



## **MONTEREY EXPLORATION LTD. ANNOUNCES FINANCIAL AND OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2009**

CALGARY, May 14, 2009: Monterey Exploration Ltd. ("Monterey" or the "Corporation") (TSX: MXL) is pleased to provide its financial and operating results for the three months ended March 31, 2009.

Monterey's interim financial statements for the three months ended March 31, 2009 and management's discussion and analysis for the three months ended March 31, 2009 are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on Monterey's website at [www.montereyexploration.com](http://www.montereyexploration.com).

### **FIRST QUARTER 2009 HIGHLIGHTS**

- Drilled and cased a successful exploratory test well at Groundbirch targeting the upper Montney gas formation. The operation completed the earning of 10 contiguous sections (7.5 net) directly offsetting Monterey's existing Groundbirch landholdings. The Corporation's total landholdings at Groundbirch now consist of 15 operated sections (12.5 net) concentrated in the heart of the Montney fairway.
- Achieved average daily production for the quarter of 2,451 barrels of oil equivalent per day ("boe/d"), a 71 percent increase compared with 1,435 boe/d during the comparative quarter in 2008.
- Generated quarterly funds flow from operations of \$2.6 million versus \$3.5 million of funds flow from operations generated in the first quarter of 2008. First quarter funds flow from operations per diluted share was \$0.08.
- Renewed the Corporation's credit facility whereby total funds available under the credit facility remain unchanged at \$45.0 million with the next review of the credit facility scheduled to be completed prior to June 2010.
- Completed the disposition of 1.4 net sections of undeveloped non-core Montney lands and one non-producing wellbore at Dawson on January 29, 2009 for net proceeds of \$6.0 million.

### **RECENT DEVELOPMENTS**

- Monterey engaged GLJ Petroleum Consultants Ltd. to prepare an independent evaluation of the Discovered Petroleum Initially-In-Place ("DPIP") on 5 net sections of Monterey's Montney landholdings in the Groundbirch area of northeast British Columbia ("NEBC"). The evaluation has identified a current best estimate of net 659 billion cubic feet of DPIP in the upper Montney formation. Monterey holds a working interest in an additional 10 (7.5 net) sections of Montney acreage directly offsetting the lands discussed above which have not yet been assigned any DPIP.

## FINANCIAL & OPERATING SUMMARIES

<b><u>Financial</u></b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Production Revenue<sup>(1)</sup> (000's)</b>	\$7,614	\$6,444
<b>Funds Flow from Operations<sup>(2)</sup>:</b>		
(000's)	\$2,620	\$3,301
Per share <sup>(3)</sup> :		
Basic and diluted	\$0.08	\$0.14
<b>Net Earnings / (Loss):</b>		
(000's)	(\$4,174)	\$1,111
Per share:		
Basic and diluted	(\$0.13)	\$0.04
<b>Total Capital Expenditures<sup>(4)</sup> (000's)</b>	(\$1,818)	\$12,586
<b>Ending Net Debt<sup>(5)</sup> (000's)</b>	\$33,872	\$24,101
<b>Share Data:</b>		
Outstanding:		
Common	32,902,500	20,045,700
Non-voting common	-	5,061,096
<b>Basic</b>	<b>32,902,500</b>	<b>25,106,796</b>
Stock options	3,135,666	2,150,666
<b>Fully diluted</b>	<b>36,038,166</b>	<b>27,257,462</b>
<b>Weighted average shares outstanding:</b>		
Basic	32,902,500	25,058,218
Diluted	32,932,759	25,254,541

## Operations

	Three Months Ended March 31,	
	2009	2008
<b>Average Daily Production:</b>		
Light oil and NGL (bbl/d)	461	241
Natural gas (mcf/d)	11,939	7,168
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<b>Oil equivalent (boe/d)</b>	<b>2,451</b>	<b>1,435</b>
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<b>Unit of Production Summary:</b>		
Average prices:		
Light oil and NGL (\$/bbl)	37.84	83.07
Natural gas <sup>(1)</sup> (\$/mcf)	5.59	7.09
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<b>Oil equivalent<sup>(1)</sup> (\$/boe)</b>	<b>34.52</b>	<b>49.34</b>
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<b>Funds flow from Operations<sup>(2)</sup> Summary (\$/boe)</b>		
Revenue <sup>(1)</sup>	34.52	49.34
Royalties	(5.53)	(9.95)
Operating expenses	(11.54)	(12.45)
Transportation expenses	(1.85)	(1.67)
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<b>Operating income<sup>(6)</sup></b>	<b>15.60</b>	<b>25.27</b>
Unrealized (gain) on financial instruments	-	7.59
General & administrative <sup>(7)</sup>	(2.76)	(3.68)
Interest expense	(0.95)	(2.02)
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<b>Funds flow from operations<sup>(2)</sup> (\$/boe)</b>	<b>11.89</b>	<b>27.16</b>

## Drilling

	Three Months Ended March 31,	
	2009	2008
<b>Gross Wells:</b>		
Natural gas	1	7
Oil	-	-
Dry & abandoned	-	-
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<b>Total</b>	<b>1</b>	<b>7</b>
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<b>Net Wells:</b>		
Natural gas	1.0	2.9
Oil	-	-
Dry & abandoned	-	-
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<b>Total</b>	<b>1.0</b>	<b>2.9</b>

## **2009 FIRST QUARTER OPERATIONAL UPDATE**

Monterey's first quarter capital program was directed towards tie-in operations on four wells (1.75 net) that were drilled and completed in 2008 and the 100 percent working interest stratigraphic Montney test well that was drilled at Groundbirch. The Corporation's total capital expenditures for the quarter were \$4.2 million, \$2.5 million of which was allocated towards the successful vertical Montney test well.

Production for the first quarter averaged 2,451 boe/d which represents a 15 percent quarter increase over the fourth quarter of 2008 and a 71 percent increase relative to the comparative quarter in 2008. The Corporation averaged approximately 2,400 boe/d for the month of April based on field production estimates.

### Groundbirch Montney project update

Monterey completed the drill and case of a 2,800 meter Montney test well on Monterey's existing 100 percent working interest lands at Groundbirch at the end of the first quarter. The test well converted a 10 (7.5 net) section license of contiguous land directly offsetting Monterey's existing land holdings to a five year lease and the resulting project area consists of 15 gross (12.5 net) sections of concentrated Monterey controlled and operated land holdings situated in the heart of the Montney fairway.

Based on Monterey's drilling results and the test results of two immediate offset wells as discussed in Monterey's press release dated March 23<sup>rd</sup>, 2009, the Corporation is currently in the field surveying the first two horizontal test/development locations. The first 100 percent working interest horizontal location will directly offset Monterey's vertical strat test drilled in the first quarter of 2009. The second location will be located 2 miles West on the recently earned 75 percent working interest land block. Both wells are expected to be licensed by early August to commence drilling operations in the second half of 2009.

Monterey has completed the engineering design and submitted for approval in late January 2009 an application to the British Columbia Oil and Gas Commission for the construction of a 28 million cubic feet per day natural gas processing facility. Once this application is approved, it will give Monterey the ability to proceed from an infrastructure standpoint with full scale development of a 100 percent working interest controlled and operated Montney natural gas project in the Groundbirch area of NEBC.

### Montney evaluation

Monterey engaged GLJ Petroleum Consultants Ltd. ("GLJ") to prepare an independent evaluation effective March 31, 2009 of the Discovered Petroleum Initially-In-Place ("DPIP") as defined in the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook"), on five 100 percent working interest sections of Montney landholdings in the Groundbirch area of NEBC. GLJ has estimated that there exists a net 659 billion cubic feet ("bcf") of DPIP on these lands. Monterey's first planned horizontal development well and future industry activity directly offsetting should provide additional information to help assess the ultimate potential of the above noted lands.

GLJ has provided a best estimate of the DPIP for the Montney formation on 5 net sections of prospective lands at Groundbirch. There are an additional 7.5 net sections of Monterey lands directly offsetting these lands that have not yet been assigned any DPIP. 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. 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 this natural gas currently classified as DPIP.

At December 31, 2008, Monterey had no proved or probable reserve bookings assigned to the Groundbirch Montney project.

## OUTLOOK

Monterey is increasing its first half production guidance to 2,300 - 2,350 boe/d from the previously stated 2,200 boe/d. First quarter production averaged 2,451 boe/d and current base production continues to exceed the Corporation's original 2009 projections. Monterey continues to maintain its previous 2009 capital expenditure guidance of \$10 million with approximately \$5 million being allocated to the first half of the year.

Monterey's business plan remains focused on value creation for shareholders through strict operational and capital allocation discipline. This is being achieved by allocating resources and capital only to the key projects that require additional spending to significantly increase the future potential upside value. The Corporation will continue to conserve capital and maintain balance sheet strength during this downward cycle in commodity price.

The Corporation completed the earning on the Brassey project in the fourth quarter of 2008 proving the merits of the latest horizontal drilling and completion technology to develop the large Cadomin resource. Also, the drilling of the first vertical test well on the Groundbirch Montney project continues the evaluation process to determine ultimate potential size and scale of the Montney in-place resource while significantly adding to the Corporation's land position. These are examples of a capital allocation strategy that has to date amassed a development inventory in excess of \$100 million of drilling locations. Management is very encouraged by the results to date in these two resource plays in NEBC and looks forward to the opportunity to fully execute the development of these plays as the economic conditions improve.

Monterey's annual and special meeting of shareholders is scheduled for Wednesday June 24<sup>th</sup>, 2009 at 2:30 PM in the Plaza Room of the Metropolitan Conference Centre, 333 Fourth Avenue SW, Calgary, Alberta.

**For further information, please contact:**

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#### **Notes:**

(1) Includes gain or loss on financial instruments from commodity price hedging activities.

(2) Funds flow from operations is not defined by Canadian generally accepted accounting principles ("GAAP") and thus is referred to as a non-GAAP measure; other entities may calculate funds flow differently than Monterey. Funds flow from operations is described in the Corporation's management discussion and analysis dated March 31, 2009 and is based on cash provided by operating activities before changes in non-cash working capital and asset retirement expenditures.

(3) Funds flow from operations per share is not defined by Canadian GAAP and thus is referred to as a non-GAAP measure. Funds flow from operations per share, is described in the Corporation's management discussion and analysis, and calculated by dividing funds flow by the weighted average number of shares outstanding during the period consistent with the calculation of net income per share.

(4) Total capital expenditures is not defined by Canadian GAAP and thus is referred to as a non-GAAP measure. Total capital expenditures, is described in the Corporation's management discussion and analysis, and is equal to the property and equipment additions, as disclosed under Investing activities in the Statements of Cash Flows of the Corporation financial statements, plus the outlays in respect of oil and gas properties acquisitions and corporate acquisitions (including the costs of the acquisition and the allocation to long lived asset retirement ), less the net proceeds received from the disposition of oil and gas properties.

(5) Net debt is not defined by Canadian GAAP and thus is referred to as a non-GAAP measure. Net debt, is described in the Corporation's management discussion and analysis, and is equal to total bank indebtedness plus capital lease obligations and less working capital (excluding financial instrument assets or liabilities).

(6) Operating income is not defined by GAAP and thus is referred to as a non-GAAP measure; other entities may calculate operating income differently than Monterey. Operating income, is described in the Corporation's management discussion and analysis, and is calculated by deducting the sum of royalty, operating and transportation expenses from production revenue and gains or losses from financial instruments.

(7) Excludes capitalized general & administrative expenditures and stock-based compensation expense.

## **Forward Looking Statements & Advisories**

*This press release contains forward-looking statements, including but not limited to, statements concerning the amount and on-stream timing of new production, the performance characteristics of production from Monterey's developed oil and gas properties, drilling locations, approval and timing of applications and requests made to regulatory authorities, the access to and availability of production facilities, the timing of construction and start-up of new production facilities, certain expected actions to be performed and completed by industry partners, anticipated market prices received by Monterey for its production, the amount of future net revenues from the sale of crude oil and natural gas reserves, expectations regarding the ability to continually add to reserves through acquisitions exploration and development activities, projections and costs and expenses, crude oil and natural gas production levels, Monterey's continued access to existing credit facilities, future operating and financial results, expectations regarding operating costs, anticipated interest and foreign exchange rates, supply and demand for crude oil and natural gas, average royalty rates, availability of tax pools and amount of general and administrative expenses. Additionally, the use of any of the words "anticipate", "continue", "estimate", "expect", "forecast", "future", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond the Corporation's control, including the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; volatility of commodity prices; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel or management; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; 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; stock market volatility; and ability to access sufficient capital from internal and external sources. As a consequence, Monterey's actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Although Monterey believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements as the Corporation can give no assurance that such expectations will prove to be correct. Actual results may differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, Monterey. In addition to other factors and assumptions which may be identified in this press release and other documents filed by the Corporation, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Monterey operates; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Corporation has an interest in to operate the field in a safe, efficient and effective manner; Monterey's ability to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Corporation to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; and Monterey's ability to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Forward-looking statements contained in this press release are made as at the date of this press and Monterey disclaims any intent or obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

*However, in the event that subsequent events are reasonably likely to cause actual results to differ materially from material forward-looking statements or information previously disclosed by Monterey for a period that is not yet complete, Monterey will provide disclosure on such events and the anticipated impact of such events.*

### **Discovered Petroleum Initially in Place**

*This press release contains references to estimates of gas classified as Discovered Petroleum initially in Place ("DPIP") in the Corporation's Groundbirch area in British Columbia which are not, and should not be confused with oil and gas reserves. "Discovered Petroleum Initially in Place" is defined in the COGE Handbook as the quantity of hydrocarbons that are estimated, as of a given date, to be contained in known accumulations. DPIP is divided into recoverable and unrecoverable portions, with the estimated future recoverable portion classified as reserves and contingent resources. There is no certainty that it will be commercially viable to produce any portion of this DPIP. Resources do not constitute, and should not be confused with, reserves.*

### **BOE Disclosure**

*Disclosure provided herein in respect of barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

### **Non-GAAP Measures**

*Within this press release, references are made to terms commonly used in the oil and gas industry. Management uses funds flow from operations, operating income and capital expenditures to analyze operating performance. These measures do not have standardized meanings prescribed by GAAP, and may not be comparable to similar measures presented by other companies. For this press release the measures used are: (i) Funds flow from operations is determined by using cash flow from operations before changes in non-cash operating working capital and asset*

retirement expenditures; (ii) Operating income is calculated by deducting royalties, operating costs and transportation costs from sales revenues and hedging gains / (losses); (iii) Total capital expenditures is equal to capital expenditures plus the recorded cost of oil and gas properties of corporate acquisitions, including the costs of the acquisition and the allocation to long lived asset retirement; (iv) Funds flow per basic and funds flow per diluted share is calculated by dividing funds flow as described earlier, by the total number of respective weighted average basic and diluted common shares outstanding during the period; (v) Net debt is equal to total bank indebtedness plus capital lease obligations less/(plus) non-cash working capital/(deficit); and (vi) fully diluted share figures are calculated by adding the number of common shares underlying the outstanding stock options to the number of common shares outstanding (i.e. basic outstanding common shares) at the respective date. For additional information concerning Monterey's use of non-GAAP measures and reconciliations to the applicable GAAP measures, please see Monterey's management's discussion and analysis for the three months ended March 31, 2009 available at [www.sedar.com](http://www.sedar.com).