2009 or such other date not later than October 22, 2009 (the "**Closing Date**") as the Corporation and the Underwriters may agree. Subscriptions for Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that definitive certificates for the Common Shares and the Flow-Through Shares will be available for delivery at the closing of this Offering on the Closing Date. Delivery of the Common Shares and Flow-Through Shares is conditional upon payment on closing of \$1.85 per Common Share and \$2.28 per Flow-Through Share by the Underwriters to the Corporation.

The principal office of Monterey is located at Suite 1000, 500 – 4th Avenue. S.W., Calgary, Alberta T2P 2V6, and the registered office of Monterey is located at 1400, 350 – 7th Avenue S.W., Calgary, Alberta T2P 3N9.

An investment in the securities offered under this short form prospectus is speculative and involves a high degree of risk. The risk factors identified under the heading "*Risk Factors*" and "*Cautionary Statements – Forward-Looking Statements*" in this short form prospectus and under the heading "*Risk Factors*" in the AIF (as herein defined) should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered under this short form prospectus.

All references herein to "\$" are to Canadian dollars unless otherwise specified.

TABLE OF CONTENTS

CAUTIONARY STATEMENTS.....	1
DOCUMENTS INCORPORATED BY REFERENCE.....	4
MONTEREY EXPLORATION LTD.....	5
CONSOLIDATED CAPITALIZATION.....	6
DESCRIPTION OF SHARE CAPITAL.....	6
PRIOR SALES.....	6
PRICE RANGE AND TRADING VOLUME OF COMMON SHARES.....	7
USE OF PROCEEDS.....	7
PLAN OF DISTRIBUTION.....	8
CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....	9
ELIGIBILITY FOR INVESTMENT.....	12
SUBSCRIPTIONS FOR FLOW-THROUGH SHARES.....	12
RISK FACTORS.....	14
INTEREST OF EXPERTS.....	16
AUDITORS, TRANSFER AGENT AND REGISTRAR.....	16
STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION.....	16
AUDITORS' CONSENTS.....	17
CERTIFICATE OF THE CORPORATION.....	C-1
CERTIFICATE OF THE UNDERWRITERS.....	C-2

CAUTIONARY STATEMENTS

Forward-Looking Statements

Certain statements included or incorporated by reference in this short form prospectus are forward-looking statements. These statements relate to future events or the Corporation's future performance. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "may", "will", "should", "could", "expect", "plan", "intend", "anticipate", "believe", "estimate", "propose", "predict", "potential", "continue", or the negative of these terms or other comparable terminology are generally intended to identify forward-looking statements. Such statements represent the Corporation's internal projections, estimates or beliefs concerning, among other things, an outlook on the estimated amounts and timing of capital expenditures, anticipated future debt levels and revenues or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements are only predictions. Actual events or results may differ materially. In addition, this short form prospectus and the documents incorporated by reference herein may contain forward-looking statements attributed to third party industry sources. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur.

Forward-looking statements included or incorporated by reference in this short form prospectus include, but are not limited to, statements with respect to:

- the use of proceeds from this Offering;
- the obtaining of all required regulatory approvals in connection with the Offering;
- the closing date of the Offering;
- the renouncing of CEE to the subscribers for Flow-Through Shares;
- the Corporation's capital expenditure and investment program and the timing and results therefrom;
- drilling inventory, drilling plans and timing of drilling, completion and tie-in of wells;
- plans for facilities construction and completion and the timing and method of funding thereof;
- productive capacity of wells, anticipated or expected production rates and anticipated dates of commencement of production;
- results of various projects of the Corporation;
- ability to lower cost structure in certain projects of the Corporation;
- the impact of changes in oil and natural gas prices on cash flow;
- expectations regarding the ability to raise capital and to add to reserves;
- oil and natural gas production levels and sources of their growth;
- the performance characteristics of the Corporation's oil and natural gas properties;
- timing of development of undeveloped reserves;
- the existence, operation and strategy of the Corporation's commodity price risk management program;
- the Corporation's business, disposition and acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- the impact of Canadian federal and provincial governmental regulation on the Corporation relative to other oil and gas issuers of similar size;
- future development and growth prospects;
- expected levels of royalty rates, operating costs, general administrative costs, costs of services and other costs and expenses;
- determination of future quantities of oil and natural gas reserves and the size of and future net revenues therefrom;
- ability to meet current and future obligations;
- the tax horizon and taxability of the Corporation;
- treatment under governmental regulatory regimes and tax laws;
- projections of market prices and costs;
- weighting of production between different commodities;
- supply and demand for oil and natural gas;
- the ability to obtain equipment, services and supplies in a timely manner to carry out its activities;
- the ability to market oil and natural gas successfully to current and new customers;
- the timing and costs of pipeline, terminal and storage facility construction and expansion and the ability to secure adequate product transportation;
- the ability to obtain financing on acceptable terms;

- currency, exchange and interest rates;
- potential dispositions and acquisitions;
- the timely receipt of governmental approvals; and
- realization of the anticipated benefits of acquisitions and dispositions.

Although Monterey believes that the expectations reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Monterey cannot give assurance that such expectations will prove to be correct. Neither the Corporation nor the Underwriters can guarantee future results, levels of activity, performance, or achievements. Moreover, neither the Corporation, the Underwriters nor any other person assumes responsibility for the outcome of the forward-looking statements. Forward-looking statements are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Monterey and described in the forward-looking statements. Prospective investors should carefully consider the information contained under the heading "*Risk Factors*" in this short form prospectus and all other information included in or incorporated by reference in this short form prospectus before making investment decisions with regard to the Common Shares offered hereby.

Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking statements contained in this short form prospectus and in certain documents incorporated by reference herein include, but are not limited to:

- general economic conditions in Canada and globally;
- the ability of management to execute its business plan;
- fluctuations in the price of oil and natural gas, interest and exchange rates;
- the risks of the oil and gas industry both domestically and internationally, such as operational risks in exploring for, developing and producing crude oil and natural gas and market demand;
- governmental regulation of the oil and gas industry, including environmental regulation;
- actions taken by governmental authorities, including increases in taxes and changes in government regulations and incentive programs;
- geological, technical, drilling and processing problems;
- risks and uncertainties involving geology of oil and gas deposits;
- risks inherent in marketing operations, including credit risk;
- the ability to enter into or renew leases;
- the uncertainty of reserves estimates and reserves life;
- the uncertainty of estimates and projections relating to production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- availability of sufficient financial resources to fund the Corporation's capital expenditures;
- uncertainty of finding reserves, developing and marketing those reserves;
- unanticipated operating events which could reduce production or cause production to be shut-in or delayed;
- incorrect assessments of the value of acquisitions;
- ability to locate satisfactory properties for acquisition or participation;
- shut-ins of connected wells resulting from extreme weather conditions;
- insufficient storage or transportation capacity;
- hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury;
- encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations;
- the ability to add production and reserves through development and exploration activities;
- general economic and business conditions;
- the possibility that government policies or laws, including laws and regulations related to the environment, may change or governmental approvals may be delayed or withheld;
- uncertainty in amounts and timing of royalty payments;
- uncertainties inherent in estimating quantities of oil and natural gas reserves and cash flows to be derived therefrom;
- failure to obtain industry partner and other third party consents and approvals, as and when required;
- stock market volatility and market valuations;
- competition for, among other things, capital, acquisition of reserves, undeveloped land and skilled personnel;
- the availability of capital on acceptable terms;

- failure to realize the anticipated benefits of acquisitions and dispositions; and
- the other factors considered under "*Risk Factors*" in the AIF which is incorporated by reference herein, and other filings with Canadian securities authorities.

In addition, please note that statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. With respect to forward-looking statements contained or incorporated by reference in this short form prospectus, the Corporation has made assumptions regarding: future exchange rates; the price of oil and natural gas; the impact of increasing competition; conditions in general economic and financial markets; availability of drilling and related equipment; availability of skilled labour; current technology; cash flow; commodity prices; production rates; timing and amount of capital expenditures; marketability of oil and natural gas; royalty rates; effects of regulation by governmental agencies; future operating costs and the Corporation's ability to obtain financing on acceptable terms. Management has included the above summary of assumptions and risks related to forward-looking statements included in this short form prospectus and the documents incorporated by reference herein in order to provide potential purchasers of the Common Shares with a more complete perspective on the Corporation's future operations. Readers are cautioned that these statements may not be appropriate for other purposes.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this short form prospectus, and the documents incorporated by reference herein are made as of the date of the respective document and are expressly qualified by this cautionary statement.

These forward-looking statements are made as of the date of this short form prospectus, or in the case of documents incorporated by reference herein, as of the dates of such documents, and the Corporation disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Discovered Petroleum Initially in Place

Discovered Petroleum Initially-in-Place ("**DPIP**") is defined in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") as the quantity of petroleum that is estimated, as of a given date, to be contained in known accumulations prior to production. DPIP is divided into recoverable and unrecoverable portions, with the estimated future recoverable portion classified as reserves and contingent resources. A recovery project cannot be defined for these volumes of DPIP at this time. There is no certainty that it will be commercially viable to produce any portion of the recoverable discovered petroleum initially in place. The DPIP, as evaluated and disclosed herein, is all natural gas.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of the Corporation at Suite 1000, 500 – 4th Avenue, S.W., Calgary, Alberta T2P 2V6, telephone (403) 691-7725. In addition, copies of the documents incorporated herein by reference may be obtained by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com. The Corporation's SEDAR profile number is 27353.

The following documents of the Corporation filed with the various securities commissions or similar authorities in the provinces of Canada are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the revised annual information form of the Corporation dated March 19, 2009 for the year ended December 31, 2008 (the "**AIF**");
- (b) the audited comparative financial statements of the Corporation as at and for the years ended December 31, 2008 and December 31, 2007, together with the notes thereto and the auditors' report thereon;
- (c) management's discussion and analysis of the financial condition and results of operations of the Corporation for the year ended December 31, 2008;
- (d) the unaudited comparative financial statements of the Corporation as at and for the three and six month periods ended June 30, 2009, together with the notes thereto (the "**Quarterly Financial Statements**");
- (e) management's discussion and analysis of the financial condition and results of operations of the Corporation for the three and six month periods ended June 30, 2009 (the "**Quarterly MD&A**");
- (f) the information circular – proxy statement of the Corporation dated May 14, 2009 relating to the annual and special meeting of shareholders held on June 24, 2009;
- (g) the business acquisition report of the Corporation dated October 30, 2008 relating to the acquisition (the "**Upper Lake Acquisition**") by the Corporation of all of the issued and outstanding shares of Upper Lake Oil & Gas Ltd.; and
- (h) the material change report of the Corporation dated September 14, 2009 in respect of the Offering.

Any documents of the type required by National Instrument 44-101 *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any material change reports (excluding confidential reports), comparative interim financial statements, comparative annual financial statements and the auditor's report thereon, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms and business acquisition reports filed by the Corporation with the securities commissions or similar authorities in Canada subsequent to the date of this short form prospectus and before the termination of the Offering, are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

MONTEREY EXPLORATION LTD.

Monterey is an Alberta based corporation which has been engaged in the business of acquiring crude oil and natural gas properties and exploring for, developing and producing crude oil and natural gas in western Canada since it began active operations in January of 2006. The business plan of Monterey is to create value on a production and reserve per share basis in the oil and gas industry in western Canada. To accomplish this, the Corporation has pursued and will continue to pursue an integrated growth strategy including focused exploration, controlled exploitation and strategic acquisitions within its geographic project areas.

Further details concerning the Corporation, including information with respect to the Corporation's assets, operations and history, are provided in the AIF and other documents incorporated by reference into this short form prospectus. Readers are encouraged to thoroughly review these documents as they contain important information about the Corporation. See "*General Development of the Business*" and "*Description of the Business and Operations*" in the AIF.

Recent Developments

Montney Resource Evaluation

In March 2009, Monterey engaged GLJ Petroleum Consultants Ltd. ("**GLJ**"), its independent reserves evaluator, to prepare an independent evaluation (the "**Montney Resource Evaluation**") of the Corporation's DPIP on five 100 percent working interest sections of the Corporation's Montney landholdings in the Groundbirch area of northeast British Columbia (the "**Groundbirch Lands**"). The Montney Resource Evaluation is dated May 12, 2009 and is effective March 31, 2009.

In the Montney Resource Evaluation, GLJ provides a best estimate of a net 659 billion cubic feet of DPIP on the Groundbirch Lands. There are an additional 10 gross sections (7.5 net to Monterey) of lands directly offsetting the Groundbirch Lands that have not yet been assigned any DPIP. At December 31, 2008, Monterey had no proved or probable reserve bookings assigned to the Groundbirch Montney project.

It should be noted that given the early stages of development, the best estimate of DPIP may change significantly in the future with further exploration and development activity and the amount of contingent resources, as defined in the COGE Handbook, has yet to be determined. Additional drilling and testing are required to confirm deliverability potential and commercial economic development. The resource estimates provided herein are estimates only and the actual resources may be greater or less than the estimates provided herein. A recovery factor for the resources identified has not been estimated by GLJ as a recovery project cannot be defined for these volumes of DPIP at this time. As wells are added with future drilling and completions are made in previously uncompleted sections, these developments may help in the quantification of the recovery factor associated with the sub-commercial component of the DPIP which may allow for the quantification of the volumes of contingent resources at that time. There is no certainty that it will be commercially viable to produce any portion of this natural gas currently classified as DPIP.

Non-Core Land Disposition

In July 2009, Monterey completed the disposition of 3 sections of undeveloped non-core lands in the Town area of northeast British Columbia for total net proceeds of \$2.7 million. Monterey had recorded no reserves or production associated with the disposed lands. The proceeds from the disposition were applied against the Corporation's bank debt and may subsequently be withdrawn to assist the financing of the drilling operations in the Corporation's Groundbirch area scheduled to be carried out in the remainder of 2009.

Groundbirch Project

Monterey is currently in the final stages of preparation to commence horizontal drilling operations at Groundbirch. As of late July, the Corporation has received all of the licenses required for the next phase of drilling at Groundbirch which consist of two test/development horizontal wells on the Groundbirch Lands, one horizontal step-out well and one vertical exploration test well on the Corporation's 10 section 75 percent working interest land block also located in the Groundbirch area. Construction of an 11 mile all-season access road in the Groundbirch area has been completed by another industry participant, upon which the Corporation has been granted access under contract for purposes of drilling the first two of the Corporation's currently licensed wells on the Groundbirch Lands. On September 21, 2009, Monterey began drilling the first horizontal well, which is located approximately 2.5 miles off of this newly upgraded road.

CONSOLIDATED CAPITALIZATION

There have been no material changes in the share capitalization or in the indebtedness of Monterey since June 30, 2009 other than a decrease in bank debt to approximately \$30.5 million as at September 23, 2009. The Corporation's bank debt currently consists primarily of guaranteed notes with maturities occurring over the period from October 2009 to March 2010. See "*Bank Indebtedness, Bank Debt & Derivatives Facility*" under Note 5 in the notes to the Quarterly Financial Statements and under the heading "*Liquidity and Capital Resources – Bank Indebtedness*" in the Quarterly MD&A. After giving effect to the Offering and the use of proceeds discussed herein, Monterey anticipates an initial reduction in bank debt of \$5.8 million (after deducting the Underwriters' fees of \$806,225 and expenses of the Offering estimated at \$225,000), which approximates the Corporation's portion of bank debt not currently comprised of guaranteed notes. This initial reduction of \$5.8 million may be redrawn and applied as needed to fund the Corporation's ongoing capital expenditure program. See "*Use of Proceeds*". Monterey will have 41,002,500 Common Shares outstanding after giving effect to the Offering. As at the date hereof, Monterey has outstanding an aggregate of 3,135,666 options to acquire an equal number of Common Shares issued under its share option plan (the "**Option Plan**").

DESCRIPTION OF SHARE CAPITAL

The authorized share capital of Monterey consists of an unlimited number of Common Shares. As of September 23, 2009, there were 32,902,500 Common Shares issued and outstanding and an additional 3,135,666 Common Shares reserved for issuance upon the exercise of outstanding stock options.

Holders of Common Shares are entitled to receive notice of, to attend and vote at all meetings of holders of Common Shares and are entitled to one vote, in person or by proxy, for each Common Share held. The holders of Common Shares are entitled to receive, if, as and when declared by the directors of Monterey, dividends at such rate and payable on such date as may be determined from time to time by the board of directors of Monterey, subject to prior satisfaction of all preferential rights to dividends attached to all shares of other classes of shares of Monterey ranking in priority to the Common Shares in respect of dividends. On the liquidation, dissolution or wind-up of Monterey, or any other distribution of the assets of Monterey among its shareholders for the purpose of wind-up its affairs, the holders of the Common Shares shall be entitled to receive the remaining property and assets of Monterey.

PRIOR SALES

Monterey has not sold or issued any Common Shares or securities convertible into Common Shares during the 12-month period prior to the date of this short form prospectus other than as follows:

1. on September 17, 2008, Monterey issued stock options under its Option Plan to acquire an aggregate of 585,000 Common Shares at an exercise price of \$2.00 per Common Share.
2. on December 16, 2008, Monterey issued stock options under its Option Plan to acquire an aggregate of 535,000 Common Shares at an exercise price of \$0.55 per Common Share.

PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The Common Shares trade on the TSX under the symbol "MXL". The following table sets forth the price range and trading volumes for the Common Shares on the TSX as reported by the TSX for the periods indicated:

Date	High (\$)	Low (\$)	Trading Volume
2008			
September ⁽¹⁾	3.40	1.65	442,769
October	1.85	0.50	3,052,257
November	1.10	0.65	1,590,207
December	0.70	0.50	2,113,620
2009			
January	0.76	0.60	417,459
February	0.80	0.61	740,633
March	1.10	0.63	2,274,748
April	1.75	0.95	2,771,752
May	1.80	1.26	1,072,164
June	1.86	1.40	600,221
July	1.50	1.35	506,832
August	1.85	1.40	450,364
September 1-23 ⁽²⁾	2.78	1.46	822,763

Notes:

- (1) The Common Shares began trading on the TSX on September 4, 2008.
- (2) On September 10, 2009, the last day on which the Common Shares traded prior to the public announcement of the Offering, the closing price of the Common Shares on the TSX was \$2.10. On September 23, the last day on which the Common Shares traded prior to the date of this short form prospectus, the closing price of the Common Shares on the TSX was \$2.30.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering are estimated to be \$15,093,275 after deducting the Underwriters' fee of \$806,225 and the estimated expenses of the Offering of \$225,000. See "*Plan of Distribution*".

The net proceeds of the Offering will be used by the Corporation to fund Monterey's exploration and development of its Montney gas project located in the Groundbirch area of northeast British Columbia, additional ongoing exploration and development activities and other general corporate purposes. Initially, the Corporation may apply up to \$5.8 million of the net proceeds to reduce outstanding indebtedness under the Corporation's credit facility (the "**Credit Facility**"), thereby freeing up borrowing capacity which may be redrawn and applied as needed to fund the Corporation's ongoing capital expenditure program. See "*Consolidated Capitalization*".

The Credit Facility and Monterey's indebtedness, which totalled approximately \$33.1 million as at June 30, 2009, is described under the heading "*Bank Indebtedness, Bank Debt & Derivatives Facility*" under Note 5 in the notes to the Quarterly Financial Statements and under the heading "*Liquidity and Capital Resources – Bank Indebtedness*" in the Quarterly MD&A. See "*Documents Incorporated by Reference*".

Monterey's current indebtedness under the Credit Facility has been incurred in the normal course of business and operations in connection with previous capital and other expenditures made by Monterey. For the year ended December 31, 2008, Monterey incurred net capital expenditures of \$31,844,000 consisting of \$6,452,000 on land and lease retention, \$840,000 on geological and geophysical, \$19,390,000 on drilling and completions, \$5,145,000 on production and equipment facilities, \$1,021,000 in capitalized general and administrative, \$377,000 on property acquisitions, \$201,000 on office furniture, equipment and software and received \$1,582,000 in respect of property dispositions. For the six months ending June 30, 2009, Monterey incurred net capital expenditures of (\$714,000) consisting of \$111,000 on land and lease retention, \$128,000 on geological and geophysical, \$3,414,000 on drilling and completions, \$1,158,000 on production and equipment facilities, \$491,000 in capitalized general and administrative and office furniture, equipment and software and received \$6,016,000 in respect of property dispositions.

The expected breakdown of the eventual use of the net proceeds is anticipated to be approximately \$10,000,000 – \$12,000,000 on the drilling and completion of two wells on the Groundbirch Lands with the remainder of the net proceeds to

be allocated to other exploration and development activities and general corporate purposes. The Corporation expects to drill and complete the two wells on the Groundbirch Lands prior to the end of the 2009 – 2010 winter drilling season, which is anticipated to occur on or about March 31, 2010.

The use of the net proceeds of the Offering by the Corporation is consistent with and is expected to accomplish the Corporation's stated business objectives of creating sustainable and profitable growth in the oil and gas industry in western Canada through the enhancement of Monterey's asset base through land acquisition and exploratory and development drilling within its core project areas in northeast British Columbia and Alberta. There is no particular significant event or milestone that must occur for Monterey's business objectives to be accomplished. While Monterey believes that it has the skills and resources necessary to accomplish its stated business objectives, participation in the exploration for and development of oil and natural gas has a number of inherent risks. See "*Risk Factors*" in the AIF and in this short form prospectus.

While the Corporation intends to use the net proceeds as stated above, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in the Corporation's best interests.

PLAN OF DISTRIBUTION

Pursuant to the underwriting agreement dated as of September 17, 2009 among the Corporation and the Underwriters (the "**Underwriting Agreement**"): (i) the Corporation has agreed to issue and sell an aggregate of 5,450,000 Common Shares to the Underwriters and the Underwriters have severally agreed to purchase such Common Shares on the Closing Date, subject to the terms and conditions contained in the Underwriting Agreement, at a price of \$1.85 per Common Share; and (ii) the Underwriters have agreed to act as, and the Corporation has appointed the Underwriters as, the sole and exclusive agents of the Corporation to offer an aggregate of 2,650,000 Flow-Through Shares for sale at a price of \$2.28 per Flow-Through Share, subject to compliance with all necessary legal requirements and terms and conditions of the Underwriting Agreement. The Underwriters have agreed that in the event that less than 2,650,000 Flow-Through Shares are sold by the Underwriters as agents, the Underwriters shall, subject to the terms and conditions of the Underwriting Agreement, purchase as principals at a price of \$2.28 per Flow-Through Share, the Flow-Through Shares not sold by the Underwriters as agents. In consideration for their services in connection with the Offering, the Underwriters will be paid a fee of \$0.0925 per Common Share and \$0.114 per Flow-Through Share or an aggregate amount of \$806,225. The Corporation has also agreed to reimburse the Underwriters for expenses reasonably incurred in connection with the Offering. The respective offering price of the Common Shares and Flow-Through Shares was determined by negotiation between the Corporation and the Lead Underwriter, on its own behalf and on behalf of the other Underwriters.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint and may be terminated upon the occurrence of certain stated events. If an Underwriter fails to purchase the Common Shares which it has agreed to purchase, the remaining Underwriter or Underwriters may terminate their obligation to purchase their allotment of Common Shares, or may, but are not obligated to, purchase the Common Shares not purchased by the Underwriter or Underwriters which fail to purchase. The Underwriters are, however, obligated to take up and pay for all Common Shares if any are purchased under the Underwriting Agreement. The Underwriters have agreed that in the event that less than 2,650,000 Flow-Through Shares are sold by the Underwriters as agents, the Underwriters shall, subject to the terms and conditions of the Underwriting Agreement, purchase as principals the Flow-Through Shares not sold by the Underwriters as agents in accordance with the conditions contained in the Underwriting Agreement. The Corporation has agreed to indemnify the Underwriters and their respective affiliates, shareholders, directors, partners, officers, employees and agents against certain liabilities.

Subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Under the Underwriting Agreement, the Corporation has agreed that, subject to certain exceptions, prior to 90 days after the closing of the Offering, it shall not, directly or indirectly, sell or offer to sell any Common Shares, or otherwise issue, lend, transfer or dispose of any securities exchangeable, convertible or exercisable into Common Shares or announce any intention to do any of the foregoing, without the prior written consent of Cormark Securities Inc., which consent shall not be unreasonably withheld.

The TSX has conditionally approved the listing of the Offered Shares on the TSX. The listing of such Offered Shares is subject to the Corporation fulfilling all of the requirements of the TSX on or before December 16, 2009.

It is expected that closing will occur on or about the Closing Date. Subscriptions for Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that definitive certificates for the Common Shares and the Flow-Through Shares will be available for delivery at the closing of this Offering on the Closing Date. Delivery of the Common Shares and Flow-Through Shares is conditional upon payment on closing of \$1.85 per Common Share and \$2.28 per Flow-Through Share by the Underwriters to the Corporation.

The Underwriters propose to offer the Common Shares initially at the offering price specified herein. After reasonable efforts have been made to sell all of the Common Shares at the price specified, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Common Shares remaining unsold. In the event the offering price of the Common Shares is reduced, the compensation received by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Common Shares is less than the gross proceeds paid by the Underwriters to the Corporation for the Common Shares. Any such reduction will not affect the proceeds received by the Corporation.

The Offered Shares have not been and will not be registered under the 1933 Act or any state securities laws, and accordingly may not be offered or sold within the United States except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. Except as permitted by the Underwriting Agreement, the Underwriters may not offer or sell Offered Shares within the United States. The Underwriting Agreement permits the Underwriters to offer the Common Shares to certain institutional accredited investors for sale directly by the Corporation provided that such offers and sales are made in accordance with Rule 506 of Regulation D under the 1933 Act. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Offered Shares outside the United States only in accordance with Rule 903 of Regulation S under the 1933 Act. This short form prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Offered Shares.

In addition, until 40 days after the commencement of this Offering, any offer or sale of Offered Shares offered hereby within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the 1933 Act.

The Offered Shares will be "restricted securities" within the meaning of Rule 144(a)(3) of the 1933 Act. Certificates representing any securities that are sold or issued in the United States will bear a legend to the effect that the securities represented thereby are not registered under the 1933 Act or any applicable state securities laws and may only be offered, sold, pledged or otherwise transferred pursuant to certain exemptions from the registration requirements of the 1933 Act and any applicable state securities laws.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Corporation, and Burstall Winger LLP, counsel to the Underwriters, the following summary describes, as of the date hereof, the principal Canadian federal income tax considerations generally applicable to a subscriber who acquires, as beneficial owner, Common Shares or Flow-Through Shares pursuant to this Offering and who, at all relevant times, for purposes of the application of the Tax Act, (1) is, or is deemed to be, resident in Canada; (2) deals at arm's length with the Corporation; (3) is not affiliated with the Corporation; and (4) holds the Common Shares and Flow-Through Shares as capital property (a "**Holder**"). Generally, the Common Shares and Flow-Through Shares will be capital property to a Holder provided the Holder does not acquire or hold those shares in the course of carrying on a business or as part of an adventure or concern in the nature of trade. Certain Holders, whose Common Shares (other than Flow-Through Shares) might not otherwise be capital property, may, in certain circumstances, be entitled to have the Common Shares (other than Flow-Through Shares) and all other "Canadian securities", as defined in the Tax Act, owned by such Holder in the taxation year in which the election is made, and in all subsequent taxation years, deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such an election is not available with respect to Flow-Through Shares.

This summary does not apply to a subscriber: (i) that is a "principal-business corporation" within the meaning of the Tax Act; (ii) whose business includes trading or dealing in rights, licenses or privileges to explore for, drill for or take minerals, petroleum, natural gas or other related hydrocarbons; (iii) that is a "financial institution", "specified financial institution" or an interest in which constitutes a "tax shelter investment", all within the meaning of the Tax Act; (iv) to whom the "functional currency" reporting rules apply within the meaning of the Tax Act; or (v) that is a partnership or trust. Such subscribers should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the "**Regulations**"), and counsel's understanding of the current published administrative and assessing practices and policies of the Canada Revenue Agency (the "**CRA**"). This summary takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that all Proposed Amendments will be enacted in the form proposed. No assurances can be given, however, that the Proposed Amendments will be enacted as proposed, or at all. This summary does not take into account or anticipate any changes in law or administrative or assessing practice whether by legislative, regulatory, administrative or judicial action nor does it take into account the tax legislation or assessing practices and policies of any province, territory or foreign jurisdiction, which may be materially different from those discussed herein.

This summary assumes that the Corporation will make all necessary tax filings in respect of the issuance of the Flow-Through Shares and the renunciation of Canadian Exploration Expense (defined below) in the manner and within the time required by the Tax Act and the Regulations, that the Corporation will incur sufficient Canadian Exploration Expense to enable it to renounce to subscribers all of the Canadian Exploration Expense the Corporation agrees to renounce to subscribers effective on the dates set out therein and that all expenses which comprise Canadian Exploration Expense will be reasonable in amount. This summary assumes that the Corporation will be a "principal-business corporation" at all material times and that the Flow-Through Shares, when issued, will be "flow-through shares" for the purposes of the Tax Act and will not be "prescribed shares" for the purpose of the definition of "flow-through share" in subsection 66(15) of the Tax Act or Regulation 6202.1 of the Regulations.

The income tax consequences to a particular subscriber of an investment in Flow-Through Shares will vary according to a number of factors including the legal status of the subscriber as an individual, a trust, a corporation or a partnership, the province or provinces in which the subscriber resides, carries on business or has a permanent establishment and the amount that would be the subscriber's taxable income but for the investment in the Flow-Through Shares.

This summary is of a general nature only and is not, and is not intended to be, legal, business or tax advice to any particular subscriber. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective subscribers of the Common Shares and Flow-Through Shares should consult their own tax advisors having regard to their own particular circumstances.

Canadian Exploration Expense

Subject to certain restrictions outlined below, the Corporation will be entitled to renounce Canadian exploration expense described in paragraph (a) or (d) of the definition of "Canadian exploration expense" in subsection 66.1(6) of the Tax Act or that would be described in paragraph (h) of such definition if the reference therein to "paragraphs (a) to (d) and (f) to (g.1)" were read as a reference to "paragraphs (a) and (d)" ("**Canadian Exploration Expense**" or "**CEE**"), excluding amounts which are prescribed to constitute "Canadian exploration and development overhead expense" under the Tax Act, the amount of any assistance described in paragraph 66(12.6)(a) of the Tax Act and any expenditure described in paragraph 66(12.6)(b.1) of the Tax Act, in an amount equal to the aggregate purchase price paid by such subscriber for the Flow-Through Shares. Such CEE that is properly renounced to a subscriber will be deemed to be CEE incurred by the subscriber on the effective date of the renunciation.

The Corporation will be entitled to renounce expenses that are CEE incurred by it on or after the date that subscriptions for the Flow-Through Shares are accepted, less (i) any previous renunciation of such CEE, (ii) any portion of such CEE that is prescribed under the Regulations as being "Canadian exploration and development overhead expenses", (iii) certain seismic expenses, and (iv) any expense that is offset by assistance that the Corporation has received, is entitled to receive, or may reasonably be expected to receive at any time. The Corporation may not renounce to subscribers an amount in excess of the amount paid by the subscribers for the Flow-Through Shares. Further, the Corporation will not be entitled to renounce CEE to the extent that the amount so renounced exceeds the Corporation's own cumulative CEE ("**CCEE**").

Certain CEE incurred pursuant to a flow-through share agreement and within 12 months after the end of the calendar year in which the flow-through share agreement is entered into (the "**preceding calendar year**") can be treated as if incurred on December 31 of the preceding calendar year, provided that the subscription price for the relevant flow-through shares has been paid for in money during the preceding calendar year, the subscriber deals at arm's length with the issuing corporation throughout that 12 month period and the renunciation has been duly made in January, February or March of the calendar year following such preceding calendar year. In the event the issuing corporation does not fully expend the amounts renounced by the end of the 12-month period, the issuing corporation will be required to reduce the amount

previously renounced and the subscribers' income tax returns for the years in which the renounced expenditures were claimed will be reassessed accordingly. Late payment interest will generally not be levied in respect of such reassessment provided any resultant additional taxes are paid by April 30 of the calendar year following the calendar year in which the renunciation was made. The Corporation has advised counsel that it intends to incur and renounce to subscribers qualifying CEE in accordance with these rules.

A subscriber for Flow-Through Shares to whom the Corporation renounces CEE will add such CEE to the subscriber's CCEE. A subscriber may deduct in computing the subscriber's income from all sources for a taxation year an amount not exceeding 100% of the balance of the subscriber's CCEE at the end of that taxation year. Deductions claimed by a subscriber reduce the subscriber's CCEE by the amount claimed. To the extent that a subscriber does not deduct the full CCEE balance at the end of the taxation year, the balance will be carried forward and the subscriber will be entitled to claim deductions in respect thereof in subsequent taxation years in accordance with, and subject to the restrictions under, the provisions of the Tax Act. If at the end of a taxation year amounts deducted exceed the subscriber's CCEE, the excess must be included in computing the subscriber's income for that year and the subscriber's CCEE will thereupon have a nil balance. The disposition of Flow-Through Shares will not reduce a subscriber's CCEE. Certain restrictions apply in respect of the deduction of CEE following an acquisition of control (and certain reorganizations) of a corporate subscriber. Corporate subscribers should consult their own tax advisors with respect to the application of these rules. The right to deduct CEE renounced accrues to the initial subscriber for Flow-Through Shares and is not ordinarily transferable.

If a subscriber purchases Flow-Through Shares through a Deferred Plan (defined below), the CEE renounced will not be available for deduction and the associated tax benefits will be lost.

The acquisition of Common Shares hereunder will not entitle the subscriber to any deductions with respect to CEE.

Adjusted Cost Base

The adjusted cost base to a Holder of Common Shares will be equal to the initial acquisition cost thereof (i.e. the subscription price) as adjusted in accordance with the provisions of the Tax Act. The adjusted cost base to a Holder of Flow-Through Shares is deemed to be nil (regardless of the subscription price). The adjusted cost base of any Common Shares or Flow-Through Shares acquired pursuant to this Offering will generally be the average of the cost of all Common Shares of the Corporation then held.

Disposition of Common Shares and Flow-Through Shares

Generally, a disposition or deemed disposition (other than to the Corporation) of an Common Share or a Flow-Through Share will result in the Holder thereof realizing a capital gain (or a capital loss) in the taxation year of the disposition equal to the amount by which the proceeds of disposition exceed (or are less than) the aggregate of the Holder's adjusted cost base of such shares and reasonable costs of the disposition. See "*Adjusted Cost Base*".

Generally, one-half of any such capital gain (a "**taxable capital gain**") must be included in computing the income of the Holder in the year of disposition, and one-half of any such capital loss (an "**allowable capital loss**") will generally reduce taxable capital gains realized by the holder in the year of disposition. Allowable capital losses in excess of taxable capital gains for the year of disposition generally may be deducted by the Holder against net taxable capital gains realized in any of the three preceding years or in any subsequent year, subject to various detailed provisions of the Tax Act.

A subscriber who disposes of Flow-Through Shares will retain the entitlement to be renounced CEE by the Corporation as described above, as well as the ability to deduct any CEE previously deemed to have been incurred by the subscriber, and a subsequent purchaser of such Flow-Through Shares will not be entitled to any renunciation of CEE in respect thereof.

A subscriber that is a "Canadian-controlled private corporation" (as defined in the Tax Act) will be liable to pay an additional 6 2/3% refundable tax on its "aggregate investment income" for the year, including taxable capital gains realized and dividends received or deemed to be received in respect of the Common Shares (but not dividends that are deductible in computing taxable income).

Cumulative Net Investment Loss

One-half of the CEE renounced to a subscriber will increase the subscriber's cumulative net investment loss ("CNIL") (as defined in the Tax Act). A subscriber's CNIL will impair the subscriber's ability to claim some or all of the lifetime capital gains deduction available on the disposition of certain qualifying small business corporation shares, farm property and fishing property.

Minimum Tax

Pursuant to the minimum tax rules in the Tax Act, the tax otherwise payable under Part I of the Tax Act by an individual (other than certain trusts) will not be less than the minimum amount computed by reference to the individual's "adjusted taxable income" for the year. For these purposes, the minimum amount generally means the "appropriate percentage" (currently 15%) of adjusted taxable income in excess of \$40,000. In calculating adjusted taxable income for this purpose, certain deductions and credits otherwise available are disallowed and certain amounts otherwise not taxable are included in income. These disallowed items include deductions for CEE to the extent the deductions exceed the individual's resource income before deduction of those amounts, and deductions for carrying charges which relate to an investment in flow-through shares to the extent that such deductions exceed the individual's resource income after deductions for resource expenses, including CEE. Also included in adjusted taxable income are 80% of capital gains. Whether and to what extent a particular individual will be subject to minimum tax will depend upon the amount of the individual's income, the sources from which it is derived and the nature and amount of any deductions that are claimed. Any additional tax payable for a year resulting from the application of the minimum tax provisions is recoverable to the extent the tax otherwise determined exceeds the minimum amount for any of the following seven taxation years.

ELIGIBILITY FOR INVESTMENT

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Corporation and Burstall Winger LLP, counsel to the Underwriters, on the basis of the applicable legislation in effect on the date hereof and subject to the assumptions and qualifications discussed under the heading "*Canadian Federal Income Tax Considerations*", on the Closing Date of the Offering, provided the Common Shares are listed on a designated stock exchange (which includes the TSX) and subject to the provisions of any Deferred Plan (defined below), the Common Shares and Flow-Through Shares will be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts (collectively, the "**Deferred Plans**"). However, the holder of a tax-free savings account that governs a trust which holds any of the Common Shares or Flow-Through Shares will be subject to a penalty tax if the holder does not deal at arm's-length with the Corporation for the purposes of the Tax Act or if the holder has a "significant interest" (within the meaning of the Tax Act) in the Corporation or a corporation, partnership or trust with which the Corporation does not deal at arm's-length for the purposes of the Tax Act.

If an Exempt Plan subscribes for Flow-Through Shares, the tax benefits of the CEE as described under the heading "*Canadian Federal Income Tax Considerations*" will not be available for deduction against the income of the holder, annuitant or beneficiary of such plan.

SUBSCRIPTIONS FOR FLOW-THROUGH SHARES

The Flow-Through Shares will be issued as "flow-through shares" under the Tax Act. The Corporation will incur on or before December 31, 2010, and renounce to each subscriber of Flow-Through Shares effective on or before December 31, 2009, CEE in an amount equal to the aggregate purchase price paid by such subscriber for the Flow-Through Shares. See "*Canadian Federal Income Tax Considerations*".

Subscriptions for Flow-Through Shares will be made pursuant to one or more subscription and renunciation agreements (the "**Subscription Agreements**") to be made between the Corporation and one or more of the Underwriters or one or more sub-agents of an Underwriter, as agent for, on behalf of and in the name of all subscribers of Flow-Through Shares. **Subscribers who place an order to purchase Flow-Through Shares with an Underwriter, or any sub-agent of an Underwriter, will be deemed to have authorized any of such Underwriters, or such sub-agents, to execute and deliver, on their behalf, the Subscription Agreements.**

Pursuant to the Subscription Agreements, the Corporation will covenant and agree to, among other things: (i) to incur on or before December 31, 2010 and renounce to the subscriber effective on or before December 31, 2009, CEE in an amount equal

to the aggregate purchase price paid by such subscriber for the Flow-Through Shares, and (ii) that if the Corporation does not renounce to such subscriber, effective on or before December 31, 2009, CEE equal to such amount, or if there is a reduction in such amount renounced pursuant to the provisions of the Tax Act, the Corporation shall indemnify the subscriber for an amount equal to the amount of any tax payable or that may become payable under the Tax Act (and under any corresponding provincial legislation) by the subscriber as a consequence of such failure or reduction. The Subscription Agreements will contain additional representations, warranties, covenants and agreements by the Corporation in favour of the subscriber of Flow-Through Shares which are consistent with and supplement the Corporation's obligations as described in this short form prospectus.

The Subscription Agreements will also provide representations, warranties and agreements of the subscriber, and by its purchase of Flow-Through Shares each subscriber of Flow-Through Shares offered under this short form prospectus will be deemed to have represented, warranted and agreed, for the benefit of the Corporation and the Underwriters that:

- (a) the subscriber is not a non-resident of Canada for purposes of the Tax Act;
- (b) the subscriber and any beneficial purchaser for whom it is acting and deals and until January 1, 2011 will continue to deal, at arm's length with the Corporation for the purposes of the Tax Act;
- (c) the subscriber has not entered into and will not knowingly enter into any agreement or arrangement which will cause the Flow-Through Shares to become "prescribed shares" for the purposes of the Tax Act;
- (d) the subscriber, if an individual, is of the full age of majority and is otherwise legally competent to enter into the Subscription Agreement;
- (e) the liability of the Corporation to renounce CEE is limited to the extent specifically stated in this short form prospectus and the Subscription Agreement;
- (f) if a corporation, the subscriber is a valid and subsisting corporation, it has the necessary corporate capacity and authority to enter into the Subscription Agreement and to observe and perform its covenants and obligations thereunder and it has taken all necessary corporate action in respect thereof, or, if it is a partnership, syndicate or other form of unincorporated organization, it has the necessary legal capacity and authority to enter into the Subscription Agreement and to observe and perform its covenants and obligations thereunder and, in either case, it has obtained all necessary approvals in respect thereof;
- (g) the subscriber has such knowledge, or has received advice, in financial and business affairs as to be capable of evaluating the merits and risks of the investment and the subscriber is able to bear the economic risk of loss of its entire investment;
- (h) the subscriber has received and reviewed a copy of this short form prospectus;
- (i) if required by applicable securities legislation, policy or order of a securities commission or other regulatory authority, the subscriber will execute, deliver, file and otherwise assist the Corporation in filing such reports, undertakings and other documents with respect to the issue of the Flow- Through Shares;
- (j) the entering into of the Subscription Agreement and the transactions contemplated thereby will not result in a violation of any of the terms and provisions of any law applicable to the subscriber, or, if the subscriber is not a natural person, any of its constating documents, or of any agreement to which the subscriber is a party or by which it is bound;
- (k) the subscriber waives any right that the subscriber may have to any potential incentive grants, credits and similar or like payments or benefits which accrue as a result of the operations relating to the Qualifying Expenditures (defined in the Subscription Agreement to mean expenses that are CEE on the date they are incurred) and acknowledges that all such grants, credits, payments or benefits accrue to the benefit of the Corporation;
- (l) the subscriber is aware that the Flow-Through Shares have not been and will not be registered under the 1933 Act or the securities laws of any state and that these securities may not be offered or sold in the United States without registration under the 1933 Act or compliance with requirements of an exemption from registration, and the

applicable laws of all applicable states or an exemption from such registration requirements is available and acknowledges that the Corporation has no present intention of filing a registration statement under the 1933 Act in respect of the Flow-Through Shares;

- (m) the Flow-Through Shares have not been offered to the subscriber in the United States, and the individuals making the order to purchase the Flow-Through Shares and executing and delivering the Subscription Agreement on behalf of the subscriber were not in the United States when the order was placed and the Subscription Agreement was executed and delivered;
- (n) the subscriber is not a "U.S. Person" (as that term is defined by Regulation S under the 1933 Act) and is not acquiring the Flow-Through Shares on behalf of, or for the account or benefit of, a U.S. Person or a person in the United States;
- (o) the subscriber undertakes and agrees that the subscriber will not offer or sell the Flow-Through Shares in the United States unless such securities are registered under the 1933 Act and the securities laws of all applicable states of the United States or an exemption from such registration requirements is available, and further that the subscriber will not resell the Flow-Through Shares except in accordance with the provisions of applicable securities legislation, regulations, rules, policies and orders and stock exchange rules;
- (p) no person has made to the subscriber any written or oral representations:
 - (i) that any person will resell or repurchase the Flow-Through Shares;
 - (ii) that any person will refund the purchase price of the Flow-Through Shares; or
 - (iii) as to the future price or value of the Flow-Through Shares;
- (q) the covenants, representations and warranties of the subscriber stated or referred to in the Subscription Agreement shall be true and correct both as of the execution of the Subscription Agreement and as of the Closing Date of the Offering as if repeated at such time, and will survive the completion of the issuance of the Flow-Through Shares and the completion of the transactions contemplated under the Subscription Agreement and the Underwriting Agreement;
- (r) it acknowledges that it has been encouraged to obtain independent legal, income tax and investment advice with respect to its subscription for the Flow Through Shares and accordingly, has had the opportunity to acquire an understanding of the meanings of all terms contained herein relevant to the Subscriber for purposes of giving representations, warranties and covenants under this Subscription Agreement; and
- (s) the Subscription Agreement is subject to acceptance by the Corporation and is effective only upon such acceptance.

RISK FACTORS

An investment in the Offered Shares is subject to certain risks. An investor should consider carefully the risk factors in this short form prospectus and as described under "Risk Factors" in the AIF which are incorporated into and form part of this short form prospectus. All statements regarding the Corporation's business should be viewed in light of these risk factors. Investors should consider carefully whether an investment in the Offered Shares is suitable for them in the light of the information set forth in this short form prospectus and in the documents incorporated by reference. Such information does not purport to be an exhaustive list. If any of the identified risks were to materialize, the Corporation's business, financial position, results and/or future operations may be materially affected. Additional risks and uncertainties not presently known to the Corporation, or which the Corporation currently deems immaterial, may also have an adverse effect upon the Corporation. **Investors should carefully review and consider all other information contained in this short form prospectus and in the documents incorporated by reference before making an investment decision and consult their own professional advisors where necessary.**

Canadian Tax Treatment of Flow-Through Shares

The tax treatment of oil and gas activities and flow-through shares constitutes a major consideration of an investment in the Flow-Through Shares. There is no guarantee that the current tax laws and administrative practices of both the federal and

provincial tax authorities will not be altered in a materially unfavourable way and there is no guarantee that there will be no material differences of opinion between the federal and provincial tax authorities with respect to the tax treatment of the Flow-Through Shares, the status of such Flow-Through Shares and the activities contemplated by the Corporation's exploration and development programs. There is no guarantee that the CEE incurred by the Corporation, or the expected tax deductions claimed by investors will be accepted by the CRA. See "*Canadian Federal Income Tax Considerations*".

Notwithstanding its agreement to do so (see "*Subscription for Flow-Through Shares*") there is no guarantee that the Corporation will expend an amount equal to the total proceeds of the sale of the Flow-Through Shares on or prior to December 31, 2010 to incur qualifying CEE. If the Corporation does not expend an amount equal to the proceeds from the sale of the Flow-Through Shares to incur qualifying CEE prior to December 31, 2010, it will be required to reduce the amount of CEE that it has renounced in favour of the investors and the investors will be reassessed accordingly. Subscribers will not be subject to penalties for any such reassessment but interest will be payable on such additional tax if such tax is not paid by April 30, 2011.

An investment in Flow-Through Shares yields the greatest tax benefits to investors whose income is subject to high marginal tax rates.

Forward-Looking Information May Prove to be Inaccurate

Investors are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumptions and uncertainties are found in this short form prospectus under the heading "*Cautionary Statements - Forward-Looking Statements*".

Significant Fluctuations in Market Price of Common Shares

The trading price of the Common Shares has been and may continue to be subject to significant fluctuations, which may be based on factors unrelated to its financial performance or prospects. These factors include macroeconomic developments in North America and globally, and market perceptions of the attractiveness of particular industries. The price of the Common Shares may also be significantly affected by changes in commodity prices, currency exchange fluctuation or in the Corporation's financial condition or results of operations. Other factors unrelated to the performance of Monterey that may have an effect on the price of the securities of Monterey include the following: the extent of analytical coverage available to investors concerning the business of Monterey may be limited if investment banks with research capabilities do not follow Monterey's securities; lessening in trading volume and general market interest in Monterey's securities may affect an investor's ability to trade significant numbers of securities of Monterey; the size of Monterey's public float may limit the ability of some institutions to invest in Monterey's securities. If an active market for the securities of Monterey does not continue, the liquidity of an investor's investment may be limited and the price of the securities of Monterey may decline.

INTEREST OF EXPERTS

Certain legal matters relating to the Offering will be passed upon by Burnet, Duckworth & Palmer LLP on behalf of the Corporation, and by Burstall Winger LLP on behalf of the Underwriters.

As at the date hereof, the partners and associates of each of Burnet, Duckworth & Palmer LLP and Burstall Winger LLP, as a group, each owned, directly or indirectly, less than 1% of the outstanding Common Shares. As at the date hereof, the principals of GLJ Petroleum Consultants Ltd., the Corporation's independent reserves evaluator, as a group, owned, directly or indirectly, less than 1% of the outstanding Common Shares. Mr. John A. Brussa, a director of the Corporation is a Partner of Burnet, Duckworth & Palmer LLP, and Jacob R. Hoepfner, the Corporate Secretary of the Corporation, is an Associate at Burnet, Duckworth & Palmer LLP, which law firm renders legal services to the Corporation.

KPMG LLP, Chartered Accountants and Deloitte & Touche LLP, Chartered Accountants, are each independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are KPMG LLP, Chartered Accountants, 2700, 205 – 5th Avenue S.W., Calgary, Alberta T2P 4B9.

Alliance Trust Company, at its principal offices in Calgary, Alberta and the Bank of New York Trust Company of Canada in Toronto, Ontario have been appointed as the registrar and transfer agent for the Common Shares.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENTS**Consent of KPMG LLP**

The Board of Directors of Monterey Exploration Ltd.

We have read the short form prospectus dated September 24, 2009 relating to the sale and issue of 5,450,000 common shares of Monterey Exploration Ltd. ("**Common Shares**") and 2,650,000 Common Shares to be issued on a flow-through basis under the *Income Tax Act* (Canada). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of Monterey Exploration Ltd. on the balance sheets of Monterey Exploration Ltd. as at December 31, 2008 and 2007 and the statements of earnings and retained earnings and cash flows for the years then ended. Our report is dated March 19, 2009.

Calgary, Canada
September 24, 2009

(signed) "*KPMG LLP*"
Chartered Accountants

Consent of Deloitte & Touche LLP

We have read the short form prospectus of Monterey Exploration Ltd. ("**Monterey**") dated September 24, 2009 relating to the issue and sale of 5,450,000 common shares and 2,650,000 common shares to be issued as "flow-through shares". We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned prospectus of our report to the shareholders of Upper Lake Oil & Gas Ltd. ("**Upper Lake**") on the balance sheet of Upper Lake as at December 31, 2007 and the statements of operations, comprehensive loss and deficit and cash flows for the initial period from October 12, 2007 to December 31, 2007 included in the business acquisition report of Monterey dated October 30, 2008 relating to the acquisition by Monterey of all of the issued and outstanding shares of Upper Lake. Our report is dated March 20, 2008.

Calgary, Canada
September 24, 2009

(signed) "*Deloitte & Touche LLP*"
Chartered Accountants

CERTIFICATE OF THE CORPORATION

Dated: September 24, 2009

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario and New Brunswick.

MONTEREY EXPLORATION LTD.

(signed) Patrick D. Manuel
President and Chief Executive Officer

(signed) David M. Fisher
Vice President, Finance and Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

(signed) John A. Brussa
Director

(signed) Christopher G. Webster
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: September 24, 2009

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario and New Brunswick.

CORMARK SECURITIES INC.

By: (signed) Ryan A. Shay

FIRSTENERGY CAPITAL CORP.

By: (signed) Nicholas J. Johnson

**ACUMEN CAPITAL FINANCE
PARTNERS LIMITED**

By: (signed) W. Scott McGregor

**WELLINGTON WEST CAPITAL
MARKETS INC.**

By: (signed) Jeff Reymer

SALMAN PARTNERS INC.

By: (signed) Caroline M. Troy