

Regal Energy Ltd.
Consolidated Interim Financial Statements
June 30, 2008
(unaudited)

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NOTICE: These consolidated interim financial statements reflect the accounts and operations of Regal Energy Ltd. and its wholly-owned subsidiary 1389787 Alberta Ltd. They do not reflect the accounts and operations of G2 Resources Inc. which became a wholly-owned subsidiary on July 10, 2008.

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.

NOTICE: These consolidated interim financial statements and notes thereto for the three and nine months ended June 30, 2008 have not been reviewed by the Company's external auditors.

Regal Energy Ltd.
Consolidated Balance Sheets
(unaudited)

As at	June 30, 2008	Sept. 30, 2007
ASSETS		
Current		
Cash and cash equivalents	\$ -	\$ -
Accounts receivable	801,945	486,313
Deposits and prepaid expenses	<u>224,109</u>	<u>61,154</u>
	1,026,054	547,467
Future tax asset (Note 8)	-	598,500
Property and equipment (Note 3)	10,203,766	10,444,607
Intangible assets	<u>49,987</u>	<u>124,967</u>
	\$ 11,279,807	\$ 11,715,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 4)	\$ 2,790,414	\$ 1,078,357
Bridge financing (Note 10)	400,000	
Accounts payable and accrued liabilities	<u>932,193</u>	<u>1,854,140</u>
	4,122,607	2,932,497
Asset retirement obligation (Note 7)	348,153	397,558
SHAREHOLDERS' EQUITY		
Equity instruments (Note 5(b) and (c))	74,814,458	75,681,096
Contributed surplus (Note 5(e))	1,511,880	1,216,220
Deficit	<u>(69,517,291)</u>	<u>(68,511,830)</u>
	6,809,047	8,385,486
	\$ 11,279,807	\$ 11,715,541
Commitments and contingencies (Note 11)		
Subsequent events (Note 12)		

See accompanying notes

Approved on behalf of the Board:

Signed: "Curtis A. Hartzler"

Curtis A. Hartzler – Director

Signed: "Hugh Mogensen"

Hugh Mogensen – Chairman of the Board

Regal Energy Ltd.

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

	For the three month period ended		For the nine month period ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
REVENUE				
Production revenues	\$ 1,433,031	\$ 542,243	\$ 2,922,991	\$ 1,476,838
Royalties	(266,571)	(75,262)	(539,513)	(276,409)
Interest and other income	5,029	94	6,566	431
	<u>1,171,489</u>	<u>467,075</u>	<u>2,390,044</u>	<u>1,200,860</u>
EXPENSES				
Operating	381,680	233,128	1,061,945	668,001
General and administrative	232,272	199,558	725,954	588,484
Interest	73,506	49,551	169,761	125,479
Stock-based compensation (Note 5(d))	-	22,895	27,522	181,773
Depletion and depreciation	541,671	349,227	1,307,790	811,181
Amortization of intangible asset	24,993	33,324	74,980	74,982
Accretion	9,073	8,902	27,553	30,525
	<u>1,263,195</u>	<u>896,585</u>	<u>3,395,505</u>	<u>2,480,425</u>
Net loss before income tax	(91,706)	(429,510)	(1,005,461)	(1,279,565)
Future income tax recovery	-	-	-	19,000
Net loss and comprehensive loss for the period	(91,706)	(429,510)	(1,005,461)	(1,260,565)
Deficit, beginning of period	(69,425,585)	(64,955,890)	(68,511,830)	(64,124,835)
Deficit, end of period	\$(69,517,291)	\$ (65,385,400)	\$(69,517,291)	\$ (65,385,400)
Net loss per share				
Basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.04)
Weighted average shares outstanding				
Basic and diluted	48,137,590	37,394,212	48,137,590	33,168,370

See accompanying notes.

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

	For the three month period ended		For the nine month period ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
CASH FLOW FROM OPERATING ACTIVITIES				
Net loss for the period	\$ (91,706)	\$ (429,510)	\$ (1,005,461)	\$ (1,260,565)
Non-cash items:				
Stock-based compensation	-	22,895	27,522	181,773
Amortization of intangible asset	24,993	33,324	74,980	74,982
Depletion and depreciation	541,671	349,227	1,307,790	811,181
Accretion	9,073	8,902	27,553	30,525
Recovery of future income taxes	-	-	-	(19,000)
Abandonment expenditures	-	(14,672)	-	(14,672)
	484,031	(29,834)	432,384	(195,776)
Net change in non-cash working capital balances (Note 9)	(338,299)	194,859	(91,044)	35,188
	145,732	165,025	341,340	(160,588)
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from bridge financing (Note 10)	-	-	400,000	-
Increase (decrease) in bank loan	(117,436)	(134,681)	1,712,058	2,065,677
Issue of common shares (net of share issuance costs)	-	852,038	-	3,661,906
Net change in non-cash working capital balances (Note 9)	-	28,115	-	28,115
	(117,436)	745,472	2,112,058	5,755,698
CASH FLOW FROM INVESTING ACTIVITIES				
Capital expenditures	206,060	(717,567)	(1,143,907)	(5,332,059)
Net change in non-cash working capital balances (Note 9)	(234,356)	(192,930)	(1,309,491)	(263,051)
	(28,296)	(910,497)	(2,453,398)	(5,595,110)
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 Regal include the accounts and operations of Regal and 1389787 Alberta Ltd., they do not contain the accounts and operations of G2 Resources Inc., which became a wholly-owned subsidiary on July 10, 2008. 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 June 30, 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 is not expected to 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

June 30, 2008	Accumulated depletion, depreciation and amortization		Net book value
	Cost		
Petroleum and natural gas properties and equipment	\$20,272,777	\$10,830,141	\$9,442,636
Seismic resources	742,418	-	742,418
Other assets	68,729	50,017	18,712
	\$21,083,924	\$10,880,158	\$10,203,766

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
	\$20,016,975	\$9,572,368	\$10,444,607

There have been no general and administrative expenses capitalized for the quarter or nine months ended June 30, 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 June 30, 2008 and \$728,024 at June 30, 2007 were excluded from the depletable costs. Costs of unproven properties in the amount of \$199,278 at June 30, 2008 and \$246,316 at June 30, 2007 are also excluded from depletable costs.

The Company performed an impairment ceiling test calculation at June 30, 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 report by approximately 46% to reflect the increase in their price deck at June 30, 2008. On this basis the Company has determined that no ceiling test write down is required at June 30, 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 3/4 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 June 30, 2008 there was \$2,650,000 drawn on the revolving operating demand facility. In addition, there were net outstanding cheques in the amount of \$140,414 to be drawn against this facility for total bank indebtedness of \$2,790,414 at June 30, 2008. The loan facilities are secured by a \$5,000,000 floating charge demand debenture over all the assets of the Company. (See Note 12).

At June 30, 2008, the bank prime rate was 4.75% and the effective rate was 5.50%. The loan facilities are subject to an interim review by the bank scheduled to occur by September 1, 2008. (See Note 12).

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, June 30, 2008 (See Note 12)	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)
May 30, 2008 expiry of warrants ⁽²⁾	(916,667)	(916,667)	(49,838)
Balance June 30, 2008	4,183,500	4,183,500	228,127
Total Common Shares and Warrants ("Equity Instruments") outstanding at June 30, 2008			\$74,814,458

At June 30, 2008, there are 4,183,500 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.
- (2) In connection with a financing completed on November 30, 2006, the Company issued 916,667 warrants that entitled the holder to purchase one common share of the Company for each warrant held at a price of \$0.20 per share until May 30, 2008. The fair value of the warrants was determined 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.

d) Stock options (See Note 12)

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

	June 30, 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 June 30, 2008, the Company recognized \$nil (\$27,522 year to date) of stock compensation expense for options granted under the Company's stock option plan (Quarter ended June 30, 2007 - \$22,895 and \$181,773 year to date).

On June 27, 2008 the Company completed a private placement of 27,500,000 subscription receipts ("the Subscription Receipts") issued at a price of \$0.20 per Subscription Receipt, for aggregate gross proceeds of \$5,500,000. Each Subscription Receipt entitles the holder to receive, for no additional consideration, one unit of Regal ("Unit") consisting of one common share of Regal and one common share purchase warrant of Regal ("Warrant"). Each Warrant entitles the holder to acquire one common share of Regal at a price of \$0.26 per share for a period of twenty-four months from the closing date. The gross proceeds of the offering were deposited with the Company's trust agent pending completion of the previously announced Arrangement between Regal and G2 Resources Inc. and will be reflected as issued shares once the funds are released to the Company from trust. The funds were released on July 10, 2008 following completion of the Arrangement. Following completion of the private placement and the Arrangement, Regal has 150,050,209 common shares outstanding.

e) Contributed surplus

The following table presents changes in contributed surplus:

	June 30, 2008	June 30, 2007
Balance, September 30	\$1,216,220	\$823,552
Stock based compensation - directors	-	58,051
Stock based compensation – employees and consultants	27,522	123,722
Expiry of warrants	268,138	188,000
Balance, June 30	\$1,511,880	\$1,193,325

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, trade accounts payable, bank debt and bridge financing. 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. A majority of the Company's financial assets at June 30, 2008 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.

Amounts due from	June 30, 2008
Marketers	\$525,139
Joint Venture Partners	210,856
Other	65,950
Total	\$801,945

Regal's accounts receivable are aged as follows:

Age of accounts receivable	June 30, 2008
Current (less than 30 days)	\$645,090
30 to 60 days	3,839
61 to 90 days	49,287
Over 90 days	103,729
Total	\$801,945

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the three month period ended June 30, 2008, the Company determined there was an impairment required to the financial assets of the Company in the amount of \$29,953.

The carrying amount of accounts receivable represents 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 considers this risk to be limited and therefore does not hedge its 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 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 June 30, 2008 by approximately \$24,000.

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 June 30, 2008, the Company was in compliance with all banking covenants.

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 Nine Months Ended June 30, 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	(84,719)	(13,040)
Abandonment expenditures incurred	-	(41,619)
Accretion expense	27,553	39,613
Asset retirement obligation end of period	\$348,153	\$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 \$546,300. 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:

	June 30, 2008	Sep. 30, 2007
Property and equipment	\$ (1,099,978)	\$ (861,960)
Non-capital loss carry forwards	8,739,876	9,587,672
Scientific research and development pools	4,913,887	5,386,377
Share issue costs	253,956	294,639
	\$ 12,807,741	\$ 14,406,728
Valuation allowance	(12,807,741)	(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	\$ -	\$ -	\$10,175,000	\$ -	\$10,175,000
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
No expiry date	18,899,500	-	-	8,149,000	27,048,500
	\$18,899,500	\$2,720,000	\$33,732,000	\$8,149,000	\$63,500,500

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.

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

Nine months ended June 30	2008	2007
Changes in non-cash working capital balances related to:		
Accounts receivable	\$ (315,632)	\$ 106,979
Deposits and prepaid expenses	(162,956)	(21,255)
Accounts payable and accrued liabilities	(921,947)	(285,472)
	\$ (1,400,535)	\$ (199,748)
Changes in non-cash working capital balances related to:		
Operating activities	\$ (91,044)	\$ 35,188
Financing activities	-	28,115
Investing activities	(1,309,491)	(263,051)
	\$ (1,400,535)	\$ (199,748)

	Three months ended		Nine months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Interest paid	\$ 73,506	\$ 49,551	\$ 169,761	\$ 125,479
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 was renewed for a further 90 days. The Corporation paid the lenders a renewal fee of 3% of the outstanding balance and the interest rate 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 renewal fees paid for the bridge financing during the quarter ended June 30, 2008 was \$20,907.

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 flow-through financings 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 June 30, 2008, the Company has expended approximately \$1,300,000 relating to these commitments.

At June 30, 2008, the Company had commitments for a rental compressor totaling \$7,300 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 of which management is aware. On March 25, 2008, the Company filed an objection to the Notice of Determination with CRA.

12. Subsequent Events

On July 10, 2008, the Company's previously announced business combination with G2 Resources Inc. ("G2") by way of a court approved Plan of Arrangement ("the Arrangement") was completed. The arrangement was approved on July 9, 2008 at a special meeting of G2 shareholders with 99.01% of the votes cast in favour of the Arrangement. Pursuant to the Arrangement, Regal acquired all of the issued and outstanding shares of G2 ("G2 shares") which were exchanged for common shares of Regal ("Regal shares") on the basis of two Regal shares for each three G2 shares. Regal also acquired all of the outstanding warrants of G2 ("G2 warrants"), which were exchanged for warrants of Regal ("Regal warrants") on the basis of two Regal warrants for each three G2 warrants. Following completion of the arrangement, G2 became a wholly owned subsidiary of Regal. The business combination will be accounted for using the purchase method of accounting.

As a result of the completion of the Arrangement, the Company's lender has agreed to increase the revolving operating demand facility to \$7,500,000. Repayments of the facility are not required provided the amounts borrowed do not exceed \$7,500,000 or an amount to be determined from time to time. The new facility bears interest at the bank prime rate plus 3/4%.

Concurrent with the completion of the Arrangement, the Company repaid amounts due to three related parties under the bridge financing agreement dated February 29, 2008 in the amount of \$400,000.

On July 24, 2008, the Company granted stock options to acquire an aggregate of 11,175,000 common shares to certain directors, officers, employees and consultants exercisable at a price of \$0.20 per share. These options vest 1/3 immediately, 1/3 one year from grant date, and 1/3 two years from grant date, and will expire on July 23, 2013.