A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Nova Scotia and New Brunswick but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.

*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, 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.*

PRELIMINARY SHORT FORM PROSPECTUS

NEW ISSUE **February 5, 2010**

Monterey EXPLORATION LTD.

$20,000,400
4,762,000 Common Shares

Price:
$4.20 per Common Share

This short form prospectus qualifies the distribution of 4,762,000 common shares ("**Common Shares**") of Monterey Exploration Ltd. ("**Monterey**" or the "**Corporation**") at a price of $4.20 per Common Share (the "**Offering**"). See "*Plan of Distribution*".

The issued and outstanding Common Shares are listed on the Toronto Stock Exchange (the "**TSX**") under the trading symbol "MXL". On February 1, 2010, 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 $4.47. The price of the Common 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 Wellington West Capital Markets Inc., Acumen Capital Finance Partners Limited and GMP Securities L.P. (collectively, the "**Underwriters**"). See "*Plan of Distribution*". The Corporation has applied to list the Common Shares offered under this short form prospectus on the TSX. The listing of the Common Shares offered under this short form prospectus will be subject to the Corporation fulfilling all of the requirements of the TSX.

	Price to the Public	Underwriters' Fee(1)	Net Proceeds to the Corporation(1)(2)
Per Common Share	$4.20	$0.21	$3.99
Total	$20,000,400	$1,000,020	$19,000,380

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 offered under this short form prospectus 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 propose to offer the Common Shares offered under this short form prospectus initially at the offering prices specified above. After a reasonable effort has been made to sell all of the Common Shares offered under this short form prospectus 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 February 19, 2010 or such other date not later than February 26, 2010 (the "**Closing Date**") as the Corporation and the Underwriters may agree. Subscriptions for Common Shares offered under this short form prospectus 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 will be available for delivery at the closing of the Offering on the Closing Date. Delivery of the Common Shares is conditional upon payment on closing of $4.20 per Common 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.

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ABBREVIATIONS

Oil and Natural Gas Liquids

bbl	Barrel
bbls	Barrels
mbbls	thousand barrels
bbls/d	barrels of oil per day
mmbbls	million barrels
NGLs	natural gas liquids (consisting of any one or more of propane, butane and condensate)
mstb	thousand stock tank barrels of oil
bopd	barrels of production per day
e^3m^3	thousand cubic metres
$e^3m^{3/}d$	thousands cubic metres per day

Natural Gas

mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
m^3	cubic metres
mmbtu	million British Thermal Units
psi	pound-force per square inch
GJ	gigajoule
GJ/d	gigajoules per day
kpa	kilopascals

Other

AECO	natural gas storage facility located at Suffield, Alberta.
boe	barrel of oil equivalent, using the conversion factor of six (6) mcf of natural gas being equivalent to one bbl of oil. The conversion factor used to convert natural gas to oil equivalent is not necessarily based upon either energy or price equivalents at this time.
boe/d	barrel of oil equivalent per day.
mcfge	thousand cubic feet of gas equivalent.
Bcfge	billion cubic feet of gas equivalent.
mboe	thousand barrels of oil equivalent.
mmboe	million barrels of oil equivalent.
WTI	West Texas Intermediate, the reference price paid in U.S. dollars, at Cushing, Oklahoma for crude oil of standard grade.
API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil.
km	Kilometres

Boes and mcfges may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl and a mcfge conversion ratio of 1 bbl: 6 mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

CONVERSION

The following table sets forth certain standard conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls oil	6.290
Feet	metres	0.305
Metres	feet	3.281
Miles	kilometres	1.609
Kilometres	miles	0.621
acres (Alberta)	hectares	0.400
hectares (Alberta)	acres	2.500
Gigajoules	mmbtu	0.95

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 the Offering;
- the use of proceeds from the October Offering (as defined herein);
- the obtaining of all required regulatory approvals in connection with the Offering;
- the closing date of the Offering;
- the development of the Corporation's Montney gas project on the Groundbirch Lands (as defined herein), including the construction of a natural gas processing facility;
- the interpretation of geological formations from prior exploration and development activities;
- 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;
- uncertainties inherent in estimating quantities of oil and natural gas reserves and cash flows derived therefrom;
- 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 on commercially favourable terms 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;
- 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;
- 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;
- 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: the price of oil and natural gas; future exchange rates; the impact of increasing competition; conditions in general economic and financial markets; that drilling and related equipment will be available; that skilled labour will be available; 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 that the Corporation will be able 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. 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.

Presentation of Oil and Gas Reserves Information

All oil and natural gas reserve information contained in this short form prospectus and the documents incorporated by reference herein has been prepared and presented in accordance with National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities ("**NI 51-101**"). The actual oil and natural gas reserves and future production may be greater than or less than the estimates provided in this short form prospectus and in the documents incorporated by reference herein. The estimated future net revenue from the production of the disclosed oil and natural gas reserves does not represent the fair market value of these reserves.

Discovered Petroleum Initially in Place

In January 2010, Monterey engaged GLJ Petroleum Consultants Ltd. ("**GLJ**"), its independent reserves evaluator, to prepare an updated independent evaluation (the "**Montney Resource Evaluation**") of the Corporation's Discovered Petroleum Initially-in-Place ("**DPIIP**") on 11 gross (10 net) acres of the 15 gross sections of the Corporation's Montney landholdings in the Groundbirch area of northeast British Columbia (the "**Groundbirch Lands**"). The Montney Resource Evaluation is dated January 14, 2010 and is effective December 31, 2009. DPIIP 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. DPIIP is divided into recoverable and unrecoverable portions, with the estimated future recoverable portion classified as reserves and contingent resources. While a certain portion of the DPIIP evaluated and disclosed herein has been classified as proved or probable reserves, additional geological and engineering study is required to determine the portion of DPIIP that can be subcategorized as contingent resources. There is no certainty that it will be commercially viable to produce any portion of the recoverable DPIIP evaluated and disclosed herein, except to the extent identified as proved or probable reserves herein. The DPIIP, as evaluated and disclosed herein, is all natural gas.

Significant positive and negative factors relating to the resources estimates in the Montney Resource Evaluation include: (i) net gas pay could be thicker or thinner than that established by the wells drilled to date; (ii) porosity and water saturation could be higher or lower than that estimated to date; and (iii) the reserves assigned to Monterey by GLJ in the Montney Resource Evaluation for the well at 4-30 (as defined herein) and offset drilling locations are based on type curves derived from analogous wells and given the limited data in the immediate vicinity of the Corporation's lands, it is possible that the Montney formation could perform better or worse than such analogous wells.

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 nine month periods ended September 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 nine month periods ended September 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 by the Corporation of all of the issued and outstanding shares of Upper Lake Oil & Gas Ltd.;

(h) the material change report of the Corporation dated September 14, 2009 in respect of the October Offering;

(i) the material change report of the Corporation dated November 23, 2009 in respect of the results of the Corporation's horizontal test well located on the Groundbirch Lands at 4-30-80-20 W6M; and

(j) the material change report of the Corporation dated February 4, 2010 in respect of the Offering and the participation in the Offering by Pengrowth Corporation (the "**Offering Material Change Report**").

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 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

Groundbirch Project

In November 2009, Monterey announced that it had drilled and completed its first Montney horizontal development well at 4-30-80-20 W6M ("**4-30**"), which is located in the middle of the Corporation's 100% working interest five section eastern land block (the "**Eastern Block**") at Groundbirch. Also in November 2009, Monterey spud a second 100% working interest horizontal test well at 2-21-80-21 W6M ("**2-21**"), located on the 10 (8.0 net) section western land block (the "**Western Block**") at Groundbirch. The 2-21 well was drilled vertically for evaluation and testing purposes and then drilled horizontally in the upper Montney zone to approximately 4,200 meters total length and cased in the second week of January 2010. Horizontal completion operations on the well located at 2-21 on the primary upper Montney zone are scheduled to commence in mid- February.

On January 19, 2010, Monterey received licenses for 2 multi-well horizontal development pads on the Western Block at 13-27-80-21 W6M ("**13-27**"). Drilling at 13-27 commenced on January 29, 2010. A vertical stratigraphic test location at 16-31-80-21 W6M ("**16-31**") was also constructed and a second drilling rig commenced drilling at that location on January 30, 2010. One additional multi-well horizontal development pad on the Eastern Block is currently being surveyed and Monterey intends to submit an application for the regulatory drilling license in mid February 2010.

Monterey has also received regulatory approval to construct and commission a 28 mmcf/d natural gas processing facility at 6-19-80-20 W6M ("**6-19**"). The Corporation has initiated the construction of this 100 percent working interest facility and has secured the various service providers and suppliers to begin engineering design and fabrication of certain plant components including compression and dehydration components. Clearing and preparation of the plant site is scheduled to begin prior to March 31, 2010 with construction activities to begin in the second half of 2010.

Montney Resource Evaluation

In January 2010, Monterey engaged GLJ, its independent reserves evaluator, to prepare the Montney Resource Evaluation in respect of the Corporation's DPIIP on 11 gross (10 net) acres of the Corporation's 15 gross sections of Montney landholdings on the Groundbirch Lands. The Montney Resource Evaluation is dated January 14, 2010 and is effective December 31, 2009.

In the Montney Resource Evaluation, GLJ provides a best estimate of 1.3 trillion cubic feet of DPIIP net to Monterey on the Groundbirch Lands. Monterey anticipates that its 2009 exploration and development activities and the current 2010 scheduled operations will continue to provide additional information to help assess the ultimate potential of the Groundbirch Lands and additional Monterey lands immediately offsetting the 11 sections of DPIIP evaluated lands. Total proved reserves of 17.3 Bcfge and total proved plus probable reserves of 38.5 Bcfge as at December 31, 2009 were assigned to the upper Montney formation at Groundbirch based exclusively on the drilling, completion and flow test results of the 4-30 well. The total Montney proved reserves assigned to the Groundbirch Lands of 17.3 Bcfge and total proved plus probable reserves of 38.5 Bcfge as at December 31, 2009 represents approximately 1% and 3%, respectively, of the current DPIIP. The assigned reserves are booked based on the results of the 4-30 well and will require an additional 4 wells to be drilled with future development capital of $47 million including the completion of 4 wells, the tie-in of 5 wells and the construction of a processing facility.

While GLJ has provided a best estimate of the DPIIP for the Montney formation on 11 (10 net) sections of Monterey's 15 gross sections of prospective Groundbirch Lands, it should be noted that given the early stages of development, the best estimate of DPIIP may change significantly in the future with further exploration and development activity. The amount of contingent resources, as defined in the COGE Handbook, has yet to be determined and additional geological and engineering study is required to determine the portion of DPIIP that can be subcategorized as contingent resources. Other than the resources which have been booked as reserves as described above, a recovery factor for the remaining resources has not been estimated by GLJ and a recovery project cannot be defined for these volumes of DPIIP at this time. There is no certainty that it will be commercially viable to produce any portion of the natural gas currently classified as DPIIP except to the extent identified as proved or probable reserves. See "*Cautionary Statements – Discovered Petroleum Initially in Place" and "Risk Factors*" herein and in the AIF.

October 2009 Financing

On October 1, 2009, Monterey completed its previously announced offering of 5,450,000 Common Shares at an issue price of $1.85 per share and 2,650,000 Common Shares issued on a flow-through basis (the "**Flow-Through Shares**") at an issue price of $2.28 per share for total gross proceeds of approximately $16.1 million (the "**October Offering**"). The gross proceeds from the sale of the Common Shares pursuant to the October Offering are being used to finance Monterey's exploration and development of its Montney gas project located on the Groundbirch Lands. The gross proceeds from the sale of the Flow-Through Shares are being used by Monterey to fund ongoing exploration activities eligible for Canadian exploration expenses.

Participation in the Offering by Pengrowth Corporation

Pengrowth Corporation ("**Pengrowth**"), who currently holds approximately 19.6 percent of the outstanding Common Shares, has agreed to subscribe, directly or indirectly, for 952,500 Common Shares under the Offering. Following closing of the Offering, Pengrowth will continue to hold approximately 19.6 percent of the outstanding Common Shares. See "*Documents Incorporated by Reference – Offering Material Change Report*".

Reserves Update

The following is a summary of reserves data and other oil and gas information of Monterey as at December 31, 2009. The reserves were evaluated by GLJ effective December 31, 2009 in a report by GLJ dated January 14, 2010 (the "**GLJ Report**").

The reserves data set forth below is based upon the GLJ Report. The GLJ Report summarizes the crude oil, natural gas liquids and natural gas reserves of Monterey and the net present values of future net revenue for these reserves using forecast prices and costs. The GLJ Report has been prepared in accordance with the standards contained in the COGE Handbook and the reserve definitions contained in NI 51-101 and the COGE Handbook. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which Monterey believes is important to the readers of this information. Monterey engaged GLJ to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of Monterey's reserves are in Canada and, specifically, in the provinces of British Columbia and Alberta.

The information relating to the oil and gas reserves of Monterey contains forward-looking statements relating to future net revenues, forecast capital expenditures, future development plans and costs related thereto, forecast operating costs, anticipated production and abandonment costs. See "*Cautionary Statements – Forward Looking Statements*" herein and "*Risk Factors*" herein and in the AIF and "Industry Conditions" in the AIF.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of Monterey's crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
AS OF DECEMBER 31, 2009
FORECAST PRICES AND COSTS

	Light and Medium Oil		Natural Gas		Natural Gas Liquids	
Reserves Category	**Gross (mbbl)**	**Net (mbbl)**	**Gross (mmcf)**	**Net (mmcf)**	**Gross (mbbl)**	**Net (mbbl)**
Proved Developed Producing	270	234	15,045	12,869	331	258
Proved Developed Non-Producing	6	5	2,321	1,997	17	14
Proved Undeveloped	65	53	20,312	17,209	54	44
Total Proved	341	291	37,678	32,075	402	316
Total Probable	131	110	42,474	36,088	315	243
Total Proved Plus Probable	472	401	80,152	68,163	717	559

	Net Present Values Of Future Net Revenue ($000s)						
	Before Income Taxes Discounted At (%/year)					Unit Value Before Income Tax Discounted at 10%/year	
Reserves Category	**0**	**5**	**10**	**15**	**20**	**($/mcfge)**	**($/boe)**
Proved Developed Producing	73,196	58,005	48,457	41,917	37,151	3.06	18.83
Proved Developed Non-Producing	5,958	4,496	3,408	2,611	2,019	1.62	9.70
Proved Undeveloped	61,583	30,020	14,359	5,391	(294)	0.81	4.84
Total Proved	140,737	92,522	66,224	49,920	38,876	1.85	11.13
Total Probable	181,554	90,658	53,926	35,047	23,830	1.41	8.47
Total Proved Plus Probable	322,291	183,179	120,150	84,966	62,706	1.63	9.75

TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS OF DECEMBER 31, 2009
FORECAST PRICES AND COSTS
($000s)

Reserves Category	Revenue	Royalties	Operating Costs	Capital Development Costs	Abandonment Costs	Future Net Revenue Before Income Taxes
Proved	343,168	53,958	97,607	47,155	3,713	140,737
Proved Plus Probable	741,378	113,135	198,868	101,766	5,318	322,291

FUTURE NET REVENUE
BY PRODUCTION GROUP
AS OF DECEMBER 31, 2009
FORECAST PRICES AND COSTS

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year) ($000s)	Unit Value (discounted at 10%/year) ($/mcfge)	($/boe)
Proved Reserves	Light and Medium Oil (including solution gas and by-products)	9,050	4.71	28.25
	Natural Gas (excludes solution gas)	57,173	1.69	10.15
	Total	66,224	1.85	11.13
Proved Plus Probable	Light and Medium Oil (including solution gas and by-products)	11,549	4.34	26.04
	Natural Gas (excluding solution gas)	108,600	1.52	9.14
	Total	120,150	1.63	9.75

Notes to Reserves Data Tables:

(1) Columns may not add due to rounding.
(2) Monterey has no unconventional reserves (bitumen, synthetic crude oil, natural gas from coal or heavy oil).
(3) The crude oil, natural gas liquids and natural gas reserve estimates presented are based on the definitions and guidelines contained in the COGE Handbook. A summary of those definitions are set forth below:

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions, which are generally accepted as being reasonable and shall be disclosed.

Reserves are classified according to the degree of certainty associated with the estimates:

(a) **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

(b) **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Other criteria that must also be met for the categorization of reserves are provided in the COGE Handbook.

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

(a) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

(i) **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

(ii) **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut in, and the date of resumption of production is unknown.

(b) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

(a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and

(b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in the COGE Handbook.

1. "**forecast prices and costs**" are those:

(a) generally acceptable as being a reasonable outlook of the future; and

(b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which Monterey is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table under the "Pricing Assumptions" below identifies benchmark reference prices that apply to Monterey.

2. "**development well**" means a well drilled inside the established limits of an oil or gas reservoir or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

3. "**development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from the reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

(a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines, to the extent necessary in developing the reserves;

(b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and the wellhead assembly;

(c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and

(d) provide improved recovery systems.

4. "**exploration well**" means a well that is not a development well, a service well or a stratigraphic test well.

5. "**stratigraphic test well**" means a drilling effort, geologically directed, to obtain information pertaining to a specific geological condition. Ordinarily, such wells are drilled without the intention of being completed for hydrocarbon production and include wells for the purpose of core tests and all types of expendable holes related to hydrocarbon exploration.

Pricing Assumptions

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS
FORECAST PRICES AND COSTS

Year	WTI Cushing Oklahoma ($US/bbl)	Light Sweet Crude Oil at Edmonton 40°API ($Cdn/bbl)	NATURAL GAS AECO-C Spot ($Cdn/MMBtu)	NATURAL GAS LIQUIDS Edmonton Propane ($Cdn/bbl)	NATURAL GAS LIQUIDS Edmonton Butane ($Cdn/bbl)	NATURAL GAS LIQUIDS Edmonton Pentanes Plus ($Cdn/bbl)	INFLATION RATES (1) %/Year	EXCHANGE RATE (2) ($US/$Cdn)
Estimate								
2009	61.56	66.43	4.20	37.58	47.31	67.99	0.3	0.880
Forecast								
2010	80.00	83.26	5.96	52.46	64.11	84.93	2.0	0.950
2011	83.00	86.42	6.79	54.45	66.54	88.15	2.0	0.950
2012	86.00	89.58	6.89	56.43	68.98	91.37	2.0	0.950
2013	89.00	92.74	6.95	58.42	71.41	94.59	2.0	0.950
2014	92.00	95.90	7.05	60.42	73.84	97.82	2.0	0.950
2015	93.84	97.84	7.16	61.64	75.33	99.79	2.0	0.950
2016	95.72	99.81	7.42	62.88	76.85	101.81	2.0	0.950
2017	97.64	101.83	7.95	64.15	78.41	103.86	2.0	0.950
2018	99.59	103.88	8.52	65.45	79.99	105.96	2.0	0.950
2019+	101.58	105.98	8.69	66.77	81.60	108.10	2.0	0.950

Notes:

(1) 2% inflation rates used for forecasting prices and costs.
(2) Exchange rates used to generate the benchmark reference prices in this table.
(3) Pricing assumptions provided by GLJ as used in the GLJ Report.

Reconciliation of Changes in Reserves

The following table sets out the reconciliation of Monterey's gross reserves based on forecast prices and costs by principal product type.

	Light and Medium Oil			Associated and Non-Associated Gas			Natural Gas Liquids		
Factors	**Gross Proved (mbbl)**	**Gross Probable (mbbl)**	**Gross Proved Plus Probable (mbbl)**	**Gross Proved (mmcf)**	**Gross Probable (mmcf)**	**Gross Proved Plus Probable (mmcf)**	**Gross Proved (mbbl)**	**Gross Probable (mbbl)**	**Gross Proved Plus Probable (mbbl)**
December 31, 2008	345	93	437	29,621	23,350	52,971	461	313	774
Discoveries	-	-	-	17,654	23,889	41,542	37	50	88
Extensions & Improved Recovery	-	-	-	-	-	-	-	-	-
Infill Drilling	65	51	116	20	16	36	3	2	5
Technical Revisions	(3)	(12)	(15)	(306)	(2,021)	(2,327)	27	(38)	(11)
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	(3,834)	(1,719)	(5,552)	(23)	(10)	(33)
Economic Factors	-	-	-	(1,656)	(1,040)	(2,696)	(3)	(2)	(5)
Production	(66)	-	(66)	(3,821)	-	(3,821)	(100)	-	(100)
December 31, 2009 (1)	341	131	472	37,678	42,474	80,152	402	315	717

Notes:

(1) The Corporation has no unconventional reserves (bitumen, synthetic crude oil, natural gas from coal or heavy oil).
(2) Numbers may not add due to rounding.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following tables set forth the proved undeveloped reserves and the probable undeveloped reserves, each by product type, first attributed to Monterey in each of the financial years ended December 31, 2007, 2008 and 2009.

Proved Undeveloped Reserves

Year	**Light and Medium Oil (mbbl)**	**Natural Gas (mmcf)**	**Natural Gas Liquids (mbbl)**	**boe (mbbl)**
Prior	-	1,716	7	3
2007	16	4,337	36	775
2008	-	4,207	21	722
2009	65	17,674	40	3,501

Probable Undeveloped Reserves

Year	**Light and Medium Oil (mbbl)**	**Natural Gas (mmcf)**	**Natural Gas Liquids (mbbl)**	**boe (mbbl)**
Prior	-	3,415	59	628
2007	3	7,708	42	1,330
2008	-	6,488	73	1,154
2009	51	24,069	61	4,123

Proved and probable undeveloped reserves have been estimated in accordance with procedures and standards contained in the COGE Handbook. The majority of undeveloped reserves are scheduled to be developed within the next two to four years. For the Groundbirch area, Monterey plans to develop proved and probable undeveloped reserves over a period of four years. This phasing will allow Monterey to optimize capital allocation and facility utilization. A significant capital program is required for new wells in the Groundbirch area and while some of these expenditures are planned to occur in 2010 and beyond, the timing dictated by but not limited to, availability of funding, changes in commodity prices and the cost of exploration and development activities, availability of services, regulatory and other approvals and weather. For Monterey's other properties, generally, once proved and/or probable undeveloped reserves are identified they are scheduled to be developed within two years. A number of factors that could result in delayed or cancelled development are as follows:

- changing economic conditions (due to pricing, operating and capital expenditure fluctuations);
- changing technical conditions (production anomalies (such as water breakthrough, accelerated depletion));
- multi-zone developments (such as a prospective formation completion may be delayed until the initial completion is no longer economic);
- a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and
- surface access issues (i.e. landowners, weather conditions, regulatory approvals).

Future Development Costs

The following table sets forth development costs deducted in the estimation of Monterey's future net revenue attributable to the reserve categories noted below ($000s):

	Undiscounted Future Development Capital	
Year	**Proved Reserves**	**Proved Plus Probable Reserves**
2010	43,646	55,177
2011	2,830	21,589
2012	-	10,846
2013	-	12,973
2014	-	-
2015	621	621
2016	-	-
Thereafter	57	560
Total	**47,155**	**101,766**

Monterey generally has three sources of funding available to finance its capital expenditure programs: internally generated cash flow from operations, debt financing when appropriate and new equity issues of Common Shares, if available on favourable terms. There can be no guarantee that the Corporation will have the financial means to develop, or that the board of directors of the Corporation will allocate sufficient funding to develop, the reserves attributed to Monterey in the GLJ Report. Failure to develop those reserves could have a negative impact on the Corporation.

Other Oil and Gas Information

Properties with no Attributable Reserves

The following table sets out Monterey's developed and undeveloped properties as at December 31, 2009 in which Monterey has a working interest.

	Developed Acres		**Undeveloped Acres**		**Total Acres**	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
Alberta	49,209	28,856	17,605	10,077	66,814	38,933
British Columbia	72,150	37,284	112,075	71,091	184,225	108,375
Total	121,359	66,140	129,680	81,168	251,039	147,308

There are no material work commitments in respect of Monterey's undeveloped properties. Monterey expects that rights to explore, develop and/or exploit 11,253 gross (9,325 net) acres of its undeveloped land holdings will expire by December 31, 2010 although Monterey plans to drill or submit applications to continue selected portions of the above acreage.

Forward Contracts and Marketing

Monterey is not bound by any agreement (including any transportation agreement), directly or through an aggregator, under which it is precluded from fully realizing, or may be protected from the full effect of, future market prices for oil or natural gas other than as set forth in the table below. In addition, Monterey's transportation obligations or commitments for future physical deliveries of oil and natural gas do not exceed Monterey's expected related future production from its proved reserves, estimated using forecast prices and costs, as disclosed herein.

As at February 1, 2010, Monterey had the following commodity contracts in place:

Commodity Contract	Period	Volume	Pricing Point	Price
Natural gas sale – fixed price	February 1, 2010 – March 31, 2010	2,000 GJ/d	AECO	$5.40/GJ
Natural gas sale – fixed price	April 1, 2010 – June 30, 2010	1,000 GJ/d	AECO	$5.42/GJ
Natural gas sale – fixed price	April 1, 2010 – June 30, 2010	1,000 GJ/d	AECO	$5.425/GJ

CONSOLIDATED CAPITALIZATION

There have been no material changes in the share capitalization or in the indebtedness of Monterey since September 30, 2009 other than: (i) a decrease in bank debt to approximately $22.6 million as at February 4, 2010; and (ii) the receipt of approximately $15.1 million of net proceeds from the issuance of 5,450,000 Common Shares and 2,650,000 Flow-Through Shares in connection with the October Offering. The Corporation's bank debt currently consists of guaranteed notes drawn under the Corporation's credit facility (the "**Credit Facility**") with $10.6 million of such guaranteed notes maturing on February 25, 2010 and the balance maturing on March 5, 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 (after deducting the Underwriters' fees of $1,000,020 and expenses of the Offering estimated at $225,000) and the use of proceeds discussed herein, Monterey anticipates an initial reduction in bank debt of $10.6 million on February 25, 2010 in connection with the maturing of the guaranteed notes. This initial reduction of $10.6 million may be redrawn and applied as needed to fund the Corporation's ongoing capital expenditure program. See "*Use of Proceeds*". Monterey will have 45,764,500 Common Shares outstanding after giving effect to the Offering. As at the date hereof, Monterey has outstanding an aggregate of 3,968,166 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 February 4, 2010, there were 41,002,500 Common Shares issued and outstanding and an additional 3,968,166 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 winding-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 October 1, 2009, Monterey issued 5,450,000 Common Shares at an issue price of $1.85 per share and 2,650,000 Flow-Through Shares at an issue price of $2.28 per share for total gross proceeds of approximately $16.1 million in connection with the October Offering;

2. on October 15, 2009, Monterey issued stock options under its Option Plan to acquire an aggregate of 90,000 Common Shares at an exercise price of $2.40 per Common Share;

3. on November 30, 2009, Monterey issued stock options under its Option Plan to acquire an aggregate of 722,500 Common Shares at an exercise price of $3.85 per Common Share; and

4. on December 7, 2009 Monterey issued stock options under its Option Plan to acquire an aggregate of 20,000 Common Shares at an exercise price of $4.40 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
2010			
January	5.83	3.95	1,503,049
February (1-4)	4.52	4.05	487,808
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	2.78	1.46	996,183
October	3.05	1.82	1,727,215
November	4.30	2.75	3,676,943
December	5.58	3.98	2,200,436

Notes:

(1) The Common Shares began trading on the TSX on September 4, 2008.
(2) On February 1, 2010, 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 $4.47. On February 4, 2010, 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 $4.07.

USE OF PROCEEDS

The net proceeds to the Corporation from the Offering are estimated to be $18,775,380 after deducting the Underwriters' fee of $1,000,020 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 on the Groundbirch Lands and other general corporate purposes. Initially, the Corporation may apply up to $10.6 million of the net proceeds to reduce outstanding indebtedness under 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 $30.1 million as at September 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 nine months ending September 30, 2009, Monterey incurred net capital expenditures of $(1,790,000) consisting of $167,000 on land and lease retention, $212,000 on geological and geophysical, $4,525,000 on drilling and completions, $1,328,000 on production and equipment facilities, $732,000 in capitalized general and administrative and office furniture, equipment and software and received $8,754,000 in respect of property dispositions.

The expected breakdown of the eventual use of the net proceeds of the Offering is anticipated to be approximately $14 million allocated to the development of the Corporation's Groundbirch project, including the drilling and completion of a well located at 13-27, the drilling of a well located at 16-31, ongoing completion operations on the well located at 2-21 and clearing and site preparation for a natural gas processing facility located at 6-19, with the remainder to be allocated to other general corporate purposes.

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 February 5, 2009 among the Corporation and the Underwriters (the "**Underwriting Agreement**") the Corporation has agreed to issue and sell an aggregate of 4,762,000 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 $4.20 per Common Share. In consideration for their services in connection with the Offering, the Underwriters will be paid a fee of $0.21 per Common Share or an aggregate amount of $1,000,020. The Corporation has also agreed to reimburse the Underwriters for expenses reasonably incurred in connection with the Offering. The offering price of the Common Shares offered under this short form prospectus 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 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 Corporation has applied to list the Common Shares offered under this short form prospectus on the TSX. The listing of such Common Shares will be subject to the Corporation fulfilling all of the requirements of the TSX.

It is expected that closing will occur on or about the Closing Date. Subscriptions for Common 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 will be available for delivery at the closing of this Offering on the Closing Date. Delivery of the Common Shares is conditional upon payment on closing of $4.20 per Common Share by the Underwriters to the Corporation.

The Underwriters propose to offer the Common Shares offered under this short form prospectus initially at the offering price specified herein. After reasonable efforts have been made to sell all of the Common Shares offered under this short form prospectus 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 offered under this short form prospectus 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 Common 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. This short form prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Common Shares in the United States.

ELIGIBILITY FOR INVESTMENT

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Corporation and Burstall Winger LLP, counsel to the Underwriters, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder (the "**Tax Act**") in force on the date hereof, proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, and written administrative and assessing practices and policies of the Canada Revenue Agency publicly available on the date hereof, provided the Common Shares are listed on a designated stock exchange (which includes the TSX) and subject to the provisions of any particular Deferred Plan (defined below), the Common Shares will be qualified investments under the Tax Act on the Closing Date 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 Common 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 in a corporation, partnership or trust with which the Corporation does not deal at arm's length for the purposes of the Tax Act. Prospective purchasers who intend to hold Common Shares in a tax-free savings account are urged to consult their own tax advisors.

RISK FACTORS

An investment in the Common 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 Common 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.**

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.

Risks Relating to the Corporation's Groundbirch Project

Operational Matters

Drilling, completion and the operation of wells in the Montney tight gas play presents certain challenges that differ from conventional oil and gas operations. Generally, such wells are more susceptible to mechanical problems associated with drilling and completion such as casing collapse and the loss of equipment in the wellbore. In addition, the fracturing of the Montney formation may be more extensive and complicated than fracturing the geological formations in Monterey's other areas of operation and generally requires greater volumes of water than conventional gas wells. As a result, the drilling and completion of wells in the Montney tight gas play tends to be more costly than drilling and completion of wells in other areas in which Monterey carries on operations.

No Current Production and Potential Limitations on Capacity

Currently, the Corporation has no production from the Groundbirch Lands and there is no natural gas processing facility located near the Groundbirch Lands. While the Corporation intends to proceed with the construction of a natural gas processing facility to enable future production from the Groundbirch Lands, there can be no assurance that a natural gas processing facility will be completed in accordance with management's timing expectations or at all, or that the Corporation will have the necessary capital to complete the construction of a natural gas processing facility. In the event that a natural gas processing facility is successfully completed and the amount of natural gas produced by Monterey exceeds the capacity of the various gathering and transportation pipelines, it may be necessary for Monterey to expand the natural gas processing factility and install additional pipelines and gathering systems. As a result of the current economic climate, the development of natural gas facilities, pipeline projects or gathering systems may not occur for lack of financing. In such event, Monterey may have to defer development of or shut in its wells awaiting a pipeline connection or capacity and/or sell natural gas production at significantly lower prices than it would otherwise realize, which may adversely affect Monterey's results of operations.

Significant Positive and Negative Factors

Significant positive and negative factors relating to the resources estimates in the Montney Resource Evaluation include: (i) net gas pay could be thicker or thinner than that established by the wells drilled to date; (ii) porosity and water saturation could be higher or lower than that estimated to date; and (iii) the reserves assigned to Monterey by GLJ in the Montney Resource Evaluation for the well at 4-30 and offset drilling locations are based on type curves derived from analogous wells and given the limited data in the immediate vicinity of the Corporation's lands, it is possible that the Montney formation could perform better or worse than such analogous wells.

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. Hoeppner, 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 is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta. Deloitte & Touche LLP, Chartered Accountants, were the auditors of Upper Lake Oil & Gas Ltd. ("**Upper Lake**") and are independent of Upper Lake 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 preliminary short form prospectus dated February 5, 2010 relating to the sale and issue of 4,762,000 common shares of Monterey Exploration Ltd. 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 preliminary 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	(signed) "*KPMG LLP*"
February 5, 2010	Chartered Accountants

Consent of Deloitte & Touche LLP

We have read the short form prospectus of Monterey Exploration Ltd. ("**Monterey**") dated February •, 2010 relating to the issue and sale of 4,762,000 common shares of Monterey. 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 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	(signed) "*•*"
•, 2010	Chartered Accountants

CERTIFICATE OF THE CORPORATION

Dated: February 5, 2010

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, Nova Scotia 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: February 5, 2010

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, Nova Scotia and New Brunswick.

CORMARK SECURITIES INC.

By: (signed) Ryan A. Shay

WELLINGTON WEST CAPITAL MARKETS INC.

By: (signed) Jeff Reymer

ACUMEN CAPITAL FINANCE PARTNERS LIMITED

By: (signed) W. Scott McGregor

GMP SECURITIES L.P.

By: (signed) Christopher T. Graham