

**Regal Energy Ltd.**  
**Interim Financial Statements**  
**December 31, 2007**

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**NOTICE:** The interim financial statements and notes thereto for the three months ended December 31, 2007 have not been reviewed by the Company's external auditors.

These interim financial statements do not include all the note disclosures required for annual financial statements and therefore they should be read in conjunction with the Company's audited financial statements for the year ended September 30, 2007 available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.regalenergy.ca](http://www.regalenergy.ca).

**Regal Energy Ltd.  
Balance Sheets**

As at	Dec. 31, 2007 (unaudited)	Sept. 30, 2007 (audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	1,284,028	486,313
Deposits and prepaid expenses	74,540	61,154
	1,358,568	547,467
<b>Future tax asset</b>	<b>598,500</b>	<b>598,500</b>
<b>Property and equipment (Note 3)</b>	<b>11,462,461</b>	<b>10,444,607</b>
<b>Intangible assets</b>	<b>99,973</b>	<b>124,967</b>
	<b>\$ 13,519,502</b>	<b>\$ 11,715,541</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current</b>		
Bank indebtedness (Note 4)	\$ 2,256,912	\$ 1,078,357
Accounts payable and accrued liabilities	2,937,954	1,854,140
	5,194,866	2,932,497
<b>Asset retirement obligation (Note 7)</b>	<b>414,397</b>	<b>397,558</b>
<b>SHAREHOLDER'S EQUITY</b>		
Equity instruments (Note 5(b) and (c))	75,462,796	75,681,096
Contributed surplus (Note 5(e))	1,457,415	1,216,220
Deficit	(69,009,972)	(68,511,830)
	7,910,239	8,385,486
	<b>\$ 13,519,502</b>	<b>\$ 11,715,541</b>
<b>Commitments and contingencies (Note 10)</b>		
<b>Subsequent events (Note 11)</b>		

See accompanying notes. Interim financial statements are prepared by management and have not been independently audited or reviewed by the Company's auditors

Approved on behalf of the Board:

*Signed: "Douglas O. McNichol"*

**Douglas O. McNichol – Director**

*Signed: "Richard M. Wlodarczak"*

**Richard M. Wlodarczak – Chairman of the Board**

**Regal Energy Ltd.**  
**Statements of Operations, Comprehensive Loss and Deficit**

	<b>For the three month period ended Dec. 31, 2007 (unaudited)</b>	<b>For the three month period ended Dec. 31, 2006 (unaudited)</b>
<hr/>		
<b>REVENUE</b>		
Production revenues	\$ 691,631	\$ 456,790
Royalties	(113,484)	(81,988)
Interest and other income	352	-
	578,499	374,802
<b>EXPENSES</b>		
Operating	369,808	218,262
General and administrative	242,221	179,567
Interest	28,150	45,434
Stock-based compensation (Note 5(d))	22,895	27,038
Depletion and depreciation	379,496	229,104
Amortization of intangible asset	24,993	24,994
Accretion	9,078	7,038
	1,076,641	731,437
<b>Net income (loss) for the period</b>	(498,142)	(356,635)
Other comprehensive income (loss)	-	-
<b>Net income (loss) for the period including comprehensive income (loss)</b>	(498,142)	(356,635)
<b>Deficit, beginning of period</b>	(68,511,830)	(64,124,835)
<b>Deficit, end of period</b>	\$ (69,009,972)	\$ (64,481,470)
<hr/>		
<b>Net income (loss) per share</b>		
- Basic and diluted	\$ (0.01)	\$ (0.01)
<hr/>		
<b>Weighted average shares outstanding</b>		
- Basic	48,137,590	26,118,789
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See accompanying notes. Interim financial statements are prepared by management and have not been independently audited or reviewed by the Company's auditors

**Regal Energy Ltd.**  
**Statements of Funds Flows**

	<b>For the three month period ended Dec. 31, 2007 (unaudited)</b>	<b>For the three month period ended Dec. 31, 2006 (unaudited)</b>
<hr/>		
<b>FUNDS FLOW FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ (498,142)	\$ (356,635)
Add non-cash items:		
Stock-based compensation	22,895	27,038
Amortization of intangible asset	24,993	24,994
Depletion and depreciation	379,496	229,104
Accretion	9,078	7,038
Funds flow from operations	<u>(61,680)</u>	<u>(68,461)</u>
Net change in non-cash working capital balances	<u>260,095</u>	<u>(114,069)</u>
	<u>198,415</u>	<u>(182,530)</u>
 <b>FUNDS FLOW FROM FINANCING ACTIVITIES</b>		
Issue of common shares	-	2,229,995
Proceeds from bank loan	1,178,556	206,926
	<u>1,178,556</u>	<u>2,436,921</u>
 <b>FUNDS FLOW FROM INVESTING ACTIVITIES</b>		
Net change in non-cash working capital balances	12,618	1,489,520
Net cash paid on the acquisition of Regal Energy Corp.	-	-
Capital expenditures	(1,389,589)	(3,743,911)
	<u>(1,376,971)</u>	<u>(2,254,391)</u>
 <b>Increase in cash and cash equivalents</b>	 -	 -
 <b>Cash and cash equivalents, beginning of period</b>	 <u>-</u>	 <u>-</u>
 <b>Cash and cash equivalents, end of period</b>	 \$ -	 \$ -

See accompanying notes. Interim financial statements are prepared by management and have not been independently audited or reviewed by the Company's auditors

## **REGAL ENERGY LTD.**

### **NOTES TO THE INTERIM FINANCIAL STATEMENTS**

#### **1. Description of Business and Basis of Presentation**

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Regal Energy Ltd. (“Regal or the Company”) is engaged in the exploration for and the development, production and acquisition of petroleum and natural gas reserves in Western Canada. Regal’s financial year end is September 30.

The interim financial statements of the Company have been prepared by management, in accordance with Canadian generally accepted accounting principles and are unaudited. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the year ended September 30, 2007 except as discussed in Note 2. These interim financial statements do not include all the note disclosures required for annual financial statements and therefore they should be read in conjunction with the Company’s audited financial statements for the year ended September 30, 2007.

The Company’s financial statements as at and for the interim period ended December 31, 2007 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The ability of the Company to continue as a going concern is dependent upon the Company’s ability to generate future profitable operations and obtaining additional equity or debt financing.

#### **2. Changes in Accounting Policies**

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The Canadian Institute of Chartered Accountants (“CICA”) issued the following new Handbook Sections, which were effective for interim periods beginning on or after October 1, 2007.

- a) Section 3862, “Financial Instruments – Disclosures”, describes the required disclosure for the assessment of the significance of financial instruments for an entity’s financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, “Financial Instruments – Presentation” replaced Section 3861, “Financial Instruments – Disclosure and Presentation”.
- b) Section 3863, “Financial Instruments – Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives.
- c) Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure requirements of the entity’s objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

##### Future Accounting Changes

- a) The CICA has amended Section 1400, “General Standards of Financial Statement Presentation”, which is effective for interim periods beginning on or after October 1, 2008, to include requirements to assess and disclose the Company’s ability to continue as a going concern. The adoption of this new section will not have an impact on the financial statements
- b) Effective October 1, 2008, the Company will be required to adopt CICA Handbook Section 3031 – Inventories. This new standard is not expected to have an impact on the Company’s financial statements.
- c) In January 2006, the CICA Accounting Standards Board (“ASCB”) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting

Standards (“IFRS”) by 2011. On February 13, 2008, The ASCB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-orientated enterprises. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

### 3. Property and Equipment

December 31, 2007	<b>Cost</b>	<b>Accumulated depletion, depreciation and amortization</b>	<b>Net book value</b>
Petroleum and natural gas properties and equipment	\$20,467,051	\$9,913,348	\$10,553,703
Seismic resources	878,545	-	878,545
Other assets	68,729	38,516	30,213
	<b>\$21,414,325</b>	<b>\$9,951,864</b>	<b>\$11,462,461</b>

September 30, 2007	<b>Cost</b>	<b>Accumulated depletion, depreciation and amortization</b>	<b>Net book value</b>
Petroleum and natural gas properties and equipment	\$19,071,001	\$9,539,566	\$9,531,435
Seismic resources	878,545	-	878,545
Other assets	67,429	32,802	34,627
	<b>\$20,016,975</b>	<b>\$9,572,368</b>	<b>\$10,444,607</b>

Costs of acquiring seismic resources referenced in the above tables in the amount of \$878,545 at December 31, 2007 and \$878,545 at September 30, 2007 were excluded from the depletable costs. Costs of unproven properties in the amount of \$199,278 at December 31, 2007 and \$198,278 at September 30, 2007 are also excluded from depletable costs.

### 4. Lending Facility

The Company has a revolving operating demand facility of \$3,250,000 that bears interest at the bank prime rate plus 1/2 percent. Repayments of the facility are not required provided the amounts borrowed do not exceed \$3,250,000 or an amount to be determined from time to time. At December 31, 2007 there was \$2,250,000 drawn on the revolving operating demand facility. In addition, there were net outstanding cheques in the amount of \$6,912 to be drawn against this facility for total bank indebtedness of \$2,256,912 at December 31, 2007. The loan facilities are secured by a \$5,000,000 floating charge demand debenture over all the assets of the Company. At December 31, 2007, the Company was not in compliance with a banking covenant regarding working capital. The Corporation has received a letter from the bank agreeing to waive this default.

At December 31, 2007, the bank prime rate was 6.0%. The loan facilities are subject to an interim review by the bank scheduled to occur by April 30, 2008.

As the Company’s lending facilities bear interest at floating rates, the Company is exposed to interest rate risk on outstanding balances.

## 5. Equity Instruments

### a) Authorized

Unlimited number of common shares

Unlimited number of non-voting preferred shares, issuable in series. The Board of Directors may fix from time to time the number of shares that comprise a series and the rights, privileges, restrictions and conditions for the series. Preferred shares of any series may be convertible into or exchangeable for common shares.

### b) Common shares

	<b>Shares</b>	<b>Amount</b>
Balance, September 30, 2006	22,709,179	\$70,172,113
Private placement issued for cash <sup>(4)</sup>	5,000,000	972,816
Private placement issued for cash on a flow through basis <sup>(4)</sup>	4,583,333	1,077,345
Rights offering <sup>(5)</sup>	1,660,078	332,016
Private placement issued for cash <sup>(6)</sup>	3,335,000	626,740
Private placement issued for cash on a flow through basis <sup>(7)</sup>	3,234,200	970,260
Private placement issued for cash on a flow through basis <sup>(7)</sup>	3,765,800	1,129,740
Private placement issued for cash <sup>(8)</sup>	3,850,000	813,133
Tax impact of flow through share issue	-	(319,000)
Share issuance costs <sup>(1)</sup>	-	(590,332)
<b>Balance, September 30, 2007 and December 31, 2007</b>	<b>48,137,590</b>	<b>\$75,184,831</b>

	<b>Shares</b>	<b>Amount</b>
Balance, September 30, 2005	7,466,576	\$59,640,080
December 2005 private placements issued for cash	737,000	650,000
December 2005 private placements issued for cash on a flow-through basis	8,217,506	8,028,000
Tax impact of flow through share issue	-	(2,700,000)
Share issuance costs <sup>(1)</sup>	-	(804,912)
Shares issued on acquisition of Regal Energy Corp.	6,147,469	5,225,349
Shares issued as success fee on transaction	140,628	133,596
<b>Balance, September 30, 2006</b>	<b>22,709,179</b>	<b>\$70,172,113</b>

### c) Warrants

	<b>Number of Warrants</b>	<b>Number of Underlying Shares</b>	<b>Amount</b>
Balance, September 30, 2006	1,723,566	1,723,566	\$ 406,300
November 30, 2006 private placement <sup>(4)</sup>	916,667	916,667	49,838
February 1, 2007 private placement <sup>(6)</sup>	333,500	333,500	40,260
June 30, 2007 expiry of warrants	(817,923)	(817,923)	(188,000)
July 16, 2007 private placement <sup>(8)</sup>	3,850,000	3,850,000	187,867
<b>Balance, September 30, 2007</b>	<b>6,005,810</b>	<b>6,005,810</b>	<b>\$ 496,265</b>
December 31, 2007 expiry of warrants <sup>(3)</sup>	(905,643)	(905,643)	(218,300)
<b>Balance December 31, 2007</b>	<b>5,100,167</b>	<b>5,100,167</b>	<b>277,965</b>

	Number of Warrants	Number of Underlying Shares	Amount
Balance, September 30, 2005	-	-	-
December 15, 2005 private placement <sup>(2)</sup>	817,923	817,923	\$ 188,000
Warrants issued as success fee on acquisition of Regal Energy Corp. <sup>(3)</sup>	905,643	905,643	218,300
Balance, September 30, 2006	1,723,566	1,723,566	\$ 406,300
Total Common Shares and Warrants (“Equity Instruments”) outstanding at December 31, 2007			\$75,462,796

At December 31, 2007, there are 5,100,167 common shares reserved for issuance for outstanding warrants.

- (1) No tax benefit has been recorded as the ultimate realization of such benefit is uncertain.
- (2) In connection with the private placement of common and flow-through common shares on December 15, 2005, the Company issued 817,923 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.88 until June 30, 2007. The fair value of the warrants was determined using the Black-Scholes option pricing model and assumes an expected volatility of 50%, a risk-free rate of return of 3.5% and a weighted average life of 1.5 years.
- (3) In connection with the acquisition of Regal Energy Corp. the Company issued 905,643 warrants as a success fee that entitles the holder to purchase one common share of the Company for each warrant held at a price of \$0.95 per share until December 31, 2007. The fair value of the warrants was determined using the Black-Scholes option pricing model and assumes an expected volatility of 50%, a risk-free rate of return of 3.5% and a weighted average life of 2.0 years.
- (4) On November 30, 2006, the Company completed a financing of 5,000,000 common shares at a price of \$0.20 per common share and 4,583,333 flow-through common shares at a price of \$0.24 per common share. Nova Bancorp Securities Ltd. acted as agent in the financing and is a related party to the Corporation as two directors of the Corporation are also directors, officers and shareholders of Nova Bancorp Securities Ltd. In connection with the financing the agent was granted 916,667 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.20 until May 30, 2008. The fair value of the warrants was determined to be \$49,838 of which \$22,655 is attributed to the flow-through portion of the financing using the Black-Scholes option pricing model and assumes an expected volatility of 58%, a risk free rate of return of 5.0% and a weighted average life of 1.5 years.
- (5) On December 21, 2006, the Company, under a rights offering, issued 1,660,078 common shares at a price of \$0.20.
- (6) Under the agreement with Nova Bancorp Securities Ltd. on November 30, 2006, Nova Bancorp Securities Ltd. had the right to subscribe for any shares not subscribed for under the December 21, 2006 rights offering on the same basis as the rights offering. On February 1, 2007, Nova Bancorp Securities Ltd. exercised this right and 3,335,000 common shares were issued at a price of \$0.20. Nova Bancorp Securities Ltd. acted as agent in the financing and is a related party to the Corporation as two directors of the Corporation are also directors, officers and shareholders of Nova Bancorp Securities Ltd. In connection with this financing, the agent was granted 333,500 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.20 until August 1, 2008. The fair value of the warrants was determined to be \$40,260 using the Black-Scholes option pricing model and assumes an expected volatility of 57%, a risk free rate of return of 5% and a weighted average life of 1.5 years.
- (7) On June 28 and July 16, 2007, the Company completed a financing of 7,000,000 flow-through common shares at a price of \$0.30 per share. Nova Bancorp Securities Ltd. acted as co-agent in

the financing and is a related party, as two directors of the Corporation are also directors, officers and shareholders of Nova Bancorp Securities Ltd.

- (8) On July 16, 2007, the Company completed a financing of 3,850,000 common shares at a price of \$0.26 per share. In connection with the financing the agent was granted 3,850,000 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.35 until July 16, 2009. The fair value of the warrants was determined to be \$187,867 using the Black-Scholes option pricing model and assumes an expected volatility of 31%, a risk free rate of return of 5.0% and a weighted average life of 2 years.

d) Stock options

The following table summarizes the status of the Company's stock option plan and the activity during the current quarter and the year ended September 30, 2007.

	<b>Three months ended December 31, 2007</b>		<b>Year ended September 30, 2007</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance, beginning of period	2,951,000	\$0.96	1,626,000	\$0.96
Granted	-	-	1,675,000	0.30
Cancelled	(86,000)	-	(350,000)	0.95
Balance, end of period	2,865,000	\$0.57	2,951,000	\$0.58
Exercisable, end of period	2,155,000	\$0.61	2,241,000	\$0.63

During the quarter ended December 31, 2007, the Company recognized \$22,895 of stock compensation expense for options granted under the Company's stock option plan.

e) Contributed surplus

The following table presents changes in contributed surplus:

	<b>2007</b>	<b>2006</b>
Balance, September 30	\$1,216,220	\$823,552
Replacement employee options	-	-
Stock based compensation - directors	-	-
Stock based compensation – employees and consultants	22,895	27,038
Expiry of warrants	218,300	
Balance, December 31	\$1,457,415	\$850,590

## **6. Capital Risk Management**

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by retaining adequate equity to provide for the possibility that cash flows from assets will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements other than covenants on its operating demand facility with its lender to maintain its working capital ratio at a 1.0:1.0 level.

## 7. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of oil and gas properties:

	Dec. 31, 2007	Dec. 31, 2006
Asset retirement obligation, beginning of period	\$397,558	\$287,450
Liabilities incurred on drilling	7,761	39,756
Liabilities assumed on acquisition		26,104
Accretion expense	9,078	7,288
Asset retirement obligation end of period	\$414,397	\$360,598

The undiscounted amount of cash flows, required over the estimated reserve life of the underlying assets, to settle the obligation, adjusted for inflation is estimated to be \$694,000. The obligation was calculated using a credit adjusted risk free discount rate of 9 percent and an inflation rate of 2 percent. It is expected that this obligation will be funded from general Company resources at the time the costs are incurred with the majority of costs expected to occur between 2010 and 2021.

## 8. Income Tax

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of the Company's future income tax assets and liabilities are as follows:

	Dec. 31, 2007	Sep. 30, 2007
Property and equipment	\$ (470,354)	\$ (861,960)
Non-capital loss carry forwards	8,850,486	9,587,672
Scientific research and development pools	4,913,887	5,386,377
Share issue costs	253,956	294,639
	\$ 13,547,975	\$ 14,406,728
Valuation allowance	(12,949,475)	(13,808,228)
Net future tax asset	\$ 598,500	\$ 598,500

The Company has scientific research and experimental development expenditures (SR&ED), non-refundable investment tax credits (Non-Refundable ITC's), non-capital loss carry forwards (Non-Capital Losses), and depreciable property and resource property tax pools (Other Tax Pools) available for income tax purposes which may be carried forward to reduce future years' taxable income. The approximate amounts and the related expiry dates of these tax pools are as follows:

Expiry Date	SR&ED	Non-Refundable ITC's	Non-Capital Losses	Other Tax Pools	Total
2008	\$ -	\$ -	\$10,018,000	\$ -	\$10,018,000
2009	-	231,000	9,766,000	-	9,997,000
2010	-	340,000	5,720,000	-	6,060,000
2011	-	1,032,000	-	-	1,032,000
2012	-	876,000	-	-	876,000
2013	-	196,000	-	-	196,000
2014	-	45,000	4,672,000	-	4,717,000
2015	-	-	1,898,000	-	1,898,000
2016	-	-	1,263,000	-	1,263,000
2027	-	-	395,000	-	395,000
2028	-	-	399,000	-	399,000
No expiry date	18,899,500	-	-	7,576,000	26,475,500
	\$18,899,500	\$2,720,000	\$34,131,000	\$7,576,000	\$63,326,500

The future tax benefit of the non-capital losses or other tax pools being carried forward has not been recognized in these financial statements as the criteria for recognition has not been met. The research and development cost pool will be reduced by the amount of any investment tax credits utilized. The future tax benefit of \$598,500 of the research and development pools has been recognized in these financial statements as the criteria for recognition has been met.

Canada Revenue Agency (“CRA”) has conducted an audit of transfer pricing on international transactions between SiberCore Technologies Incorporated and its United States subsidiary, SiberCore America Inc. for the years 2000, 2001 and 2002. SiberCore Technologies Incorporated was the predecessor company of Azeri and ultimately Regal Energy Ltd. The Company has received a proposed settlement letter from CRA that would result in a reduction of tax pools in the amount of \$1,501,453. CRA has also proposed to charge a cash penalty of 10% of the adjustments. The Company has responded to the proposed settlement letter and provided further information supporting management’s view that CRA’s position has no merit and intends to object to any notice of assessment that may be received. The outcome of this audit is uncertain at this time and as such no provisions have been made in these financial statements.

## **9. Supplemental Cash Flow Information**

December 31	2007	2006
Changes in non-cash working capital balances related to:		
Accounts receivable	\$ (797,715)	\$ (997,012)
Deposits and prepaid expenses	(13,386)	9,251
Accounts payable and accrued liabilities	1,083,814	2,363,212
	\$ 272,713	\$ 1,375,451
Changes in non-cash working capital balances related to:		
Operating activities	\$ 260,095	\$ (114,069)
Investing activities	12,618	1,489,520
	\$ 272,713	\$ 1,375,451
	2007	2006
Interest paid	\$ 28,150	\$ 45,434
Income taxes paid	\$ -	\$ -

## **10. Commitments and Contingencies**

Pursuant to a flow-through financing completed on June 28, 2007 and July 16, 2007, the Company is committed to spend \$2,100,000 on qualified exploration and development expenditures by December 31, 2008. As at December 31, 2007, the Company has expended approximately \$1,445,000 relating to these commitments.

At December 31, 2007, the Company had commitments for a rental compressor totaling \$29,200 in 2008.

Other than the audit by the CRA on transfer pricing on international transactions from a predecessor company as detailed in Notes (8 and 11), the Company has no other contingencies that management is aware of.

## **11. Subsequent Events**

- a) On February 29, 2008, the Company entered into agreements with Companies controlled by three directors to provide bridge financing to provide necessary working capital to fund its short term needs.

Under the terms of the agreement, \$400,000 will be advanced. A commitment fee of 3% will be paid at the time of the advance and amounts outstanding bear interest at bank prime rate plus 3%. The bridge facility has a maturity date of 90 days subsequent to the advance of funds under the facility and may be renewed for a further 90 days upon mutual consent of the parties. In the event a renewal of terms is agreed to, the Corporation has agreed to pay the lenders a renewal fee of 3% of the then outstanding funds of the bridge facility and the interest rate will be increased to bank prime rate plus 6%. The bridge facility has been secured by a general security agreement over the assets of the Corporation and the lenders were issued promissory notes for the amount of the bridge facility.

- b) Subsequent to quarter end, The Company has received reassessment notices on the audit of transfer pricing on international transaction between SiberCore Technologies Incorporated and its United States subsidiary, SiberCore America Inc. for 2001 and 2002 from CRA that result in a reduction of tax pools in the amount of \$1,416,627. CRA has also assessed a cash penalty of \$140,902. It is management's view that CRA's position has no merit and the Company intends to file an objection to the notices of reassessment.