

MONTEREY EXPLORATION LTD.

Financial Statements
For the three and six months ended June 30, 2009

MANAGEMENT'S REPORT

The accompanying financial statements of Monterey Exploration Ltd. ("Monterey" or the "Corporation") have been prepared by Management in accordance with Canadian generally accepted accounting principles.

Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

Management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the period. These estimates and assumptions are based on Management's best information and judgment and, in the near term are not expected to materially change the recorded amounts of assets, liabilities, revenues and expenses. The financial statements have been prepared using policies and procedures established by Management and outlined in the notes to the accompanying financial statements and reflect fairly the Corporation's financial condition and results of operations.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board of Directors, with assistance from the Reserve Committee regarding the annual independent evaluation of Monterey's petroleum and natural gas reserves. The Audit Committee meets regularly with Management and the independent auditors to ensure that Management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors, reviews the services provided and the fees charged by the external auditors. The external auditors have access to the Audit Committee without the presence of Management.

The Audit Committee of the Board of Directors reviewed the unaudited financial statements of Monterey Exploration Ltd. as at June 30, 2009 as compiled by Management. The Board of Directors on the recommendation of the Audit Committee has approved these financial statements.

(signed) "*Patrick D. Manuel*"
Patrick D. Manuel
President & Chief Executive Officer

(signed) "*David M. Fisher*"
David M. Fisher
Vice President, Finance & Chief Financial Officer

August 12, 2009

MONTEREY EXPLORATION LTD.**Balance Sheets**

(\$000's)

(unaudited)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Accounts receivable	\$ 1,804	\$ 4,980
Prepaid expenses and deposits	1,110	681
	2,914	5,661
Property and equipment <i>(Note 4)</i>	128,248	141,458
	\$ 131,162	\$ 147,119
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness <i>(Note 5)</i>	\$ 33,085	\$ 35,286
Accounts payable and accrued liabilities	3,845	8,075
Obligation under capital lease	136	179
	37,066	43,540
Obligation under capital lease	-	45
Asset retirement obligations <i>(Note 6)</i>	4,439	4,471
Shareholders' equity:		
Share capital <i>(Note 7)</i>	92,944	92,944
Contributed surplus <i>(Note 7)</i>	3,931	3,678
Retained earnings (deficit)	(7,218)	2,441
	89,657	99,063
<i>Commitment (Note 11)</i>		
<i>Subsequent event (Note 13)</i>		
	\$ 131,162	\$ 147,119

See accompanying notes to the interim unaudited financial statements

Approved on behalf of the Board:

(signed) "Chris G. Webster"
Director

(signed) "William V. Bradley"
Director

MONTEREY EXPLORATION LTD.

Statements of Earnings (Loss) and Retained Earnings (Deficit)

(\$000's)

(unaudited)

Three months ended			Six months ended	
June 30, 2009	June 30, 2008		June 30, 2009	June 30, 2008
		Revenues:		
\$ 5,597	\$ 8,670	Production	\$ 13,211	\$ 16,105
(909)	(1,292)	Royalties	(2,129)	(2,591)
-	(1,443)	Loss on financial instruments	-	(2,434)
45	15	Interest	53	18
4,733	5,950		11,135	11,098
		Expenses:		
2,527	1,583	Operating	5,074	3,209
319	189	Transportation costs	728	407
816	606	General and administrative	1,507	1,184
309	251	Interest	526	517
6,247	2,737	Depreciation, depletion and accretion	12,959	5,817
10,218	5,366		20,794	11,134
(5,485)	584	Earnings (loss) before income taxes:	(9,659)	(36)
-	17	Future income tax recovery (Note 9)	-	1,748
(5,485)	601	Net earnings (loss)	(9,659)	1,712
(1,733)	2,649	Retained earnings (deficit), beginning of period	2,441	1,538
\$ (7,218)	\$ 3,250	Retained earnings (deficit), end of period	\$ (7,218)	\$ 3,250
		Net earnings (loss) per share (Note 7)		
\$ (0.17)	\$ 0.02	Basic	\$ (0.29)	\$ 0.07
\$ (0.17)	\$ 0.02	Diluted	\$ (0.29)	\$ 0.07

See accompanying notes to the interim unaudited financial statements

MONTEREY EXPLORATION LTD.
Notes to the interim unaudited Financial Statements
For the three and six months ended June 30, 2009

1. NATURE OF OPERATIONS

Monterey Exploration Ltd. (the "Corporation" or "Monterey") is incorporated under the Business Corporations Act (Alberta) and is engaged in the acquisition, exploration, development and production of natural gas, natural gas liquids and crude oil in the Western Canadian Sedimentary Basin.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

Management has prepared the interim unaudited financial statements in accordance with Canadian generally accepted accounting principles following the same accounting policies and methods of their application as the Corporation's financial statements for the year ended December 31, 2008, except as described in note 2(b). The interim unaudited financial statements should be read in conjunction with Monterey's financial statements for the year ended December 31, 2008. All amounts are stated in thousands of Canadian dollars, except where otherwise indicated.

b) Changes in accounting policies

On January 1, 2009, Monterey adopted Section 3064 "Goodwill and Other Intangible Assets" issued by the CICA. Under the new accounting standard, criteria for the recognition, measurement and disclosure of Goodwill and Other Intangible Assets are clarified. Adoption of the new accounting standard did not result in changes to Monterey's financial statements or note disclosures.

On January 1, 2011, the Corporation will be required to adopt International Financial Reporting Standards ("IFRS") and prepare its financial statements under this new set of standards, thereby replacing the preparation of Monterey's financial statements using Canadian generally accepted accounting principles.

3. FINANCIAL INSTRUMENTS

At June 30, 2009, Monterey's financial instruments include accounts receivable, accounts payable, bank indebtedness and obligation under capital lease. The Corporation's financial instruments have been classified accordingly: loans and receivables – accounts receivable, and other liabilities – accounts payable, bank indebtedness and obligation under capital lease.

Monterey's loans and receivables are recorded at their amortized cost.

Monterey has exposure to market risk, credit risk, and liquidity risk. A discussion of how the Corporation is exposed to and manages each type of risk is noted below:

a) Market risk

(i) Commodity price risk:

The Corporation is primarily exposed to market risk in the form of commodity price volatility. Monterey's objective for commodity price risk management is to ensure that sufficient protection exists to enable the Corporation to meet planned capital expenditures in the event of downward movements in commodity prices. The Corporation's Board of Directors ("Board") has authorized Management to enter into forward financial and physical risk management contracts on Monterey's production. Management may, subject to approval by the Corporation's Board, commit up to 50 percent of Monterey's annualized, production before royalties as reported in the most recently completed calendar quarter to forward risk management contracts. In addition, the term of any commodity contract cannot exceed a period of two years.

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As at, and during the three and six months ended June 30, 2009, the Corporation did not enter into any fixed price derivative contracts associated with future production. In the past, and the Corporation's policy when entering into derivative financial instruments, has been to initially record derivative financial instruments at their fair value, and subsequently mark to market at the end of each reporting period.

(ii) Interest rate risk:

Monterey's capital and operating expenditures are funded by any combination of the following: bank indebtedness, working capital, cash flow from operations and the issuance of equity. To the extent that expenditures are funded by incurring additional bank indebtedness, the Corporation has a contractual obligation to repay those funds borrowed plus interest on those borrowings. Changes in Canadian interest rates result in variation in the interest expense on funds borrowed by the Corporation.

At June 30, 2009, Monterey had total bank indebtedness of approximately \$33.1 million. Assuming that the Corporation maintained its existing bank indebtedness for one year, a 1.00% change in Canadian interest rates would result in a variance of approximately \$0.3 million in Monterey's average annualized interest expense.

b) Credit risk

A substantial majority of Monterey's petroleum and natural gas production is marketed under standard industry terms, with a pre-arranged monthly settlement day for payment of revenues from Monterey's purchasers of its sales volumes. In addition Monterey may conduct oil and gas operations jointly, as both the operator or as a participant, with partners. As a result, the Corporation is exposed to credit risk as a financial loss would result if Monterey's customers or joint venture partners failed to meet their contractual obligations to reimburse the Corporation for its accounts receivables. At June 30, 2009, Monterey had approximately \$27,000 in accounts receivable that were over 90 days, with the majority of receivables outstanding for less than 30 days.

At June 30, 2009, Monterey did not have a provision for doubtful accounts as the majority of its receivables have been outstanding for less than 30 days, and the Corporation has a favorable collection history.

c) Liquidity risk

Liquidity risk is the risk that Monterey cannot meet its financial obligations as they come due. During times of extreme downward volatility in commodity prices, the Corporation manages this risk by maintaining net debt (bank debt plus capital lease obligation and non-cash working capital deficit or less non-cash working capital surplus) below the total amount of borrowings available under the Corporation's credit facility. The Corporation may reduce its net debt through the issuance of equity, the disposal of assets or by reducing anticipated capital expenditures to an amount less than cash flow generated from operations.

In order to control the Corporation's exposure to liquidity risk, Monterey has actively taken steps to manage its bank indebtedness, including: disposition of non-core undeveloped oil and gas properties in January 2009 for approximate net cash proceeds of \$6.0 million; renewed its credit facility of \$45.0 million until May 2010; reduced planned capital expenditures, net of dispositions, to an amount less than anticipated cash generated by operating activities (excluding the impact of the change in non-cash working capital items); and subsequent to the second quarter, disposed additional non-core undeveloped oil and gas properties for cash proceeds of \$2.7 million.

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4. PROPERTY AND EQUIPMENT

(\$000's)	Cost	Accumulated depletion and depreciation	Net book value
Oil and natural gas properties	\$ 174,503	\$ 46,491	\$ 128,012
Office furniture and equipment	381	145	236
June 30, 2009	\$ 174,884	\$ 46,636	\$ 128,248

(\$000's)	Cost	Accumulated depletion and depreciation	Net book value
Oil and natural gas properties	\$ 175,118	\$ 33,935	\$ 141,183
Office furniture and equipment	387	112	275
December 31, 2008	\$ 175,505	\$ 34,047	\$ 141,458

During the six months ended June 30, 2009, Monterey capitalized, to the cost of oil and natural gas properties, approximately \$584,000 of general and administrative expenses that were directly related to exploration and development activities (year ended December 31, 2008 - \$1,279,000). This amount includes approximately \$89,000 (year ended December 31, 2008 - \$258,000) of non-cash expenditures associated with stock-based compensation expenses.

Undeveloped property costs of \$8,963,000 were excluded from the depletion and depreciation calculation of oil and natural gas properties at June 30, 2009 (year ended December 31, 2008 – \$9,718,000). Future costs of \$14,852,000 to develop proved undeveloped reserves have been included in the depletion and depreciation calculation of oil and natural gas properties at June 30, 2009 (year ended December 31, 2008 – \$24,042,000).

5. BANK INDEBTEDNESS, BANK DEBT & DERIVATIVES FACILITY

The Corporation has access to a demand revolving credit facility (the "Facility") of \$45 million and a derivatives facility with a Canadian banking institution (the "Lender"). The Facility permits Canadian and U.S. dollar borrowings to finance the Corporation's operations. As at June 30, 2009, Monterey had bank indebtedness of approximately \$33.1 million, primarily in the form of guaranteed rate notes with terms to maturity of less than one year. In addition, the Corporation has issued approximately \$149,000 in letters of credit/guarantee under the Facility.

Under the Facility, Monterey has the ability to borrow from the Lender up to \$45 million in the form of: (i) revolving prime based and US prime based borrowing in multiples of \$25,000; (ii) issue of guaranteed notes and LIBOR borrowing subject to minimum borrowings of \$1 million and additional amounts in multiples of \$0.1 million having terms to maturity from 15 to 365 days from the date of issue; and (iii) letters of credit/guarantee, to a cumulative maximum of \$12.5 million, for a period of up to one year. The Facility permits Monterey's access to a derivatives facility, whereby the Corporation may enter into U.S. foreign exchange forwards contracts or interest and commodity derivatives contracts with the Lender. Covenants on Monterey's derivatives facility limit the commodity derivatives contracts entered into by the Corporation to a maximum of 60% of Monterey's annualized before royalties production as report in the most recently completed calendar quarter and that the term of any commodity contract will not exceed a period of two years.

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Under the Facility interest rates on: (i) Canadian and US dollar prime based borrowing will be at the applicable Lender's prime lending rate plus 1.25%; (ii) on the issue of guaranteed notes or LIBOR borrowing Monterey will pay the base rate plus a stamping fee of 2.5% per annum; and a fee equal to 1.25% per annum, payable at issue, on letters of credit/guarantee. Monterey borrowings in excess of \$40.5 million will incur interest at an additional 1% per annum. Monterey also pays a monthly stand-by fee on the average unused portion of the Facility at a rate of 0.35% per annum.

The Lender has the right to demand repayment of all borrowings at any time without notice or terminate the availability of the unused portion of the Facility five business days after serving notice to the Corporation. Monterey has the right to draw against the Facility, repay amounts borrowed or convert the type of borrowings subject to providing same day notice for borrowings less than \$5.0 million and one business day notice for borrowings of \$5.0 million or more.

The Facility is guaranteed by a Monterey general security agreement providing a floating charge on all the Corporation's lands and a security interest over all present and subsequently acquired personal property. Monterey is obligated to meet certain covenants including providing certain financial and engineering information in a timely manner; however, Monterey is not required to meet any specific numerical financial covenants, such as a debt to equity ratio or minimum working capital or liquidity amounts. The next review of the Facility will be completed prior to June 2010.

Upon maturity of certain borrowings in the form of guaranteed notes in March 2010, the Corporation will pay the Lender \$0.3 million in respect of stamping fee adjustments.

6. ASSET RETIREMENT OBLIGATIONS

Monterey's asset retirement obligation results from net ownership interests in oil and natural gas properties including well sites, gathering systems, compression and processing facilities. The Corporation estimates that at June 30, 2009 the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately \$8.0 million (inflation adjusted). The timing for settlement of these obligations is based on the economic lives of the underlying assets. The majority of the costs associated with the asset retirement obligations are anticipated to be incurred between the next 15 to 20 years. Monterey used a credit-adjusted risk-free rate of 8.75% and an inflation rate of 2% to calculate the fair value of the asset retirement obligations.

The changes in the asset retirement obligation for the three and six months ended June 30, 2009, is as follows:

(\$000's)	Three months ended June 30, 2009	Six months ended June 30, 2009
Balance, beginning of period	\$ 4,274	\$ 4,471
Liabilities incurred and acquired	-	14
Liabilities disposed	-	(10)
Accretion expense	185	370
Liabilities settled	(20)	(406)
Balance, June 30, 2009	\$ 4,439	\$ 4,439

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7. SHARE CAPITAL

a) Authorized

Monterey is authorized to issue an unlimited number of common shares and unlimited number of non-voting common shares.

b) Issued

Common shares	Number	(\$000's)
Share capital, June 30, 2009 and December 31, 2008	32,902,500	\$ 92,944

c) Stock options

Monterey has established a stock option plan whereby employees, management, directors and consultants may be granted options to purchase common shares. Options granted vest in equal amounts annually over a three-year period and expire five years from the date of grant. The stock options outstanding may not exceed 10% of the outstanding common shares.

From time to time, Monterey will impose a Black-out Period on employees, management, directors and consultants that hold stock options granted by Monterey which prohibits the exercise of stock options prior to the public dissemination of material information concerning the Corporation.

During the second quarter, Monterey's shareholders approved certain amendments to the Corporation's stock option plan. The key amendments approved by Monterey's shareholders include: i) extension of the expiry date of stock options which would otherwise expire within any "Black-out Period" by 10 business days from the date that the Black-out Period ends, ii) provide the stock option grantee with the right to request, approval of the request at the sole discretion of the Corporation, to settle exercised stock options in exchange for a cash payment equal to the number of common shares that would be otherwise issued multiplied by the difference between the current market price of Monterey's common shares and the stock option exercise price, iii) in the event the Corporation sells or merges all or

substantially all of the property or assets of Monterey to another party, this party shall be required to assume the obligations of stock option grants previously granted under the stock option plan, iv) Monterey's board of directors may make certain changes to the Corporation's stock option plan without shareholder approval, provided that the stock option plan may not be amended without shareholder approval in the case of increases in the percentage of the common shares issuable on the exercise of stock option grants in excess of 10 percent of the issued and outstanding common shares of Monterey, extend the expiry date of any outstanding stock option held by insiders, permit an optionholder to transfer or assign stock options to a new beneficial holder, increase the number of common shares that may be granted to insiders in excess of existing restrictions under the stock option plan or to amend the amending or discontinuance provisions of the stock option plan.

During the six months ended June 30, 2009 the Corporation did not grant any stock options to acquire common shares. In addition, no stock options were exercised resulting in the issue of common shares, and no stock options expired or were cancelled.

The following table provides a summary of the outstanding stock options as at June 30, 2009:

	Number	Weighted average exercise price (\$ per share)
Outstanding, June 30, 2009 and December 31, 2008	3,135,666	\$2.12

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The following table summarizes the stock options outstanding and exercisable under the stock option plan at June 30, 2009:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2009	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at June 30, 2009	Weighted average exercise price
\$0.55	535,000	4.5	\$0.55	-	\$0.55
\$2.00 - \$2.90	2,479,666	2.6	\$2.39	1,486,002	\$2.41
\$3.49	121,000	2.6	\$3.49	80,667	\$3.49
	3,135,666	2.9	\$2.12	1,566,669	\$2.46

d) Stock-based compensation

The Corporation uses the fair value based method for the determination of the stock-based compensation costs. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model.

e) Contributed surplus

The following table reconciles the contributed surplus at June 30, 2009:

	(\$000's)
Balance, December 31, 2008	\$ 3,678
Stock-based compensation recognized during 2009	253
Balance, June 30, 2009	\$ 3,931

f) Per share amounts

For the three and six months ended June 30, 2009 there were 32,902,500 basic and 33,136,082 diluted weighted average shares outstanding. For the three months ended June 30, 2008 there were 25,106,796 basic and 25,329,319 diluted weighted average shares outstanding. For the six months ended June 30, 2008 there were 25,082,508 basic and 25,305,031 diluted weighted average shares outstanding.

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8. CAPITAL DISCLOSURES

Monterey's objectives for managing its capital consist of:

- a. Providing an adequate level of return to shareholders of the Corporation, relative to the risk of Monterey's assets.
- b. Preserving a strong balance sheet with sufficient capital from shareholders to develop existing and prospective assets.

Monterey's main objective is to build a profitable growing energy corporation. As such, the Corporation's primary capital management objective is to promote investor, lender and stakeholder confidence that Monterey is able to meet its obligations and will continue to carry on its business.

Monterey manages its capital structure by issuing new equity or debt, adjusting planned capital spending, or through the sale of assets to reduce debt. Processes primarily utilized to effectively manage capital include ongoing calculation of certain key financial ratios such as total liabilities to equity and net debt (as described under Liquidity risk in Note 3) to forward cash flow (also described under Liquidity risk in Note 3) and comparing the Corporation's ratios against: (i) accepted prudent financial management ratios; (ii) the ratios of similar sized publicly listed entities operating in the Canadian upstream oil and gas industry; and (iii) the anticipated business environment, opportunities and the operations of the Corporation. In addition to the key financial ratios Monterey will also periodically review other measures such as net asset value, funds flow from operations per share and debt adjusted funds flow from operations per share to provide additional indications that the Corporation's capital structure supports investor, lender and stakeholder confidence.

Low natural gas prices in 2009 related to the current global recession has led to the net debt to forward cash flow ratio exceeding the Corporation's objective of 2.5. This current business environment has meant that the net debt to forward cash ratio objective of 2.5 is not reasonably attainable at this time. Monterey's Management will continue to calculate and monitor the net debt to forward cash flow ratio; however until business conditions stabilize and natural gas prices recover, liquidity, control of the amount of debt and enhancing the entity's net asset value are Management's primary objectives.

As at June 30, 2009, the Corporation's total equity exceeded total liabilities resulting in a liability to equity ratio of 0.46. In support of achieving the primary objectives, Management will direct its attention to ensure that the amount of net debt does not exceed credit available under the Facility thus enabling the Corporation to continue operations with the intention of developing and growing Monterey's reserve base.

Management has taken various actions to reduce the Corporation's amount of outstanding debt and subsequently strengthen the balance sheet. Actions taken during 2009 include reduction of planned capital spending, disposition of a non-core oil and gas property for net proceeds of \$6.0 million, renewal of the Facility to eliminate the risks in respect of the cost and the amount of bank debt borrowing available to Monterey, and subsequent to June 30, 2009, completed an additional disposition of a non-core undeveloped oil and gas property for net proceeds of \$2.7 million. Management will continue to consider further reductions in planned capital spending, investigate additional property dispositions, contemplate farm-out opportunities that would result in independent third parties earning a portion of Monterey's interest by paying a disproportionate share of the exploration and development expenditures, and may investigate other balance sheet measures all of which contribute to Monterey maintaining liquidity, controlling its debt and enhancing net asset value.

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9. INCOME TAXES

The provision for income tax differs from the result that would be obtained by applying the applicable statutory federal and provincial income tax rates to net earnings before income taxes. This difference results from the following items for the six months ended June 30, 2009 and June 30, 2008:

(\$000's)	2009	2008
Loss before income taxes	\$ (9,659)	\$ (36)
Combined federal and provincial statutory tax rate	29.30%	30.30%
Expected income tax recovery	\$ (2,830)	\$ (11)
Increase (decrease) resulting from the tax effect of:		
Stock-based compensation expense	48	60
Other	2	1
Effect of change in enacted income tax rate	475	151
Change in valuation allowance	2,305	(1,949)
Income tax recovery	\$ -	\$ (1,748)

The components of the Corporation's future income tax assets and liabilities, as at June 30, 2009 and December 31, 2008 are as follows:

(\$000's)	2009	2008
Future income tax assets:		
Property and equipment	\$ 2,448	\$ -
Share issue costs	323	416
Non-capital losses	14,885	15,966
Asset retirement obligation	1,119	1,148
Valuation allowance	(18,775)	(16,471)
	\$ -	\$ 1,059
Future income tax liability:		
Property and equipment	-	(1,059)
Net future income tax asset	\$ -	\$ -

At June 30, 2009, subject to confirmation by income tax authorities, Monterey has approximately \$194,801,000 of income tax deductions, including non-capital losses of approximately \$54,794,000, available for application against future taxable income. The benefit of which has not been included in these financial statements.

The Corporation's non-capital losses, if not utilized, expire as follows:

	(\$000's)
2009	\$ 9,825
2010	15,986
2011	28,318
2012	665
Non-capital losses available	\$ 54,794

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10. SUPPLEMENTAL CASH FLOW INFORMATION

a) Change in non-cash working capital items:

(\$000's)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Change in non-cash working capital:				
Accounts receivable	\$ 849	\$ 2,130	\$ 3,176	\$ 1,021
Prepaid expenses and deposits	137	(1,060)	(429)	(1,217)
Accounts payable	(2,695)	(2,983)	(4,230)	2,633
	\$ (1,709)	\$ (1,913)	\$ (1,483)	\$ 2,437
Changes in non-cash working capital related to:				
Operating activities	\$ 693	\$ 381	\$ 491	\$ 153
Financing activities	-	-	-	-
Investing activities	(2,402)	(2,294)	(1,974)	2,284
	\$ (1,709)	\$ (1,913)	\$ (1,483)	\$ 2,437

b) Supplementary cash flow information:

(\$000's)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Cash interest paid	\$ 80	\$ 199	\$ 581	\$ 402
Cash taxes paid	-	-	-	-

11. COMMITMENT

a) Office lease

Monterey is committed to future payments under an operating lease for head office space and parking facilities totaling approximately \$1.9 million until October 30, 2014. Of this total, Monterey is committed to equal monthly payments totaling \$175,000 over the remainder of 2009, \$350,000 for each of the years from 2010 to 2013, and \$292,000 in 2014.

12. RELATED PARTY TRANSACTIONS

a) Legal services

A director of Monterey is a partner at a law firm that provides legal services to the Corporation. During the six months ended June 30, 2009, the Corporation incurred approximately \$49,000 in legal services and disbursements associated with this related party. At June 30, 2009 the Corporation's accounts payable include an accrual of \$5,000 for amounts owed to the law firm for legal fees and disbursements which have not yet been billed.

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b) Transactions with shareholder

During the six months ended June 30, 2009, the Corporation had transactions totaling approximately \$107,000 with an entity that holds approximately 24% of the outstanding common shares of Monterey. The transactions primarily consisted of Monterey's participation in the joint exploration, development and production of petroleum and natural gas properties. All transactions were completed on an arm's length basis consistent with normal industry terms. The value of the transactions between Monterey and the related party were recorded at the carrying amount, which approximated their fair value. At June 30, 2009, Monterey's records include \$14,000 in accounts receivable and \$11,000 in accounts payable with this shareholder.

c) Common management and directors

Certain directors of Monterey are also the directors or management of other entities that participate in joint operations with the Corporation. Transactions with these related parties are on terms that are consistent with parties dealing at arm's length. During the first half of 2009, the aggregate value of transactions entered into between Monterey and these entities was approximately \$1,232,000. At June 30, 2009 Monterey's records include outstanding payables owed to the related parties of \$72,000 and accounts receivables due to Monterey of approximately \$135,000.

13. SUBSEQUENT EVENT

Subsequent to June 30, 2009, the Corporation disposed of 3 net sections of non-core undeveloped lands for total proceeds of \$2.7 million.