

Regal Energy Ltd.
Consolidated Interim Financial Statements
March 31, 2008
(unaudited)

Contents

Consolidated Interim Financial Statements	
Balance Sheets	2
Statements of Operations, Comprehensive Loss and Deficit	3
Statements of Cash Flows	4
Notes to Financial Statements	5 – 13

NOTICE: These consolidated 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 or on the Company's website at www.regalenergy.ca.

Regal Energy Ltd.
Consolidated Balance Sheets
(unaudited)

As at	March 31, 2008	Sept. 30, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	1,268,422	486,313
Deposits and prepaid expenses	125,665	61,154
	<u>1,394,087</u>	<u>547,467</u>
Future tax asset (Note 8)	-	598,500
Property and equipment (Note 3)	11,036,216	10,444,607
Intangible assets	<u>74,980</u>	<u>124,967</u>
	\$ 12,505,283	\$ 11,715,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 4)	\$ 2,907,850	\$ 1,078,357
Bridge financing (Note 10)	400,000	
Accounts payable and accrued liabilities	1,872,881	1,854,140
	<u>5,180,731</u>	<u>2,932,497</u>
Asset retirement obligation (Note 7)	423,799	397,558
SHAREHOLDERS' EQUITY		
Equity instruments (Note 5(b) and (c))	74,864,296	75,681,096
Contributed surplus (Note 5(e))	1,462,042	1,216,220
Deficit	<u>(69,425,585)</u>	<u>(68,511,830)</u>
	<u>6,900,753</u>	<u>8,385,486</u>
	\$ 12,505,283	\$ 11,715,541
Commitments and contingencies (Note 11)		
Subsequent events (Note 12)		

See accompanying notes

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.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(unaudited)

	For the three month period ended		For the six month period ended	
	Mar. 31, 2008	Mar. 31, 2007	Mar. 31, 2008	Mar. 31, 2007
REVENUE				
Production revenues	\$ 798,328	\$ 477,805	\$ 1,489,959	\$ 934,595
Royalties	(159,458)	(119,159)	(272,942)	(201,147)
Interest and other income	1,184	337	1,536	337
	<u>640,054</u>	<u>358,983</u>	<u>1,218,553</u>	<u>733,785</u>
EXPENSES				
Operating	310,457	216,611	680,265	434,873
General and administrative	251,460	209,359	493,681	388,926
Interest	68,105	30,494	96,255	75,928
Stock-based compensation (Note 5(d))	4,627	131,842	27,522	158,880
Depletion and depreciation	386,622	232,849	766,118	461,953
Amortization of intangible asset	24,994	16,662	49,987	41,656
Accretion	9,402	14,586	18,480	21,624
	<u>1,055,667</u>	<u>852,403</u>	<u>2,132,308</u>	<u>1,583,840</u>
Net loss before income tax	<u>(415,613)</u>	<u>(493,420)</u>	<u>(913,755)</u>	<u>(850,055)</u>
Future income tax recovery	-	19,000	-	19,000
Net loss and comprehensive loss for the period	<u>(415,613)</u>	<u>(474,420)</u>	<u>(913,755)</u>	<u>(831,055)</u>
Deficit, beginning of period	<u>(69,009,972)</u>	<u>(64,481,470)</u>	<u>(68,511,830)</u>	<u>(64,124,835)</u>
Deficit, end of period	<u>\$(69,425,585)</u>	<u>\$ (64,955,890)</u>	<u>\$(69,425,585)</u>	<u>\$ (64,955,890)</u>
Net loss per share				
Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Weighted average shares outstanding				
Basic and diluted	48,137,590	36,138,868	48,137,590	30,701,385

See accompanying notes.

Regal Energy Ltd.
Consolidated Statements of Cash Flows
(unaudited)

	For the three month period ended		For the six month period ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
CASH FLOW FROM OPERATING ACTIVITIES				
Net loss for the period	\$ (415,613)	\$ (474,420)	\$ (913,755)	\$ (831,055)
Non-cash items:				
Stock-based compensation	4,627	131,842	27,522	158,880
Amortization of intangible asset	24,994	16,662	49,987	41,656
Depletion and depreciation	386,622	232,849	766,118	461,953
Accretion	9,402	14,586	18,480	21,624
Recovery of future income taxes	-	(19,000)	-	(19,000)
	10,032	(97,481)	(51,648)	(165,942)
Net change in non-cash working capital balances (Note 9)	(12,840)	(45,601)	247,255	(159,670)
	(2,808)	(143,082)	195,607	(325,612)
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from bridge financing (Note 10)	400,000	-	400,000	-
Proceeds from bank loan	650,938	1,993,432	1,829,494	2,200,358
Issue of common shares (net of share issuance costs)	-	579,873	-	2,809,869
	1,050,938	2,573,305	2,229,494	5,010,227
CASH FLOW FROM INVESTING ACTIVITIES				
Net change in non-cash working capital balances (Note 9)	(1,087,752)	(1,559,642)	(1,075,134)	(70,122)
Capital expenditures	39,622	(870,581)	(1,349,967)	(4,614,493)
	(1,048,130)	(2,430,223)	(2,425,101)	(4,684,615)
Increase in cash and cash equivalents	-	-	-	-
Cash and cash equivalents, beginning of period	-	-	-	-
Cash and cash equivalents, end of period	\$ -	\$ -	\$ -	\$ -

See accompanying notes.

See Supplemental Cash Flow Information Note 9

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements as at and for the interim period ended March 31, 2008 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 to obtain additional equity or debt financing.

2. Changes in Accounting Policies

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) Effective October 1, 2008, the Company will be required to adopt Section 3064, “Goodwill and Intangible Assets”, which defines the criteria for the recognition of intangible assets. (This new standard is not expected to have an impact on the Company’s financial statements).
- d) 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

March 31, 2008	Accumulated depletion, depreciation and amortization		Net book value
	Cost		
Petroleum and natural gas properties and equipment	\$20,563,555	\$10,294,220	\$10,269,335
Seismic resources	742,418	-	742,418
Other assets	68,729	44,266	24,463
	<u>\$21,374,702</u>	<u>\$10,338,486</u>	<u>\$11,036,216</u>

September 30, 2007	Accumulated depletion, depreciation and amortization		Net book value
	Cost		
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
	<u>\$20,016,975</u>	<u>\$9,572,368</u>	<u>\$10,444,607</u>

There have been no general and administrative expenses capitalized for the quarter or six months ended March 31, 2008 or for the year ended September 30, 2007.

Costs of acquiring seismic resources referenced in the above tables in the amount of \$742,418 at March 31, 2008 and \$902,970 at March 31, 2007 were excluded from the depletable costs. Costs of unproven properties in the amount of \$199,278 at March 31, 2008 and \$246,316 at March 31, 2007 are also excluded from depletable costs.

The Company performed an impairment ceiling test calculation at March 31, 2008 to assess whether the recoverable value of the oil and reserves exceeded the book value. The Company has adjusted upward, the September 30, 2007 pricing contained in the Company’s independent reservoir engineers by approximately 23.2% to reflect the increase in their price deck at March 31, 2008. On this basis the Company has determined that no ceiling test write down is required at March 31, 2008.

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 March 31, 2008 there was \$2,800,000 drawn on the revolving operating demand facility. In addition, there were net outstanding cheques in the amount of \$107,850 to be drawn against this facility for total bank indebtedness of \$2,907,850 at March 31, 2008. The loan facilities are secured by a \$5,000,000 floating charge demand debenture over all the assets of the Company. At March 31, 2008, the Company was not in compliance with a banking covenant regarding working capital that requires the ratio of current assets (including un-

drawn availability under the operating demand facility) to current liabilities (excluding bank debt and bridge financing) to be maintained at a minimum level of 1.0:1.0. At March 31, 2008 the working capital ratio was 0.93:1.00 (See Note 6). The Corporation has received a letter from the bank agreeing to waive this default until the next calculation date being June 30, 2008 (Note 6).

At March 31, 2008, the bank prime rate was 5.5% and the effective rate was 6.0%. The loan facilities are subject to an interim review by the bank scheduled to occur by June 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

	Shares	Amount
Balance, September 30, 2007	48,137,590	\$75,184,831
Tax impact of flow through share issue		(598,500)
Balance, March 31, 2008	48,137,590	\$74,586,331

- c) Warrants

	Number of Warrants	Number of Underlying Shares	Amount
Balance, September 30, 2007	6,005,810	6,005,810	\$ 496,265
December 31, 2007 expiry of warrants ⁽¹⁾	(905,643)	(905,643)	(218,300)
Balance March 31, 2008	5,100,167	5,100,167	277,965
Total Common Shares and Warrants ("Equity Instruments") outstanding at March 31, 2008			74,864,296

At March 31, 2008, there are 5,100,167 common shares reserved for issuance for outstanding warrants.

- (1) 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.

d) Stock options

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

	March 31, 2008		September 30, 2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	2,951,000	\$0.58	1,626,000	\$0.96
Granted	-	-	1,675,000	0.30
Cancelled	(86,000)	1.00	(350,000)	0.95
Balance, end of period	2,865,000	\$0.57	2,951,000	\$0.58
Exercisable, end of period	2,865,000	\$0.57	2,241,000	\$0.63

During the quarter ended March 31, 2008, the Company recognized \$4,627 (\$27,522 year to date) of stock compensation expense for options granted under the Company's stock option plan (Quarter ended March 31, 2007 - \$131,842 and \$158,880 year to date).

e) Contributed surplus

The following table presents changes in contributed surplus:

	March 31, 2008	March 31, 2007
Balance, September 30	\$1,216,220	\$823,552
Stock based compensation - directors	-	58,051
Stock based compensation – employees and consultants	27,522	100,827
Expiry of warrants	218,300	
Balance, March 31	\$1,462,042	\$982,430

6. Financial and Capital Risk Management

Financial Risk:

The Company is exposed to financial risk in a range of financial instruments including cash assets, trade accounts receivable, deposits and trade accounts payable. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

Credit Risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. A majority of the Company's financial assets at the balance sheet date arise from crude oil, natural gas liquids and natural gas sales and amounts due from joint venture partners. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company markets its oil and natural gas to several marketers so that the exposure to any one entity is minimized. In addition, when joint operations are conducted on behalf of a joint venture partner relating to capital expenditures, such costs are paid for in advance by the joint venture partner to the Company by way of a cash call. Additionally, the Company will advance funds to a partner on a cash call basis, for projects that are being operated on behalf of the Company. Cash calls paid by the Company are recorded as an accounts receivable from the operator until such time as a joint venture invoice is received, at which time the cash call receivable is reduced. In the following table, of the total amount due from joint venture partners in the amount of \$942,219, \$878,424 represents cash calls paid by the Company or which will be reduced as joint venture invoices are received.

Amounts Due From	March 31, 2008
Marketers	\$303,267
Joint Venture Partners	942,219
Other	22,936
Total	\$1,268,422

Regal's accounts receivable are aged as follows:

	March 31, 2008
Current (less than 30 days)	\$314,999
30 to 60 days	732,425
61 to 90 days	148,662
Over 90 days	72,336
Total	\$1,268,422

The Company assesses quarterly if there should be any impairment of the financial assets of the Corporation. During the three month period ended March 31, 2008, there was no impairment required on any of the financial assets of the Company.

The carrying amount of accounts receivable represent the Company's maximum credit exposure.

The carrying value of accounts receivable and deposits approximates their fair value due to the relatively short periods to maturity on these instruments.

Market Risk

Foreign Exchange Risk

The prices received by the Company for the production of crude oil, natural gas and natural gas liquids are primarily determined in reference to U.S. dollars but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. A \$0.01 increase or decrease in the Canadian / U.S. exchange rate would have impacted the gross revenue of the Company by \$38,000. The Company considers this risk to be limited and therefore does not hedge it's foreign exchange risk.

Interest Rate Risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk as it borrows funds at floating interest rates as disclosed in Note 4. In addition, the Company is also exposed to interest rate risk to the Canada Revenue Agency for interest on unexpended funds on the Company's flow through share obligations from February 1 to December 31 of the each year. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations.

A 1% increase or decrease in interest rates would have impacted the cash flow of the Company during the quarter ended March 31, 2008 by approximately \$4,000.

Liquidity Risk

Liquidity risk includes the risk that, as a result of operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at values that are less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements including amounts projected to complete existing capital expenditure programs are continuously monitored and adjusted as input variables change. These variables include but are not limited to, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

Capital Risk

The Company's objective 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 as calculated below at a 1.0:1.0 level.

At March 31, 2008, the Company was not in compliance with a banking covenant regarding working capital that requires the ratio of current assets (including un-drawn availability under the operating demand facility) to current liabilities (excluding bank debt and bridge financing) to be maintained at a minimum level of 1.0:1.0. At March 31, 2008, the ratio was 0.93:1.00. The Corporation has received a letter from the bank agreeing to waive this default until the next calculation date being June 30, 2008. The working capital covenant ratio is calculated as follows:

	March 31, 2008	September 30, 2007
Current assets	\$1,394,087	547,467
Add: Undrawn availability on bank line	342,150	2,171,643
Numerator of calculation	\$1,736,237	\$2,719,110
Current liabilities excluding bank indebtedness and bridge financing – denominator of calculation	\$1,872,881	\$1,854,140
Working capital ratio	0.93:1.00	1.47:1.00

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:

	For the Six Months Ended March 31, 2008	For the Year Ended September 30, 2007
Asset retirement obligation, beginning of period	\$397,558	\$287,450
Change in estimate	-	14,970
Liabilities incurred on drilling	7,761	84,079
Liabilities assumed on acquisition	-	26,105
Asset disposition	-	(13,040)
Well abandonment costs incurred	-	(41,619)
Accretion expense	18,480	39,613
Asset retirement obligation end of period	\$423,799	\$397,558

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:

	Mar. 31, 2008	Sep. 30, 2007
Property and equipment	\$ (509,230)	\$ (861,960)
Non-capital loss carry forwards	8,996,408	9,587,672
Scientific research and development pools	4,913,887	5,386,377
Share issue costs	253,956	294,639
	\$ 13,655,021	\$ 14,406,728
Valuation allowance	(13,655,021)	(13,808,228)
Net future tax asset	\$ -	\$ 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	\$ -	\$ -	\$10,295,000	\$ -	\$10,295,000
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	-	-	2,111,000	-	2,111,000
2016	-	-	1,288,000	-	1,288,000
2028	-	-	373,000	-	373,000
No expiry date	18,899,500	-	-	8,382,000	27,281,500
	<u>\$18,899,500</u>	<u>\$2,720,000</u>	<u>\$34,225,000</u>	<u>\$8,382,000</u>	<u>\$64,226,500</u>

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.

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 Notice of Determination / Re-determination of a Loss from CRA that would result in the Company's non capital losses being reduced by \$1,416,627 and a penalty in the amount of \$140,902 being assessed. On March 25, 2008, the Company filed an objection to this notice. The outcome of this audit is uncertain at this time and as such no provisions have been made in these financial statements with respect to this matter.

9. Supplemental Cash Flow Information

Six months ended March 31	2008	2007
Changes in non-cash working capital balances related to:		
Accounts receivable	\$ (782,109)	\$ (275,119)
Deposits and prepaid expenses	(64,511)	(7,539)
Accounts payable and accrued liabilities	18,741	52,866
	<u>\$ (827,879)</u>	<u>\$ (229,792)</u>
Changes in non-cash working capital balances related to:		
Operating activities	\$ 247,255	\$ (159,670)
Investing activities	(1,075,134)	(70,122)
	<u>\$ (827,879)</u>	<u>\$ (229,792)</u>

	Three months ended		Six months ended	
	March 31, 2008	March 31, 2007	March 31, 2008	March 31, 2007
Interest paid or accrued	\$ 68,105	\$ 30,494	\$ 96,255	\$ 75,928
Income taxes paid	\$ -	\$ -	\$ -	\$ -

10. Related Party Transactions

On February 29, 2008, the Company entered into agreements with Companies controlled by three directors of the Company to provide bridge financing to fund its short term working capital needs. Under the terms of the agreement, \$400,000 was advanced. A commitment fee of 3% was 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 Company (subordinated to the bank) and the lenders were issued promissory notes for the amount of the bridge facility. Total interest and commitment fees paid for the bridge financing during the quarter ended March 31, 2008 was \$14,830.

All related party transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and which is similar to those that would be negotiated with third parties.

11. 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 March 31, 2008, the Company has expended approximately \$1,303,200 relating to these commitments.

At March 31, 2008, the Company had commitments for a rental compressor totaling \$18,250 in 2008.

Other than the audit by the CRA on transfer pricing on international transactions from a predecessor company as detailed in Note 8, the Company has no other contingencies that management is aware of. On March 25, 2008, the Company filed an objection to the Notice of Determination with CRA.

12. Subsequent Events

The Company has entered into an arrangement agreement dated April 30, 2008 (“the Arrangement Agreement”) pursuant to which the Company has agreed to complete a business combination (“the Business Combination”) with G2 Resources Inc. (“G2”). Pursuant to the terms of the Arrangement Agreement, all of the outstanding shares of G2 (“the G2 Shares”) will be exchanged for common shares of Regal Energy Ltd. (“Regal”) on the basis of two Regal shares for each three G2 Shares held. The outstanding warrants of G2 will be exchanged for warrants of Regal on the basis of two Regal warrants for each three G2 warrants held. The Company has certain severance obligations that will be triggered as a result of the Business Combination. The amounts due would be approximately \$496,000.

On May 22, 2008, the board of directors of the Company approved the completion of an equity financing for gross proceeds of \$5,500,000, which is a pre-condition of the completion of the Business Combination. The equity financing will be by way of a private placement of subscription receipts of Regal (the “Subscription Receipts”) at a price of \$0.20 per receipt, each entitling the holder to receive, for no additional consideration, one unit of Regal consisting of one common share of Regal and one share purchase warrant of Regal, with each warrant entitling the holder to acquire one common share at a price of \$0.26 per share for a period of twenty-four months from the closing date.

An Information Circular of G2 further describing the Business Combination will be filed on SEDAR.

On May 29, 2008, the related parties that provided the bridge financing and Regal have agreed to extend the repayment date of the loan until the completion of the Business Combination with G2 or August 29, 2008 whichever is earlier.