

# **REGAL ENERGY LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS, AND SELECTED FINANCIAL INFORMATION**

**For the three and nine months ended June 30, 2008**

Regal Energy Ltd. ("Regal", "the Corporation", or "the Company") is an emerging Canadian energy company engaged in the exploration, acquisition, development and production of crude oil and natural gas in Saskatchewan, Alberta and northeast British Columbia. Regal's common shares are listed and posted for trading on the TSX Venture Exchange under the symbol "REG".

The following is management's discussion and analysis ("MD&A") of Regal's unaudited operating and financial results for the three and nine months ended June 30, 2008. This MD&A should be read in conjunction with Regal's unaudited interim financial statements and related notes for the three months ended June 30, 2008 and the Audited Financial Statements for the year ended September 30, 2007. This MD&A is current as at August 29, 2008. The accompanying financial statements of Regal have been prepared by Management and approved by the Corporation's Audit Committee and Board of Directors. The financial data presented herein has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Additional information relating to Regal is available on SEDAR at [www.sedar.com](http://www.sedar.com) and Regal's website ([www.regalenergy.ca](http://www.regalenergy.ca)).

### **NON-GAAP FINANCIAL MEASUREMENTS**

The Corporation has used certain measures of financial reporting that are commonly used benchmarks within the oil and natural gas industry in this MD&A that are considered to be non-GAAP measures. The measures discussed are widely accepted measures of performance and value within the industry, and are used by investors and analysts to compare and evaluate oil and gas exploration and producing entities. The non-GAAP measures used and referenced in this document include "operating netback" and "funds flow from operations". Operating netback is a benchmark used in the oil and gas industry to measure the contribution of crude oil and natural gas sales after deducting royalties and operating costs. Regal determines funds flow from operations to be the cash flow from operations before changes in non-cash working capital. Management believes that in addition to net earnings, funds flow from operations is a useful supplemental measure to assess the financial performance and ability of Regal to finance future spending. These measures are not defined under GAAP and should not be considered in isolation or as an alternative to conventional GAAP measures. These non-GAAP measures may not necessarily be comparable to similarly titled measures used by other entities and readers of this MD&A are cautioned in attempting to make such comparisons.

### **OTHER MEASUREMENTS**

The reporting and measurement currency of this MD&A is the Canadian dollar. For the purposes of calculating unit costs, natural gas has been converted to a barrel of oil equivalent (Boe) using 6,000 cubic feet (6 Mcf) of natural gas equal to one barrel of oil (6:1), unless otherwise stated. The Boe conversion ratio of 6 Mcf to 1 Bbl is based on an energy equivalency conversion method and does not represent a value equivalency; therefore Boe's may be misleading if used in isolation. (This conversion conforms to NI 51-101). References to natural gas liquids ("NGLs") in this MD&A include condensate, propane, butane and ethane and one barrel of NGLs is considered to be equivalent to one barrel of crude oil equivalent (Boe).

### **ADVISORY REGARDING FORWARD LOOKING STATEMENTS**

Certain information set forth in this MD&A, that are not historical facts, including Management's assessment of Regal's future plans and operations, contains "forward looking statements". All estimates and statements that describe the Corporation's objectives, goals, or future, including Management's assessment of future plans and operations, production estimates and expected production rates, timing of tie-ins and the effect of delays in tying-in wells and the effects of third party compressor issues and other infrastructure issues, levels of decline rates and the effects thereof, expected royalty rates, expected general and administrative expenses and other expenses, effects of the results of successful wells, expected levels of capital expenditures and the method of funding them, the ability to incur qualifying expenditures renounceable to purchasers of flow-through shares and the expected levels of activities and results of operations of Regal may constitute forward looking information under securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals, the impact of general economic conditions and industry conditions, the lack of availability of qualified personnel or management, stock market volatility and the ability to access sufficient capital from internal and external sources. As a consequence, Regal's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly no assurance can be given that any events anticipated by the forward looking statements will transpire or occur, or, if any of them do so, what benefits Regal will derive there from. Readers are cautioned that the foregoing list of factors is not exhaustive.

Additional information on these and other factors that could affect Regal's operations and financial results is included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) and Regal's website ([www.regalenergy.ca](http://www.regalenergy.ca)). Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward looking statements. Furthermore, the forward looking statements contained in this MD&A are made as at the date of this MD&A and Regal does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

## CORPORATE HIGHLIGHTS

(unaudited)	Three Months ended June 30,		Nine Months ended June 30,	
	2008	2007	2008	2007
<b>Financial</b>				
Petroleum and natural gas sales	\$ 1,433,031	\$ 542,243	\$ 2,922,991	\$ 1,476,838
Funds flow from operations (non-GAAP) <sup>(1)</sup>	\$ 484,031	\$ (29,834)	\$ 432,384	\$ (195,776)
Cash flow from operations	\$ 145,732	\$ 165,025	\$ 341,340	\$ (160,588)
Net earnings (loss)	\$ (91,706)	\$ (429,510)	\$ (1,005,461)	\$ (1,260,565)
Capital expenditures <sup>(2)</sup>	\$ (206,060)	\$ 717,567	\$ 1,143,907	\$ 5,332,059
Working capital surplus (deficiency)			\$ (3,096,553)	\$ (3,110,490)
Total assets			\$ 11,279,807	\$ 13,626,232
Shareholders' equity			\$ 6,809,047	\$ 9,541,244
Shares outstanding as of August 29, 2008			150,050,209	
<b>Operations</b>				
Production				
Natural gas (Mcf)	112,049	64,857	266,625	170,223
Oil and NGLs (Bbls)	3,912	2,362	10,441	7,355
Total production (Boe) <sup>(3)</sup>	22,587	13,172	54,879	35,726
Natural gas (Mcf/d)	1,231	713	973	624
Oil and NGLs (Bbl/d)	43	26	38	27
Total production (Boe/d) <sup>(3)</sup>	248	145	200	131
Average selling price				
Natural gas (\$/Mcf)	9.58	6.14	7.77	6.28
Oil and NGLs (\$/Bbl)	92.02	60.85	81.62	55.44
Total production (\$/Boe) <sup>(3)</sup>	63.44	41.17	53.26	41.34
Operating Netback (\$/Boe) <sup>(3)(4)</sup>	34.74	17.76	24.08	14.90

*Notes:*

- (1) Funds flow before net change in non-cash operating working capital balances does not conform to Generally Accepted Accounting Principles (GAAP). Refer to the "Non-GAAP Measurements" and "Net Earnings, Funds Flow and Cash Flow from Operations" sections of the Management's Discussion and Analysis.
- (2) Amounts reported do not include non-cash capital recorded for asset retirement obligations and is net of dispositions.
- (3) Natural gas is converted to oil equivalent at 6 Mcf = 1 Bbl. A Boe conversion ratio of 6 Mcf = 1 Bbl is based on an energy equivalency conversion method and does not represent a value equivalency at the wellhead; therefore Boe's may be misleading if used in isolation.
- (4) Non-GAAP Measurement. Refer to the "Non-GAAP Measurements" section of the Management's Discussion and Analysis.

## **THE CORPORATION**

The Corporation was incorporated pursuant to the Canada Business Corporations Act on August 7, 1998 as “3519309 Canada Incorporated”. On September 28, 2002, 3519309 Canada Incorporated amalgamated to form SiberCore Technologies Incorporated. The Corporation at that time was a semiconductor company developing high value-added standard chips for intelligent hardware based switching and routing platforms.

The shareholders of the Corporation approved a change of business direction on December 17, 2004 that resulted in the distribution of cash and technology assets to shareholders as a return of capital, the consolidation of the common shares of the Corporation on the basis of 1 for 30,000, conversion of the preferred shares of the Corporation on the basis of 0.012 common shares for each preferred share, and a change in the name of the Corporation from SiberCore Technologies Incorporated to Azeri Capital Inc. (“Azeri”).

On December 30, 2004 the Corporation entered into a seismic joint venture agreement (the “Seismic JV”) with Divestco Seismic Limited Partnership (“Divestco”) and Spectrum Seismic Processors Ltd. The seismic underlying the Seismic JV is the majority of the proprietary seismic data of a senior Canadian integrated oil and gas company which consists of over 32,000 km of 2D data covering several areas throughout Alberta and Saskatchewan that was acquired by Divestco. Pursuant to the Joint Venture, the Corporation agreed to fund the estimated cost of reprocessing the seismic data of \$1,375,000, and in exchange, the Corporation acquired for its own use a fully reprocessed copy of this seismic data as well as certain other geological and geophysical software usage, and a residual royalty on sales of the entire reprocessed database and individual line by line data sales. On November 9, 2006, this residual royalty was sold for \$675,000.

On December 31, 2005, the Corporation acquired, by way of a Plan of Arrangement, all of the issued and outstanding shares of Regal Energy Corp., a public company listed on the TSX Venture Exchange, and changed the Corporation’s name to Regal Energy Ltd. (the “Plan of Arrangement”). Pursuant to the Plan of Arrangement, the Corporation reorganized its share capital whereby the issued and issuable shares were split on a 7.37 for one basis. Shareholders of Regal Energy Corp. received one share of the Corporation for each five shares of Regal Energy Corp. previously held.

The Corporation was continued under the *Business Corporations Act*. (Alberta) on December 31, 2005.

The principal and head office of the Corporation is located at Suite 310, 333 - 5th Avenue S.W., Calgary, Alberta T2P 3B6. The registered office of the Corporation is located at 3300, 400 – 3rd Avenue S.W., Calgary, Alberta T2P 4H2.

The Corporation has two wholly owned subsidiaries – 1389787 Alberta Ltd. and G2 Resources Inc. (“G2”). G2 became a wholly-owned subsidiary as a result of the Business Combination that occurred on July 10, 2008 more fully described in the following highlights section.

This MD&A and the accompanying financial statements reflect operations and accounts of Regal only. They do not reflect the accounts and operations of G2.

## **RESULTS OF OPERATIONS**

### **Highlights**

During the third quarter of fiscal 2008, capital expenditures net of dispositions totaled \$(206,060), including \$(252,859) for disposition of the Company’s property at Atlee Buffalo – net of costs, \$(7,436) for drilling and completions, \$53,059 for equipping and tie-in, \$1,176 for land acquisition / retention. During the quarter in order to improve our working capital ratio, the Corporation divested of a minor property interest at Atlee Buffalo. During the quarter, there were limited capital expenditures in order to rectify being offside the working capital covenant with the Company’s lender at March 31, 2008. During the quarter ended June 30, 2008, a successful re-completion of a well in the Hanna area was undertaken. A summer drilling credit was received from the Province of British Columbia in the amount of \$40,000 for a well drilled in the Eight Mile area. In addition, ancillary wellhead equipment and production facilities were added in the Eight Mile area.

On May 1, 2008 Regal and G2 jointly announced they had entered into an arrangement agreement (the “Arrangement Agreement”) to complete a business combination (the “Business Combination”). The terms of the Arrangement Agreement (dated April 30, 2008 and amended May 28, 2008), contemplated the exchange of all of the outstanding shares of G2 (the “G2 Shares”) for common shares of Regal on the basis of two Regal shares for each three G2 Shares held, and exchange of the outstanding warrants of G2 for warrants of Regal on the basis of two Regal warrants for each three G2 warrants held. On July 9, 2008, G2 shareholders voted 99.1% in favor of the Business Combination and the transaction was completed on July 10, 2008.

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 Business Combination between Regal and G2. The funds were released to the Company on July 10, 2008 following completion of the Business Combination. Following completion of the private placement and the Business Combination, Regal has 150,050,209 common shares outstanding.

As a result of the completion of the Business Combination, 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%.

**Any information regarding the Business Combination contained within this MD&A or within the Corporation’s financial statements is not intended to outline all of the information related to the Business Combination. Readers are advised to refer to the Information Circular of G2 Resources Inc. filed on SEDAR describing the Business Combination.**

Regal and G2’s consolidated production during the month of August is estimated to be 465 Boe/d comprised of 2,050 mcf/d of natural gas and 123 Bbl/d of oil and NGL’s. This is approximately 18% higher than the combined production of Regal and G2 for the period ended June 30, 2008, immediately prior to the business combination of the two companies. The current production of 465 Boe/d is also an increase of 41% when compared to the proforma production for the quarter ended December 31, 2007. Approximately 360 mcf/d (60 Boe/d) of production is currently being curtailed at Kaybob, Alberta due to plant restrictions. Regal is continuing its activities to place additional behind pipe gas production on stream at Windfall, Alberta with the tie-in of a previously drilled well. At Garrington, Alberta the Company is proceeding with pipeline construction to increase gas throughput capacity, and at Wapiti, Alberta proceeding with the tie-in of the 2 previously drilled wells. At Roncott, Saskatchewan where Regal holds a 50% Working Interest in 4400 acres of land, production is expected to increase with the fracture stimulation of 1 horizontal and 1 vertical well in the Bakken zone early in September, 2008. Based on the results of these fracs, Regal has the potential to drill multiple Bakken oil wells on its existing lands. The Company is also actively working on new drilling prospects at Eight Mile, British Columbia to expand existing production from this area.

#### Producing properties of the Corporation

Regal’s average production rate during the quarter ended June 30, 2008 was 248 Boe/d (200 Boe/d year to date) or 71 percent higher than the comparable period in 2007 (53 percent higher year to date). Regal’s average production at Eight Mile for the month of June was negatively impacted by a “major” turnaround shut-down at the McMahon Gas Plant. These major turnarounds are scheduled approximately every three years and may last up to six weeks. The McMahon Gas Plant came back on stream on July 1, 2008 and production from the Corporation’s 7-8 well at Eight Mile resumed. Commodity prices continued to strengthen over the previous quarter and over both the comparable period last year and for year to date fiscal 2007. The Corporation received an average selling price of \$63.44 per Boe during the current quarter as compared to \$50.73 for the second quarter of 2008 and \$40.31 for the entire 2007 year. However, spot natural gas prices have declined somewhat since June 30, 2008 (\$11.10/Mcf Canadian) and are currently in the range of \$7.20/Mcf Canadian

Area	Working Interest (%)	Quarter Ended June 30, 2008 Average Production Rate			Quarter Ended June 30, 2007 Average Production Rate		
		Gas (Mcf/d)	Oil & NGLs (Bbl/d)	Total Oil Equivalent (Boe/d)	Gas (Mcf/d)	Oil & NGLs (Bbl/d)	Total Oil Equivalent (Boe/d)
Eight Mile	40%	514	15	101	-	-	-
Garrington	75-100	521	7	94	514	4	90
Kaybob	62	125	7	28	83	5	19
Veteran	30-50	-	12	12	-	15	15
Viking Kinsella	20	54	-	8	58	-	10
Atlee Buffalo	50-100	13	-	2	57	-	9
Judy Creek	5	-	2	2	1	2	2
Hanna	42.5	4	-	1	-	-	-
<b>Total</b>		<b>1,231</b>	<b>43</b>	<b>248</b>	<b>713</b>	<b>26</b>	<b>145</b>

## OPERATING NETBACK

The following table reconciles the Corporation's operating netback which is considered to be a non-GAAP measure <sup>(1)</sup>.

Netback Per Boe	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenue	\$63.44	\$41.17	\$53.26	\$41.34
Royalties	(11.80)	(5.71)	(9.83)	(7.74)
Operating Costs	(16.90)	(17.70)	(19.35)	(18.70)
Operating Netback	\$34.74	\$17.76	\$24.08	\$14.90

Note:

- (1) Operating netback is a non-GAAP measure and is a benchmark used in the oil industry to measure the contribution of crude oil and natural gas sales, subsequent to the deduction of royalties and operating costs. This measure is not necessarily comparable to "Operating Netback" as reported by another entity.

The operating netback for the three months ended June 30, 2008 was \$34.74 per Boe (\$24.08 per Boe year to date) compared to \$17.76 per Boe (\$14.90 per Boe year to date) in the comparable period in 2007. Gross revenue increased by \$22.27 per Boe for the quarter ended June 30, 2008 compared to the equivalent quarter in 2007 and royalty expense increased by \$6.09 per Boe over 2007. Operating costs decreased for the three months ended June 30, 2008 by \$0.80 per Boe over the equivalent period in 2007. Overall our netback has increased by \$16.98 per Boe for the current quarter over the same quarter of 2007.

The average prices of the components of revenue for the quarter ended June 30, 2008 included \$9.58 per Mcf for natural gas (\$7.77 year to date) and \$92.02 per Boe for crude oil and natural gas liquids (\$81.62 year to date). This compares to \$6.14 per Mcf for natural gas (\$6.28 year to date) and \$60.85 per Boe for crude oil and natural gas liquids (\$55.44 year to date) in the equivalent periods of last year. Approximately 80% of Regal's production for the quarter was from natural gas, and average prices received for natural gas during the current quarter are 31% higher than those received during the second quarter of 2008. Since quarter end however, natural gas prices have softened and the current spot price for the AECO C natural gas sits at approximately \$7.06 per Mcf which will reduce netbacks received during the final quarter of fiscal 2008.

Royalty expense for the current quarter on a per Boe basis amounted to \$11.80 per Boe (\$9.83 per Boe year to date) compared to \$5.71 per Boe (\$7.74 per Boe year to date) an increase of \$2.09 per Boe on a year over year basis. This increase is primarily due to higher royalty expense on the higher productivity well at the Eight Mile area in north east British Columbia that came on stream in April of 2008 compared to royalties on the lower productivity Garrington wells in Alberta.

Total operating costs amount to \$16.90 per Boe (\$19.35 per Boe year to date) compared to \$17.70 (\$18.70 per Boe year to date) in the third fiscal quarter of 2007. The reduction in both the current quarter and year to date 2008 result from increased production and sales volumes brought on stream at the Eight Mile area in north east British Columbia that have lower operating costs than at Garrington, Alberta.

## FINANCIAL REVIEW

### NET EARNINGS, FUNDS FLOW AND CASH FLOW FROM OPERATIONS:

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Weighted Average				
Shares Outstanding	48,137,590	37,394,212	48,137,590	33,168,370
Net Income (Loss)	\$(91,706)	\$(429,510)	\$(1,005,461)	\$(1,260,565)
Per Share Basic and Diluted	\$0.00	\$(0.01)	\$(0.02)	\$(0.04)
Funds Flow From Operations <sup>(1)</sup>	\$484,031	\$(29,834)	\$432,384	\$(195,776)
Per Share Basic and Diluted	\$0.01	\$(0.00)	\$0.01	\$(0.01)
Cash Flow From Operations	\$145,732	\$165,025	341,340	\$(160,588)
Per Share Basic and Diluted	\$0.00	\$0.00	\$0.01	\$0.00

Note:

- (1) Funds flow from operations has been presented for information purposes only and should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP. The Corporation considers funds flow from operations to be a key measure as it demonstrates the Corporation's ability to generate the cash necessary to

repay debt and to fund future growth through capital investment. The determination of Regal's funds flow from operations may not be comparable to the same reported by other companies. The reconciliation of net earnings and funds flow from operations can be found in the statements of cash flow in the consolidated financial statements. Funds flow from operations per share was calculated using the same weighted average shares outstanding used in calculating net earnings per share.

## REVENUE

### Working Interest Sales

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Sales Volumes</b>				
Natural Gas (Mcf)	112,049	64,857	266,625	170,223
Crude Oil & NGLs (Bbls)	3,912	2,362	10,441	7,355
Total Oil Equivalent (Boe)	22,587	13,172	54,879	35,726
Total (Boe/d)	248	145	200	131

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Sales Revenue</b>				
Natural Gas	\$1,073,036	\$398,524	\$2,070,760	\$1,069,090
Crude Oil & NGLs	359,995	143,719	852,231	407,748
Total	\$1,433,031	\$542,243	\$2,922,991	\$1,476,838

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
<b>Sales Price Per Unit</b>				
Natural Gas (\$/Mcf)	9.58	6.14	7.77	6.28
Crude Oil & NGLs (\$/Bbl)	92.02	60.85	81.62	55.44
Total Blended (\$/Boe)	63.44	41.17	53.26	41.34

Total working interest revenue during the three months ended June 30, 2008 amounted to \$1,433,031 (June 30, 2007 - \$542,243) and was made up of natural gas sales in the amount of \$1,073,036 (2007 - \$398,524) and crude oil and natural gas liquids sales of \$359,995 (2007 - \$143,719). During the quarter, 112,049 Mcf or 1,231 Mcf/d (2007 - 64,857 Mcf or 713 Mcf/d) of natural gas was sold and 3,912 Boe or 43 Boepd (2007 - 2,362 Boe or 26 Boepd) of crude oil and natural gas liquids was sold for a total of 22,587 Boe or 248 Boepd sold (2007 - 13,172 Boe or 145 Boe/d). On a year-to-date basis, total working interest revenue amounted to \$2,922,991 during 2008 (2007 - \$1,476,838) and was made up of natural gas sales in the amount of \$2,070,760 (2007 - \$1,069,090) and crude oil and natural gas liquids sales of \$852,231 (2007 - \$407,748). On a year to date basis, 266,625 Mcf or 973 Mcf/d (2007 - 170,223 Mcf or 624 Mcf/d) of natural gas was sold and 10,441 Boe or 38 Boepd (2007 - 7,355 Boe or 27 Boepd) of crude oil and natural gas liquids was sold for a total of 54,879 Boe or 200 Boepd (2007 - 35,726 Boe or 131 Boepd).

Sales volumes for the third quarter of 2008 increased by 103 Boepd or 71% from the comparable period of 2007. This increase is primarily due to new production from the Eight Mile area of northeast B.C. Effective May 1, 2008, the Company also sold its interests in the Atlee Buffalo area for proceeds (net of costs) of \$252,859 which included natural gas production of approximately 40 Mcf/d net (6.6 Boe/d net).

## ROYALTIES

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Crown royalties	\$124,136	\$16,732	\$275,564	\$145,022
Freehold royalties	13,323	8,413	31,856	24,334
Overriding royalties	129,112	40,735	231,297	111,671
ARTC	-	9,382	796	(4,618)
Total	\$266,571	\$75,262	\$539,513	\$276,409
Total (per Boe)	\$11.80	\$5.71	\$9.83	\$7.74

Royalties, which include crown, freehold and overriding royalties paid on oil, natural gas liquids and natural gas production amounted to \$266,571 during the third quarter of 2008 (\$539,513 year to date) compared to \$75,262 during

the third quarter of fiscal 2007 (\$276,409 year to date). Increased sales volumes during the third quarter of 2008 have accounted for the increased royalties paid over the similar equivalent period in 2007. Average royalties during the third quarter of 2008 amounted to \$11.80 per Boe or 18.6% of sales (\$9.83 per Boe or 18.5% of sales year to date) (2007 - \$7.74 per Boe or 18.7% of sales year to date).

On October 25, 2007 the Government of Alberta released its New Royalty Framework (“NRF”) for the province which is proposed to take effect on January 1, 2009. Because the majority of the Corporation’s production in Alberta is from low productivity wells, at current pricing levels, the NRF is expected to have a minimal impact on Regal’s effective royalty rates.

## OPERATING EXPENSE

Major Field	Three Months Ended				Nine Months Ended			
	June 30, 2008	Per Boe	June 30, 2007	Per Boe	June 30, 2008	Per Boe	June 30, 2007	Per Boe
Atlee Buffalo	\$1,940	\$9.94	\$34,708	\$40.31	\$ 48,609	29.80	\$89,821	\$34.87
Eight Mile	83,344	9.09	-	-	84,120	9.17	-	-
Garrington	202,137	23.69	126,985	15.57	578,155	19.57	341,763	16.29
Hanna	8,025	147.25	-	-	28,551	108.08	-	-
Judy Creek	7,017	34.88	2,621	14.40	20,495	30.98	6,448	8.75
Kaybob	30,798	12.19	20,000	11.53	83,843	11.85	59,930	14.54
Pica	600	-	-	-	10,406	17.93	-	-
Viking Kinsella	5,407	7.08	6,729	7.61	13,813	5.40	24,405	8.06
Veteran	41,549	37.06	38,585	28.54	189,886	56.72	139,289	31.11
Other	863	-	3,500	-	4,067	-	6,345	-
<b>Total</b>	<b>\$381,680</b>	<b>\$16.90</b>	<b>\$233,128</b>	<b>\$17.70</b>	<b>\$1,061,945</b>	<b>\$19.35</b>	<b>\$668,001</b>	<b>\$18.70</b>

Total operating costs for the quarter ended June 30, 2008 amounted to \$381,680 or \$16.90 per Boe compared to \$233,128 or \$17.70 per Boe during the quarter ended June 30, 2007. Total production volumes have increased from 13,172 Boe in the third quarter of 2007 to 22,587 Boe during the current quarter accounting for the absolute dollar increase in operating costs. On a per Boe basis, operating costs have reduced marginally from \$17.70 per Boe during the third quarter of 2007 to \$16.90 in the current quarter, a decrease of 5%. This decrease is a result of bringing the low cost Eight Mile well on stream partially offset by extraordinary costs in the Veteran and Garrington areas.

## GENERAL AND ADMINISTRATIVE EXPENSE

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Salaries & Benefits	\$94,219	\$ 89,183	\$288,762	\$263,718
Office Costs	43,647	43,761	126,931	125,860
Legal, Audit, Engineering Fees	35,109	32,931	191,298	125,359
Other Consulting	30,120	37,418	88,096	115,936
Shareholder Services	10,750	8,709	31,980	33,531
Other	(3,791)	-	-	-
Capital/Operating Recoveries	(7,735)	(12,444)	(31,066)	(75,920)
G&A before extraordinary item	\$202,319	\$199,558	\$696,001	\$588,484
G&A per Boe before extraordinary item	\$8.96	\$15.15	\$12.68	\$16.47
Allowance for doubtful account	29,953	-	29,953	-
G&A after extraordinary item	\$232,272	\$199,558	\$725,954	\$588,484
G&A per Boe after extraordinary item	\$10.28	\$15.15	\$13.23	\$16.47

Total general and administrative expense during the third quarter of 2008 amounted to \$232,272 or \$10.28 per Boe (\$725,954 and \$13.23per Boe year to date) compared to \$199,558 or \$15.15 per Boe (\$588,484 and \$16.47 per Boe year to date) during the equivalent period of 2007. Extraordinary costs incurred during the current quarter include an allowance for doubtful accounts in the amount of \$29,953. On July 22, 2008, SemGroup LP’s Canadian subsidiaries, SemCAMS ULC and SemCanada Crude Company, filed for creditor protection under the Companies’ Creditors Arrangement Act in Canada (“CCAA”). Regal, through one of its third party marketers sold natural gas to SemCAMS ULC in the amount of \$29,953 during the production month of June, 2008 and was not paid for these sales.

Accordingly, though there is a possibility of recovery of a portion of these sales, the Company has recorded a provision for 100% of the short payment. As soon as it became known that SemGroup LP would be unable to fulfill its financial obligations, the Company's third party marketer ceased selling to SemCAMS ULC which minimized further exposure of the Company. It is contemplated that a further \$30,000 of natural gas sales relating to July production may be uncollectible. However, the third party marketer is governed by a Trust Agent who has prevented disbursement of any gas sales revenue for the month of July, 2008. Accordingly Regal has not received approximately \$120,000 of proceeds for natural gas sales made to parties other than SemCAMS ULC. Regal is confident that ultimately this amount, or significant portion will be paid to Regal. Any delay in the receipt of these funds is not expected to affect Regal's operations or its planned capital program. Regal has made new marketing arrangements to eliminate further exposure in this regard, and is proceeding with efforts to reverse prior arrangements for gas sales in the month of August.

General and Administrative expense before extraordinary items increased by \$2,761 during the quarter ended June 30, 2008 compared to the equivalent quarter in 2007, however on a per Boe basis has decreased by \$6.19 as a result of the substantial increase in production volumes in 2008 compared to 2007. On a year-to-date basis the total increase in G&A before extraordinary items amounts to \$107,517. This increase is due to salary increases granted to employees effective January 1, 2008, higher legal, audit and engineering fees as a result of increased activity, amounts paid to US counsel for securities advice in the United States and lower capital and operating recoveries due to a reduced level of capital expenditures in the current year as compared to last year.

### **INTEREST EXPENSE**

Total interest expense for the third quarter ended June 30, 2008 amounted to \$73,506 (year to date \$169,761) compared to \$49,551 (\$125,479 year to date) during the equivalent quarter ended June 30, 2007. The increase in interest expense for the third quarter of 2008 is attributable to the higher level of the Corporation's borrowings on its credit facilities while the interest expense during the third fiscal quarter of 2007 was primarily due to accrued interest payable to the Canada Revenue Agency relating to unexpended funds on the Corporation's flow-through share issue. In addition, the Corporation paid interest on its \$400,000 bridge loan advanced by parties related to the Corporation, more fully described under the Related Party Transaction section.

### **STOCK BASED COMPENSATION EXPENSE**

The Corporation accounts for its stock-based compensation program using the fair-value method. Under this method, compensation expense related to this program is recorded in the statement of operations over the vesting terms of the options. During the third quarter of fiscal 2008, \$nil (\$27,522 year to date) of stock based compensation expense was recognized as compared to \$22,895 (\$181,773 year to date) as stock compensation expense during the third quarter of fiscal 2007. On February 12, 2008, all remaining unvested options of the Corporation became vested and therefore there will be no further stock compensation expense recognized until such time as further options of the Corporation are granted.

### **DEPLETION AND DEPRECIATION**

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Depletion	\$535,921	\$343,616	\$1,290,575	\$796,018
Depreciation	5,750	5,611	17,215	15,163
Total	\$541,671	\$349,227	1,307,790	\$811,181
Total (per Boe)	\$23.98	\$26.51	\$23.83	\$22.71

Total depletion and depreciation expense for the quarter ended June 30, 2008 amounted to \$541,671 or \$23.98 per Boe compared to \$349,227 or \$26.51 per Boe for the quarter ended June 30, 2007. Total depletion and depreciation expense on a year to date basis at June 30, 2008 was \$1,307,790 or \$23.83 per Boe compared to \$811,181 or \$22.71 per Boe for the nine months ended June 30, 2007. The year over year increase in depletion expense is attributable to additional production volumes as well as increased costs associated with bringing new reserves on stream. The depletion calculation is based on reserves as calculated by the Corporation's independent engineers as at September 30, 2007 and updated with internal management estimates of reserve additions since that date and associated capital spent to place the added reserves on stream.

## AMORTIZATION INTANGIBLE ASSET

As a result of the acquisition of Regal Energy Corp. on December 31, 2005, an intangible asset was recognized on the balance sheet of \$500,000 that represented the value placed on the Management team under contract and continuing with Regal Energy Ltd. as well as a value for the public listing of Regal Energy Corp. The costs of the intangible asset are excluded from the depletion calculation and are being amortized over a period of three years. Total amortization for the period ended June 30, 2008 was \$24,993 (\$74,980 year to date) compared to \$33,324 (\$74,982 year to date) for the same quarter one year earlier. The Corporation tests for impairment of this asset at each reporting period. At September 30, 2006 as a result of the resignation of two senior officers of the Corporation, an impairment of \$149,960 was recorded against this asset. The remaining balance continues to be amortized over the original term of three years. At June 30, 2008 the remaining unamortized balance is \$49,987 as compared to \$149,960 on June 30, 2007.

## ACCRETION

Accretion expense represents the increase in the present value of the asset retirement obligation for the current period. During the quarter ended June 30, 2008 accretion expense amounted to \$9,073 (\$27,553 year to date) compared to \$8,902 (\$30,525 year to date) during the similar period in fiscal 2007.

## INCOME TAXES

The Corporation estimates that it has approximately \$63.5 million of tax pools available to shelter taxable income in future years. Due to the existence of these income tax pools, the Corporation does not expect to be taxable for the foreseeable future.

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 Corporation has received a Notice of Determination / Re-determination of a Loss from CRA that would result in the Corporation'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 Corporation 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. On March 25, 2008, the Corporation filed an objection to the Notice of Determination with CRA.

## CAPITAL EXPENDITURES

During the third quarter of 2008, the Corporation recorded capital expenditures, net of dispositions of \$(206,060) (\$1,143,907 year to date) compared to \$717,567 (\$5,332,059 year to date) during the third quarter of 2007. Amounts reported in the following tables do not include non-cash capital recorded for asset retirement obligation in the amount of \$(84,719) in the third quarter of 2008 (\$76,959) year to date) or \$2,260 in the third quarter of 2007 (\$81,208 year to date). During the current quarter, the Company disposed of its oil and gas interests at Atlee Buffalo (net of costs) for \$(252,859). During the quarter, the Company received a summer drilling credit in the amount of \$40,000 from the Province of British Columbia relating to a well previously drilled in the Eight Mile area. During the quarter, the only major capital expenditure projects underway were the re-completion of a well at Hanna, Alberta and the installation of additional wellsite facilities in the Eight Mile area of British Columbia.

	Three Months Ended		Nine Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Land Acquisition / Retention	\$ 1,176	\$258,423	\$ 6,481	\$258,423
Geological, Geophysical and Seismic	-	3,700	12,350	281,748
Drilling and Completions	(7,436)	69,756	891,872	3,877,972
Equipping and tie-ins	53,059	380,359	973,304	1,059,567
Property Acquisition / Disposition	(252,859)	4,644	(741,400)	515,665
Seismic Disposition	-	-	-	(675,000)
Furniture and Fixtures	-	685	1,300	13,684
	<u>\$(206,060)</u>	<u>\$ 717,567</u>	<u>\$1,143,907</u>	<u>\$5,332,059</u>

## FINANCIAL RESOURCES AND LIQUIDITY

At June 30, 2008, the Corporation had a working capital deficiency of \$3,096,553 compared to a working capital deficiency of \$2,385,030 at September 30, 2007 and \$3,110,490 at June 30, 2007. Components of the working capital deficiency are contained in the following table.

	June 30, 2008	Sept. 30, 2007	June 30, 2007
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable	801,945	486,313	510,873
Deposits and prepaid expenses	224,109	61,154	79,113
Bridge financing	(400,000)	-	-
Bank indebtedness	(2,790,414)	(1,078,357)	(2,424,713)
Accounts payable and accrued liabilities	(932,193)	(1,854,140)	(1,275,763)
<b>Total Working Capital</b>	<b>\$ (3,096,553)</b>	<b>\$ (2,385,030)</b>	<b>\$ (3,110,490)</b>

The Corporation considers all accounts receivables to be valued fairly and to be collectible.

At March 31, 2008, the Corporation was not in compliance with a covenant in its agreement with its lender regarding working capital. During the current quarter, the Company took various steps including the sale of certain minor property interests and limiting its capital expenditures in order to rectify the situation. At June 30, 2008 the Company is in compliance with the covenant regarding working capital. In conjunction with the Business Combination with G2, on June 27, 2008 a private placement of 27,500,000 subscription receipts (“the Subscription Receipts”) were 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 Business Combination. The funds were released to the Company on July 10, 2008 following completion of the Business Arrangement. As well, as a result of the completion of the Business Arrangement, the Company’s lender has agreed to increase the Company’s revolving operating demand facility to \$7,500,000.

The following projections are based on average wellhead prices of \$86.21/Bbl for oil and NGLs for fiscal 2008 (25% higher than previous forecast), and \$8.29/Mcf for natural gas for fiscal 2008 (31% higher than previous forecast). The revised forecast recognizes the current strength in commodity pricing. The following projections make assumptions regarding the timing of tie-ins of wells and deliverabilities of wells that Management considers appropriate. The Corporation believes that with its current banking facilities, funds flow from operations, the sale of non-core assets and the issuance of additional equity, it will have the financial resources necessary to complete its \$3 million capital budget. The following table shows Management’s current estimate of fiscal 2008 results and outlines the Corporation’s expected working capital position at September 30, 2008:

Working capital surplus (deficiency) June 30, 2008	\$ (3,096,553)
Issuance of further equity (net of costs)	5,500,000
Expected funds flow July 1, 2008 - September 30, 2008	400,000
Transaction costs of the Business Combination	(550,000)
Projected net capital expenditures July 1, 2008 – September 30, 2008	(1,685,000)
G2’s working capital surplus (deficiency) July 10, 2008	(2,750,000)
<b>Expected working capital (deficiency) September 30, 2008 <sup>(1)</sup></b>	<b>\$ (2,181,553)</b>

Note:

(1) Total available banking facilities as at the date of this report - \$6,000,000

## LENDING FACILITY

The Corporation at quarter end had 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. The loan facility is subject to interim and annual reviews by the bank and is secured by a \$5,000,000 floating charge demand debenture over all assets of the Corporation. At June 30, 2008 there was \$2,650,000 drawn on the operating demand facility. In addition, there were net outstanding cheques of \$140,414 to be drawn against this facility for total bank indebtedness of \$2,790,414. Subsequent to quarter end, upon completion of the Arrangement, the Company’s lender has increased the Company’s 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%.

## EQUITY CAPITAL

At June 30, 2008 Regal had 48,137,590 common shares outstanding. In addition, there were 4,183,500 share purchase warrants outstanding of which 333,500 are exercisable at a price of \$0.20 per share until August 1, 2008 and 3,850,000 are exercisable at a price of \$0.35 until July 16, 2009. On December 31, 2007, 905,643 warrants expired and on May 30, 2008, a further 916,667 warrants expired, both unexercised.

### Common Shares:

	Shares	Amount
Balance, September 30, 2006	22,709,179	\$70,172,113
Private placement issued for cash – Nov. 30, 2006	5,000,000	972,816
Private placement issued for cash on a flow through basis – Nov 30, 2006	4,583,333	1,077,345
Rights offering – December 21, 2006	1,660,078	332,016
Private placement issued for cash – Feb 1, 2007	3,335,000	626,740
Private placement issued for cash on a flow through basis – June 28 and July 16, 2007	3,234,200	970,260
Private placement issued for cash on a flow through basis – June 28 and July 16, 2007	3,765,800	1,129,740
Private placement issued for cash – July 16, 2007	3,850,000	813,133
Tax impact of flow through share issue	-	(319,000)
Share issuance costs	-	(590,332)
Balance, September 30, 2007	48,137,590	\$75,184,831
Tax impact of flow through share issue	-	(598,500)
Balance, June 30, 2008	48,137,590	\$74,586,331

Subsequent to quarter end, on July 10, 2008, 27,500,000 common shares were issued pursuant to the exercise of Subscription Receipts, 1,650,000 common shares were issued as compensation for the June 27, 2008 private placement, and 72,762,619 common shares were issued in connection with the Business Combination with G2.

As at the date of this MD&A there is a total of 150,050,209 common shares currently issued and outstanding.

### Warrants:

	Number of Warrants	Number of Underlying Shares	Amount
Balance, September 30, 2006	1,723,566	1,723,566	\$ 406,300
November 30, 2006 private placement	916,667	916,667	49,838
February 1, 2007 private placement <sup>(3)</sup>	333,500	333,500	40,260
June 30, 2007 expiry of warrants	(817,923)	(817,923)	(188,000)
July 16, 2007 private placement	3,850,000	3,850,000	187,867
Balance, September 30, 2007	6,005,810	6,005,810	\$ 496,265
December 31, 2007 expiry of warrants <sup>(1)</sup>	(905,643)	(905,643)	(218,300)
May 30, 2008 expiry of warrants <sup>(2)</sup>	(916,667)	(916,667)	(49,838)
Balance June 30, 2008	4,183,500	4,183,500	228,127

(1) 905,643 warrants that were issued in connection with the acquisition of Regal Energy Corp. expired on December 31, 2007

(2) 916,667 warrants that were issued in conjunction with the November 30, 2006 financing expired on May 30, 2008

(3) Subsequent to quarter end, these warrants expired unexercised.

Subsequent to quarter end, on July 10, 2008, 8,360,689 warrants were issued in connection with the Business Combination with G2.

### Options:

The Corporation has a stock option plan under which directors, employees and consultants are eligible to receive grants. Options granted under the plan to outside independent directors vest immediately. Options granted to employees and consultants of the Corporation prior to December 31, 2006 vest one-third on the date of grant, and one third each on the first and second anniversaries of the date of grant. Options granted to employees and consultants

subsequent to December 31, 2006 vest one half on the date of grant and one half on the first anniversary of the date of grant.

The following table summarizes the status of the Corporation's stock option plan and the activity from September 30, 2006 to June 30, 2008.

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Expiry Date</b>
Balance September 30, 2006	1,626,000	\$0.96	Various 2009-2011
Options granted February 12, 2007	1,675,000	0.30	February 12, 2012
Options cancelled <sup>(1)</sup>	(350,000)	0.95	
Balance September 30, 2007	2,951,000	\$0.58	
Options cancelled <sup>(1)</sup>	(86,000)	\$1.00	
Balance June 30, 2008	2,865,000	\$0.57	
Exercisable at June 30, 2008	2,865,000	\$0.57	

(1) Options issued to former directors and officers of the Corporation

<b>Date of Grant</b>	<b>Number Outstanding</b>	<b>Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Date of Expiry</b>	<b>Number Exercisable at June 30, 2008</b>
Dec. 31, 2005 <sup>(2)</sup>	80,000	\$1.00	.84	Jan. 30, 2009	80,000
Dec. 31, 2005 <sup>(2)</sup>	50,000	\$0.90	1.38	Aug. 17, 2009	50,000
Dec. 31, 2005 <sup>(2)</sup>	55,000	\$1.00	2.04	Apr. 13, 2010	55,000
Jan. 1, 2006	1,005,000	\$0.95	2.76	Jan. 1, 2011	1,005,000
Feb. 12, 2007 <sup>(1)</sup>	1,675,000	\$0.30	3.87	Feb. 12, 2012	1,675,000
	2,865,000	\$0.57			2,865,000

(1) On February 12, 2007, 575,000 options were granted to directors and 1,100,000 options were granted to officers, employees and consultants. Under the terms of the option agreements, options granted to directors vest immediately while those options granted to officers, employees and consultants vest one-half on the date of grant and one half on the first anniversary of the date of grant. The fair value of each option is estimated using the Black-Scholes option pricing model and assumes an expected volatility of 50%, a risk free rate of return of 5.0%, and a weighted average life of 5 years.

(2) Pursuant of the acquisition of Regal Energy Corp. replacement options were issued to directors and officers of Regal Energy Corp. These options vested upon the completion of the transaction as the change of control provision of the option plan was triggered.

Subsequent to quarter end, 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 will expire on July 23, 2013.

## COMMITMENTS

Pursuant to a flow-through financing completed on June 28, 2007 and July 16, 2007, the Corporation is committed to spend \$2,100,000 on qualified exploration and development expenditures by December 31, 2008. As at June 30, 2008, the Corporation has expended approximately \$1,300,000 relating to these commitments.

At June 30, 2008, the Corporation had commitments for a rental compressor totaling \$7,300 in 2008.

## RELATED PARTY TRANSACTIONS

On February 29, 2008, the Corporation entered into agreements with companies controlled by three directors of the Corporation 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. On May 29, 2008, the bridge financing was renewed with the new term being until the completion of the Business Combination with G2 or August 29, 2008 whichever is earlier. In connection with the renewal, a fee of 3% was paid to the lenders. Effective at the renewal date, the interest rate was increased to bank prime rate plus 6%. The bridge facility has been secured by a general security agreement over the assets of the Corporation (subordinated to the bank) and the lenders were issued promissory notes for the amount of the bridge facility. Concurrent with the completion of

the Business Combination with G2, the bridge financing was re-paid on July 10, 2008.

## SUMMARY OF QUARTERLY RESULTS

	Three months ended Jun. 30, 2008	Three months ended Mar. 31, 2008	Three months ended Dec. 31, 2007	Three months ended Sep. 30, 2007
Petroleum and natural gas sales \$	1,433,031	798,328	691,631	532,854
Net income (loss) \$	(91,706)	(400,613)	(498,142)	(3,126,430)
Per share – basic and diluted \$	0.00	(0.01)	(0.01)	(0.07)
Funds flow from operations (non-GAAP) \$	484,031	25,032	(61,680)	(3,267)
Per share – basic and diluted \$	0.01	0.00	0.00	0.00
Cash flow from operations \$	145,732	(2,808)	198,415	(170,620)
Per share – basic and diluted	0.00	0.00	0.00	0.00
Capital expenditures – net of dispositions \$	(206,060)	(39,622)	1,389,589	1,219,051
Average daily production (Boe/d)	248	173	180	154
Weighted average shares outstanding	48,137,590	48,137,590	48,137,590	46,813,103

	Three months ended Jun. 30, 2007	Three months ended Mar. 31, 2007	Three months ended Dec. 31, 2006	Three months ended Sep. 30, 2006
Petroleum and natural gas sales \$	542,243	477,805	456,790	470,281
Net income (loss)	(429,510)	(474,420)	(356,635)	(4,950,641)
Per share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.22)
Funds flow from operations (non-GAAP) \$	(29,834)	(97,481)	(68,461)	(103,327)
Per share – basic and diluted	0.00	0.00	0.00	0.00
Cash flow from operations \$	165,025	(143,082)	(182,530)	375,178
Per share – basic and diluted	0.00	0.00	(0.01)	0.02
Capital expenditures – net of dispositions	717,567	870,581	3,743,911	1,078,183
Average daily production (Boe/d)	145	124	124	116
Weighted average shares outstanding	37,394,212	36,138,868	26,118,789	22,709,179

## SUMMARY OF SHARE TRADING

Period of Fiscal 2008	Price Range			Volume Traded	Value (\$)
	High (\$)	Low (\$)	Close (\$)		
First Quarter	0.32	0.26	0.27	2,447,357	684,049
Second Quarter	0.315	0.20	0.21	2,621,031	683,255
Third Quarter	0.235	0.125	0.195	1,546,500	286,262
Total Year to date	0.32	0.125	0.195	6,614,888	1,653,566

Period of Fiscal 2007	Price Range			Volume Traded	Value (\$)
	High (\$)	Low (\$)	Close (\$)		
First Quarter	0.24	0.165	0.18	3,145,159	580,356
Second Quarter	0.39	0.18	0.26	2,448,675	593,969
Third Quarter	0.30	0.215	0.30	2,232,367	578,557
Fourth Quarter	0.36	0.26	0.28	2,484,691	713,043
Total Year	0.39	0.165	0.30	10,310,892	2,465,925

## **CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes to Regal's internal control over financial reporting since September 30, 2007, which have materially affected, or are reasonably likely to materially affect Regal's internal control over financial reporting.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principals requires the Corporation to make assumptions, judgments and estimates that may have a significant impact on the financial statements. Estimates are reviewed periodically and as adjustments become necessary, they are reported in earnings in the period they become known. A summary of the Corporation's significant accounting policies can be found in Note 2 of the September 30, 2007 audited financial statements.

## **ACCOUNTING CHANGES**

Effective October 1, 2007, the Corporation adopted the CICA Handbook Section 1506 Accounting Changes that provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retroactively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

Effective October 1, 2007, the Corporation adopted two new CICA standards, Handbook Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation replaced Section 3861, Financial Instruments - Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

Effective October 1, 2007, the Corporation adopted the CICA Handbook Section 1535 - Capital Disclosures which requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements.

## **CANADIAN ACCOUNTING PRONOUNCEMENTS**

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 Corporation's ability to continue as a going concern. The adoption of this new section will not have an impact on the financial statements.

Effective October 1, 2008, the Corporation will be required to adopt CICA Handbook Section 3031 - Inventories. This new standard is not expected to have an impact on the Corporation's financial statements.

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 Corporation continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

## **RISKS AND UNCERTAINTIES**

The business of exploring for, developing and producing oil and gas reserves is inherently risky. There is a risk that the sale of the Corporation's reserves may be delayed indefinitely due to process constraints, lack of pipeline capacity or lack of markets. The price the Corporation receives for its crude oil and natural gas fluctuates continuously and for the most part is beyond its control. The Corporation is also subject to the risks associated with oil and gas properties, including exploration, development and production risks, and environmental risks such as the pollution of air, land and water. In all areas of the Corporation's business, it competes against entities that have greater technical and financial resources. The Corporation's growth is dependent upon external sources of financing which may not be available on acceptable terms. For a more detailed description regarding risks and uncertainties of the Corporation please see disclosures contained in the annual report filed on SEDAR or available on Regal's website.

## CORPORATE INFORMATION

### CORPORATE HEADQUARTERS

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Facsimile: (403) 263-4368  
Website: <http://www.regalenergy.ca>

### DIRECTORS

*Curtis A. Hartzler*  
*Harry L. Knutson* <sup>(1)(2)(3)</sup>  
*Al J. Kroontje* <sup>(3)</sup>  
*Hugh Mogensen* <sup>(1)</sup>  
*Jake Pronk* <sup>(2)(3)</sup>  
*Richard M. Wlodarczak* <sup>(1)(2)</sup>

<sup>(1)</sup> *Audit Committee*

<sup>(2)</sup> *Reserves Committee*

<sup>(3)</sup> *Compensation & Governance Committee*

<sup>(4)</sup> *Chairman of the Board*

### OFFICERS

*Curtis A. Hartzler*  
President & CEO

*Derek Batorowski*  
Chief Financial Officer

*Robert T. Malcolm*  
Corporate Secretary

### AUDITORS

*Deloitte & Touche LLP*  
Calgary, Alberta

### BANKER

*National Bank of Canada*  
Calgary, Alberta

### EVALUATION ENGINEERS

*Sproule Associates Limited*  
Calgary, Alberta

### LEGAL COUNSEL

*Macleod Dixon LLP*  
Calgary, Alberta

### REGISTRAR AND TRANSFER AGENT

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Calgary, Alberta T2G 0P6  
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### STOCK EXCHANGE LISTING

*TSX Venture Exchange*  
Trading Symbol: REG

### Abbreviations

<b>\$M</b>	<b>thousands of dollars</b>
<b>ARTC</b>	<b>Alberta Royalty Tax Credit</b>
<b>Bbls</b>	<b>barrels</b>
<b>Boe</b>	<b>barrels of oil equivalent <sup>(1)</sup></b>
<b>Boe/d</b>	<b>barrels of oil equivalent per day</b>
<b>Bbl</b>	<b>barrels of oil &amp; NGLs</b>
<b>Bbl/d</b>	<b>barrels of oil per day</b>
<b>MBbbls</b>	<b>thousand barrels</b>
<b>MBoe</b>	<b>thousand barrels of oil equivalent <sup>(1)</sup></b>
<b>Mcf</b>	<b>thousand cubic feet</b>
<b>Mcf/d</b>	<b>thousand cubic feet per day</b>
<b>MMBTU</b>	<b>million British Thermal Units</b>
<b>MMcf</b>	<b>million cubic feet</b>
<b>MStb</b>	<b>thousand stock tank barrels</b>
<b>NGLs</b>	<b>natural gas liquids</b>

Note: (1) Natural gas is equated to oil on the basis of 6 Mcf of natural gas = 1 barrel of oil equivalent (Boe)