



*Regal Energy
Ltd.*

**Consolidated Financial Statements
September 30, 2008**

MANAGEMENT'S REPORT

To the Shareholders of Regal Energy Ltd.

The accompanying consolidated financial statements of Regal Energy Ltd. were prepared by and are the responsibility of management. They have been prepared in conformity with Canadian generally accepted accounting principles. The financial information in the annual report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains systems of internal accounting controls designed to provide reasonable assurance that all transactions are properly recorded in the Company's book of accounts, that procedures and policies are adhered to and that assets are safeguarded from unauthorized use.

KPMG LLP, the external auditors of the Corporation, conduct an independent examination of the consolidated financial statements in accordance with generally accepted auditing standards in order to express their opinion on the consolidated financial statements. Their examination includes such tests and procedures considered necessary to provide reasonable assurance that the consolidated financial statements are presented fairly.

The Audit Committee of Regal Energy Ltd., comprised of a majority of independent directors, has met with representatives of KPMG LLP and management in order to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. On the recommendation of the Audit Committee the consolidated financial statements have been approved by the Board of Directors.

Signed "Curtis A. Hartzler"

Curtis A. Hartzler
President and Chief Executive Officer

Calgary, Alberta
January 27, 2009

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of Regal Energy Ltd. as at September 30, 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2007 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those financial statements in their report dated December 14, 2007.

Signed "KPMG LLP"

Chartered Accountants

Calgary, Canada
January 27, 2009

Regal Energy Ltd.
Consolidated Balance Sheets

As at September 30	2008	2007
ASSETS		
Current Assets		
Accounts receivable	\$ 2,298,600	\$ 486,313
Deposits and prepaid expenses	<u>484,460</u>	<u>61,154</u>
	2,783,060	547,467
Future tax asset (Note 8)	-	598,500
Property and equipment (Note 4)	28,367,818	10,444,607
Intangible assets	<u>24,993</u>	<u>124,967</u>
	\$ 31,175,871	\$ 11,715,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness (Note 5)	\$ 2,593,819	\$ 1,078,357
Accounts payable and accrued liabilities	<u>3,288,808</u>	<u>1,854,140</u>
	5,882,627	2,932,497
Asset retirement obligation (Note 7)	950,799	397,558
	<u>6,833,426</u>	<u>3,330,055</u>
SHAREHOLDERS' EQUITY		
Equity instruments (Note 6(b) and (c))	93,641,650	75,681,096
Contributed surplus (Note 6(e))	2,298,280	1,216,220
Deficit	<u>(71,597,485)</u>	<u>(68,511,830)</u>
	24,342,445	8,385,486
	<u>\$ 31,175,871</u>	<u>\$ 11,715,541</u>
Future Operations (Note 1)		
Commitments and contingencies (Notes 8 and 11)		
Subsequent event (Note 5)		

Approved on behalf of the Board:

(signed) "Curtis A. Hartzler"

Curtis A. Hartzler
President and Chief Executive Officer

(signed) "Rick Wlodarczak"

Rick Wlodarczak
Director

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

For the year ended September 30	2008	2007
REVENUE		
Production revenues	\$ 4,924,134	\$ 2,009,692
Royalties	(1,017,016)	(382,691)
Interest and other income	39,495	430
	<u>3,946,613</u>	<u>1,627,431</u>
EXPENSES		
Operating	1,724,840	902,748
General and administrative	2,046,002	736,090
Interest	219,555	146,017
Stock-based compensation (Note 6)	596,848	204,669
Depletion and depreciation and impairments (Note 4)	2,307,690	4,502,816
Amortization of intangible assets	99,973	99,973
Accretion	37,360	39,613
	<u>7,032,268</u>	<u>6,631,926</u>
Loss before income taxes	(3,085,655)	(5,004,495)
Future income tax reduction (Note 8)	-	617,500
Net loss and comprehensive loss for the year	(3,085,655)	(4,386,995)
Deficit, beginning of year	(68,511,830)	(64,124,835)
Deficit, end of year	\$ (71,597,485)	\$ (68,511,830)
Net loss per share		
- Basic and diluted (Note 6(f))	\$ (0.04)	\$ (0.12)
Weighted average shares outstanding		
- Basic and diluted	71,033,028	36,598,730

Regal Energy Ltd.
Consolidated Statements of Cash Flows

For the year ended September 30	2008	2007
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES		
Net loss for the year	\$ (3,085,655)	\$ (4,386,995)
Add non-cash and other items:		
Stock-based compensation	596,848	204,669
Amortization of intangible assets	99,973	99,973
Depletion and depreciation and impairments	2,307,690	4,502,816
Accretion	37,360	39,613
Future income tax reduction	-	(617,500)
Abandonment costs (Note 7)	(5,161)	(41,619)
	<u>(48,945)</u>	<u>(199,043)</u>
Change in non-cash working capital balances (Note 10)	762,460	(132,164)
	<u>713,515</u>	<u>(331,207)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Issue of common shares	5,437,656	5,609,684
Proceeds from (repayment of) bank indebtedness	(1,655,170)	719,321
Proceeds from bridge financing (Note 9)	440,000	-
Repayment of bridge financing (Note 9)	(440,000)	-
	<u>3,782,486</u>	<u>6,329,005</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Cash paid on the acquisition of G2 (Note 3)	(396,976)	-
Proceeds on sale of property and equipment	517,600	-
Expenditures on property and equipment	(2,720,318)	(6,551,110)
Change in non-cash working capital balances (Note 10)	(1,896,307)	553,312
	<u>(4,496,001)</u>	<u>(5,997,798)</u>
Change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	\$ -	\$ -

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007

1. Description of Business and Future Operations

Azeri Capital Inc. (“Azeri”) (formerly SiberCore Technologies Incorporated) was incorporated under the *Canada Business Corporations Act* and was a semiconductor company.

The Company recommended a change of business direction that was approved by the shareholders on December 17, 2004. The change resulted in the distribution of cash and technology assets to shareholders as a return of capital, the consolidation of common shares, conversion of preferred shares, and a change in the name of the Company from SiberCore Technologies Incorporated to Azeri.

On December 31, 2005, Azeri acquired, by way of a Plan of Arrangement, all of the issued and outstanding shares of Regal Energy Corp. a corporation that was listed on TSX Venture Exchange Inc., and changed the resulting corporation’s name to Regal Energy Ltd. (“Regal”, the “Corporation” or the “Company”). Pursuant to the arrangement agreement the Company 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 Regal share for each five shares previously held. Regal was continued under the *Business Corporations Act* (Alberta). All share references have been adjusted to reflect the stock consolidation and subsequent stock split.

On July 10, 2008 the Company through a Plan of Arrangement acquired all of the issued and outstanding Class A shares of G2 Resources Inc. (“G2”), which were exchanged for common shares of the Company on the basis of two shares of the Company for each three G2 shares. As result of the arrangement, G2 became a wholly-owned subsidiary of the Company. G2 Resources Inc. was amalgamated into Regal on October 1, 2008.

At September 30, 2008 the Company had a working capital deficiency of \$3,099,567 including the amounts drawn on the Company’s revolving credit facility. For the year ended September 30, 2008 the Company incurred a net loss of \$3,085,655 and generated cash flow from (used in) operating activities of \$713,515 (2007 – (\$331,207)). The Company’s financial statements as at and for the year ended September 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 successful future operations of the Company are dependent on achieving and maintaining profitable operations, and the continued financial support from its lenders. Management of the Company may also seek additional equity to complement its capital structure. (See also Note 5).

Management believes that the going concern assumption is appropriate for these consolidated financial statements. If this assumption was not appropriate adjustments to the carrying amounts of the assets and liabilities, revenues and expenses, and the balance sheet classifications used might be necessary.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. 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. These financial statements have, in management’s opinion, been properly prepared using careful judgement within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

- a) Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, bank balances (including temporary bank overdrafts), term deposits and investments with maturities of three months or less from the date of purchase.

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007

2. Significant Accounting Policies (continued)

- b) Joint interest operations
Substantially all of the exploration and production activities of the Company are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.
- c) Property and equipment
The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves, including asset retirement costs, are initially capitalized into a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, and carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, related production equipment costs, asset retirement costs and overhead charges directly related to the acquisition, exploration and development activities. Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such sale would result in a greater than 20% change in the depletion rate.

Depletion and depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment is provided for using the unit-of-production method based upon the Company's net share of estimated proved petroleum and natural gas reserves before royalties as determined by independent engineers and updated internally for interim reporting periods. Petroleum and natural gas reserves and production are converted to equivalent barrels of oil using a ratio of six thousand cubic feet of natural gas to one barrel of oil. Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

Furniture, fixtures, office equipment and other assets are depreciated over their estimated useful lives ranging from 2 ½ to 5 years.

Ceiling test

The Company applies a two-stage ceiling test to capitalized costs to assess at the first stage whether such capitalized costs exceed the undiscounted future net revenues from production of proved reserves. Undiscounted future net revenues are calculated based on an independent petroleum engineer's best estimate of forward indexed prices applied to estimated future production of proved reserves plus anticipated proceeds from the sale of undeveloped properties, less estimated future operating costs, royalties, future capital development costs and abandonment costs. When the carrying amount of a cost centre is not recoverable, the second stage of the process will determine the impairment amount, whereby the carrying value of the cost centre would be written down to its fair value.

The second stage of the calculation requires a comparison between the carrying value and the discounted future net revenues from proved plus probable reserves using the Company's risk-free interest rate plus the cost of undeveloped land, net of any impairment. The fair value is estimated using accepted present value techniques, which incorporate risks and other uncertainties when estimating expected net revenues.

- d) Intangible assets
The costs of intangible assets are tested for impairment annually and are excluded from the depletion calculation. Intangible assets are being amortized over the expected useful life not to exceed three years.

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007

2. Significant Accounting Policies (continued)

- e) Future income taxes
The Company follows the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is considered to be more likely than not that the asset will not be realized.
- f) Asset retirement obligation
The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and when a reasonable estimate of the fair value can be made, and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The liability is subsequently adjusted for the passage of time, which is recognized as an accretion expense in the statement of operations and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. Actual costs incurred upon settlement of the asset retirement obligations are charged against the asset retirement obligation to the extent of the liability recorded.
- g) Flow-through shares
The Company has financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. To recognize the tax benefits renounced by the Company, the carrying value of the shares issued and future income tax liabilities are adjusted by the estimated value to the Company of the renounced income tax deductions when the related flow-through expenditures are renounced to the investors.
- h) Revenue recognition
Revenue from the sales of oil, natural gas and liquids are recognized when the risks and rewards of ownership pass to the purchaser upon delivery of the product with the selling price being fixed or determinable and collectibility of amounts being reasonably assured.
- i) Stock-based compensation plans
The Company accounts for stock options granted to employees, directors and consultants using the fair value method of accounting. Under this method, stock-based compensation is recorded as an expense over the vesting terms of the options, with a corresponding increase recorded as contributed surplus. Stock-based compensation expense is based on the estimated fair value of the related stock option at the time of the grant using the Black-Scholes model. When stock options are exercised, the consideration received along with the corresponding amounts previously recorded in contributed surplus are credited to share capital.
- j) Per share information
Per share amounts are calculated using the total weighted average number of common shares outstanding during the period. Diluted per share calculations reflect the exercise or conversion of potentially dilutive securities or other contracts to issue shares at the later of the date of grant of such securities or the beginning of the period. The Company computes diluted earnings per share using the treasury stock method to determine the dilutive effect of securities or other contracts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding, in-the-money options are used to purchase common shares of the Company at their average market price for the period.

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant Accounting Policies (continued)

k) Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenues and expenses during the period. Specifically, amounts recorded for depletion, depreciation, amortization and accretion and amounts used for the ceiling test calculation are based on estimates of petroleum and natural gas reserves and future costs required to develop those reserves. The determination of stock based compensation expense involves estimates of the volatility of the Company's common shares, forfeiture rates and expected life. The value of the asset retirement obligation depends on estimates of current market interest rates, future restoration and reclamation expenditures and the timing of expenditures. The availability of tax pools is subject to audit and interpretation by the Canada Revenue Agency. The valuation allowance recorded represents management's best estimates. As the operations of the Company are complex, and related tax interpretations, regulations and legislation affecting the Company are continually changing, related amounts in these financial statements are subject to significant measurement uncertainty. Although the ultimate impact of these matters on net earnings cannot be determined at this time, it could be material for any one quarter or year. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

- l) Effective October 1, 2006, the Company adopted the following accounting standards:
- a. Comprehensive Income;
 - b. Equity;
 - c. Financial Instruments – Recognition and Measurement; and
 - d. Hedges

These new accounting standards provide requirements for the recognition and measurement of financial instruments and the use of hedge accounting. The adoption of these Handbook sections had no impact on opening deficit or net loss and comprehensive loss.

Comprehensive income establishes standards for reporting and presenting comprehensive income and other comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources and other comprehensive income, which is comprised of gains and losses that are recognized in comprehensive income but excluded from net earnings. The application of this standard did not result in comprehensive loss being different from the net loss for the periods being presented.

The Company also adopted Equity which establishes standards for the presentation of equity and changes in equity during the reporting period.

Financial instruments and derivatives prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair-value or cost-based measures under different circumstances. All financial instruments must be classified as one of the following five categories: loans and receivables, held-to-maturity investments; held-for-trading instruments; available-for-sale financial assets; or other financial liabilities. All financial instruments, with the exception of loans and receivables, held-to-maturity investments and other financial liabilities are reported on the balance sheet date at fair value. Subsequent measurement and changes in fair value will depend on their initial classification. Available-for-sale financial assets are measured at fair value and unrealized gains or losses resulting from changes in fair value are recorded in other comprehensive income until the investment is de-recognized or impaired, at which time the amounts would be recognized as earnings.

Accounts receivable are designated as "loans and receivables". Accounts payable and accrued liabilities, and bank indebtedness are designated as "other financial liabilities".

REGAL ENERGY LTD.
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2. Significant Accounting Policies (continued)

Risk management assets and liabilities are derivative financial instruments classified as “held-for-trading” unless designated for hedge accounting. The Company has no commodity contracts or fixed-price physical contracts in place at this time.

All derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value unless they qualify for the normal sale and purchase exception. All changes in fair value are included in earnings, unless cash flow hedge or net investment accounting is used, in which case changes in fair value are recorded in other comprehensive income, to the extent the hedge is effective, and in earnings, to the extent it is ineffective.

- m) Effective October 1, 2007, the Company adopted the following new accounting standards:
- a) Accounting Changes
 - b) Financial Instruments Disclosure
 - c) Financial Instruments Presentation, which replaces Section 3861 – Financial Instruments Disclosure and Presentation
 - d) Capital Disclosures

Accounting changes provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes will be applied retroactively unless otherwise permitted or where the effect is 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.

The financial instrument standards emphasizes disclosure 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.

Capital disclosures specifies the disclosure of the Company’s objectives, policies and processes for managing capital, quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

- n) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, G2 Resources Inc. commencing from the date of acquisition on July 10, 2008.

- o) Accounting Pronouncements

Effective October 1, 2008, the Company is required to adopt the following new accounting standards:

- a) Inventories.
- b) Goodwill and Intangible Assets.

The inventory standard prescribes measurements of inventories at the lower of cost and net realizable value. The new standard for Goodwill and Intangible Assets states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of and intangible asset and the recognition criteria. It also provides further information on the recognition of internally generated intangible assets, including research and development costs. These new standards are not expected to have a material impact on the Company’s financial statements.

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Significant Accounting Policies (continued)

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. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS but has not at this time made any determination on the impact on the Company’s financial statements.

3. Business Acquisition

On July 10, 2008, the Company acquired all of the issued and outstanding shares of G2 Resources Inc., (“G2”) and were attributed a value of \$0.187 per share based on the weighted average trading price of the Company’s shares during the period two days prior to the announcement of the transaction to two days after the announcement of the transaction. The operating results of G2 were included in the accounts of the Company from July 10, 2008. The Company has not recorded a future income tax asset on the acquisition of G2 because the Company has applied a full valuation allowance on its own future income tax assets. The Company issued 8,360,689 warrants through the transaction, and no fair value was recorded for these warrants, based upon the Black-Scholes option pricing model which assumes a risk-free interest rate of 3%, expected volatility of 100%, and expected life of 0.67 years. The G2 acquisition has been accounted for using the purchase method of accounting as follows:

Consideration:		
72,762,619 common shares issued		\$ 13,606,610
Transaction costs		396,976
		<u>\$ 14,003,586</u>
Net assets acquired at fair value:		
Current assets		\$ 3,331,653
Property and equipment		17,903,746
Other assets		232,586
Current liabilities, including bank indebtedness of \$3,170,632		(6,835,208)
Asset retirement obligation		(629,191)
		<u>\$ 14,003,586</u>

4. Property and Equipment

2008	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties and equipment	\$39,206,425	\$11,814,759	\$27,391,666
Seismic resources	742,419	-	742,419
Other assets	299,032	65,299	233,733
	<u>\$40,247,876</u>	<u>\$11,880,058</u>	<u>\$28,367,818</u>
2007	Cost	Accumulated Depletion and Depreciation	Net Book Value
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>

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Property and Equipment (continued)

During 2008 and 2007 no general and administration expenses were capitalized.

Costs of acquiring seismic resources referenced in the above tables in the amount of \$742,419 (2007 - \$878,545) were excluded from the depletable costs. Costs of unproved properties in the amount of \$3,591,441 (2007 - \$198,278) are also excluded from depletable costs. Future development costs of \$5,617,000 (2007 - \$787,200) were included in the depletion calculation.

During the year ended September 30, 2008, the Company disposed of two minor properties for net proceeds of \$517,600, and reduced its asset retirement obligation by \$84,719 as part of these dispositions.

The Company has determined that no ceiling test impairment exists at September 30, 2008 (2007 - \$3,300,000).

The oil and natural gas prices used in the calculation are based on the September 30, 2008 commodity price forecast of the Company's independent reserve evaluators. The benchmark prices used in the September 30, 2008 ceiling test calculation are as follows:

	Edmonton Light Crude \$Cdn/BBL	Hardisty Bow River Crude \$Cdn/BBL	AECO Natural Gas \$Cdn/MMBTU
2009	99.10	76.31	7.50
2010	99.10	75.48	7.65
2011	99.10	75.32	8.00
2012	99.10	75.32	8.25
2013	99.10	75.32	8.50
2014	100.45	76.34	9.00
2015	102.48	77.08	9.59
2016	104.55	79.46	9.79
2017	106.66	81.06	10.01
2018+	+2% per year thereafter	+2% per year thereafter	+2% per year thereafter

5. Lending Facility

As at September 30, 2008, the Company had a revolving operating demand credit facility in the amount of \$7,500,000, repayable as to interest only and the Bank's right of demand. Interest is charged at the Bank's prime rate plus three quarters percent, payable monthly. The above facility is secured by a \$5,000,000 debenture with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges on the Company's major producing petroleum properties, and by a \$15,000,000 supplemental debenture with a floating charge over all assets of the Company with a negative pledge and undertaking to provide fixed charges on the Company's major producing petroleum properties. The Company is in compliance with the covenants contained within the loan agreement at September 30, 2008. At September 30, 2008 there was \$2,593,819 drawn on the revolving operating demand facility.

On December 22, 2008, the Company executed an amending credit facility agreement with its lender whereby its revolving operating demand facility has been reduced to \$4,300,000. This operating demand facility bears interest at the bank prime rate plus one and one-quarter percent.

The average interest rate for the year ended September 30, 2008 was 5.98% (2007 - 6.63%). The loan facility is subject to an annual review by the bank scheduled to occur by January 31, 2009. As the Company's lending facility bears interest at floating rates, the Company is exposed to interest rate risk on outstanding balances.

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. 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, 2006	22,709,179	\$70,172,113
Private placement issued for cash ⁽⁴⁾	5,000,000	972,816
Private placement issued for cash on a flow through basis ⁽⁴⁾	4,583,333	1,077,345
Rights offering ⁽⁵⁾	1,660,078	332,016
Private placement issued for cash ⁽⁵⁾	3,335,000	626,740
Private placement issued for cash on a flow through basis ⁽⁶⁾	3,234,200	970,260
Private placement issued for cash on a flow through basis ⁽⁶⁾	3,765,800	1,129,740
Private placement issued for cash ⁽⁷⁾	3,850,000	813,133
Tax impact of flow through share issue	-	(319,000)
Share issue costs ⁽¹⁾	-	(590,332)
Balance, September 30, 2007	48,137,590	75,184,831
Private placement issued for cash ⁽⁸⁾	27,500,000	2,900,336
Shares issued on acquisition of G2 Resources Inc. (Note 3)	72,762,619	13,606,610
Shares issued as finder's fee ⁽⁸⁾	1,650,000	153,186
Tax impact of flow through share issue	-	(598,500)
Share issue costs ⁽¹⁾	-	(569,158)
Balance, September 30, 2008	150,050,209	\$90,677,305

- c) 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 ⁽⁴⁾	916,667	916,667	49,838
February 1, 2007 private placement ⁽⁵⁾	333,500	333,500	40,260
June 30, 2007 expiry of warrants	(817,923)	(817,923)	(188,000)
July 16, 2007 private placement ⁽⁷⁾	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 ⁽³⁾	(905,643)	(905,643)	(218,300)
May 30, 2008 expiry of warrants ⁽⁴⁾	(916,667)	(916,667)	(49,838)
August 1, 2008 expiry of warrants ⁽⁵⁾	(333,500)	(333,500)	(40,260)
July 10, 2008 private placement ⁽⁸⁾	27,500,000	27,500,000	2,599,664
July 10, 2008 warrants issued as finders fee ⁽⁸⁾	1,650,000	1,650,000	176,814
Warrants acquired from G2 (note 3)	8,360,689	8,360,689	-
Balance, September 30, 2008	41,360,689	41,360,689	\$2,964,345
Total Common Shares and Warrants ("Equity Instruments") outstanding September 30, 2008			\$93,641,650

The following table summarizes warrants by the exercise price:

Date of Grant	Number of warrants	Exercise Price	Date of Expiry
July 17, 2007 ⁽⁷⁾	3,850,000	\$0.35	July 16, 2009
July 10, 2008 ⁽⁸⁾	27,500,000	\$0.26	July 10, 2010
July 10, 2008 ⁽⁸⁾	1,650,000	\$0.26	July 10, 2010
July 10, 2008 ⁽⁸⁾	8,360,689	\$1.20	March 19, 2009
	41,360,689		

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September 30, 2008 and 2007

6. Equity Instruments (continued)

At September 30, 2008 there are 41,360,689 common shares reserved for issuance for outstanding warrants.

- (1) No tax benefit has been recorded as the ultimate realization of such benefit is uncertain.
- (2) In connection with the private placement of common and flow-through common shares on December 15, 2005, the Company issued 817,923 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.88 until June 30, 2007. The fair value of the warrants was determined using the Black-Scholes option pricing model and assumes an expected volatility of 50%, a risk-free rate of return of 3.5% and a weighted average life of 1.5 years.
- (3) In connection with the acquisition of Regal Energy Corp. the Company issued 905,643 warrants as a success fee that entitles the holder to purchase one common share of the Company for each warrant held at a price of \$0.95 per share until December 31, 2007. The fair value of the warrants was determined using the Black-Scholes option pricing model and assumes an expected volatility of 50%, a risk-free rate of return of 3.5% and a weighted average life of 2.0 years.
- (4) On November 30, 2006, the Company completed a financing of 5,000,000 common shares at a price of \$0.20 per common share and 4,583,333 flow-through common shares at a price of \$0.24 per common share. Nova Bancorp Securities Ltd. acted as agent in the financing and is a related party to the Corporation as two directors of the Corporation are also directors, officers and shareholders of Nova Bancorp Securities Ltd. In connection with the financing the agent was granted 916,667 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.20 until May 30, 2008. The fair value of the warrants was determined to be \$49,838 of which \$22,655 is attributed to the flow-through portion of the financing using the Black-Scholes option pricing model and assumes an expected volatility of 58%, a risk free rate of return of 5.0% and a weighted average life of 1.5 years.
- (5) On December 21, 2006, the Company, under a rights offering, issued 1,660,078 common shares at a price of \$0.20. Under the agreement with Nova Bancorp Securities Ltd. on November 30, 2006, Nova Bancorp Securities Ltd. had the right to subscribe for any shares not subscribed for under the December 21, 2006 rights offering on the same basis as the rights offering. On February 1, 2007, Nova Bancorp Securities Ltd. exercised this right and 3,335,000 common shares were issued at a price of \$0.20. Nova Bancorp Securities Ltd. acted as agent in the financing and is a related party to the Corporation as two directors of the Corporation are also directors, officers and shareholders of Nova Bancorp Securities Ltd. In connection with this financing, the agent was granted 333,500 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.20 until August 1, 2008. The fair value of the warrants was determined to be \$40,260 using the Black-Scholes option pricing model and assumes an expected volatility of 57%, a risk free rate of return of 5% and a weighted average life of 1.5 years.
- (6) On June 28 and July 16, 2007, the Company completed a financing of 7,000,000 flow-through common shares at a price of \$0.30 per share. Nova Bancorp Securities Ltd. acted as co-agent in the financing and is a related party, as two directors of the Corporation are also directors, officers and shareholders of Nova Bancorp Securities Ltd.
- (7) On July 16, 2007, the Company completed a financing of 3,850,000 common shares at a price of \$0.26 per share. In connection with the financing the agent was granted 3,850,000 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.35 until July 16, 2009. The fair value of the warrants was determined to be \$187,867 using the Black-Scholes option pricing model and assumes an expected volatility of 31%, a risk free rate of return of 5.0% and a weighted average life of 2 years.
- (8) On July 10, 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 the Company ("Unit") consisting of one common share of the Company and one common share purchase warrant of the Company ("Warrant"). Each Warrant entitles the holder to acquire one common share of the Company at a price of \$0.26 per share for a period of twenty-four months from the closing date (the "Warrant Term"), provided that if the common shares of the Company close at or above \$0.52 per share for 20 consecutive trading days at any time after October 27, 2008 and the Company gives written notice to the holder within 10 trading days after the end of such 20 day period, the expiry date will be automatically reduced to 30 days (including non-trading days) after the date the Company provides written notice of the new expiry date. The Company paid a finder's fee on this private placement of 6% of the proceeds of the Offering through the issuance of 1,650,000 Units on the same terms and conditions as the Subscription Receipts. In addition, the Corporation granted agent's compensation options ("Compensation Options") equal to 6% of the number of Subscription Receipts sold which are exercisable into Units at a price of \$0.20 per Unit for twenty-four months from the closing date. The Black-Scholes model was used to value these warrants and options using the following assumptions, risk free interest rate of 3%, expected volatility of 100%, and expected life of 2 years. The fair value for these warrants and options was \$0.11.

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6. Equity Instruments (continued)

d) Options

The Company has a stock option plan under which employees, directors and consultants are eligible to receive grants. The maximum term of options granted is five years. Options granted under the plan to outside independent directors vest immediately. Options granted prior to February 12, 2007 to employees and consultants of the Company 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 on February 12, 2007 to employees and consultants of the Company vest one-half on the date of grant, and one half on the first anniversary of the date of grant. Options granted on July 26, 2008 to directors, officers, employees and consultants of the Company vest one-third on the date of grant, one-third on the first anniversary of the date of grant, and one-third on the second anniversary of the date of grant. The following tables summarize the status of the Company's stock option plan and the activity during the years ended September 30, 2008 and 2007.

	Year ended Sept. 30, 2008		Year ended Sept. 30, 2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	2,951,000	\$0.58	1,626,000	\$0.96
Granted	10,510,000	0.20	1,675,000	0.30
Forfeited	(86,000)	1.00	(350,000)	0.95
Balance, end of year	13,375,000	\$0.28	2,951,000	\$0.58
Exercisable, end of year	6,368,322	\$0.37	2,241,000	\$0.63

Date of Grant	Number Outstanding at Sept. 30, 2008	Exercise Price	Weighted Average Remaining Contractual Life (Years)	Date of Expiry	Number Exercisable at Sept. 30, 2008
Dec. 31, 2005	135,000	1.00	1.83	Jan. 30, 2009	135,000
Dec. 31, 2005	50,000	0.90	0.88	Aug. 17, 2009	50,000
Jan. 1, 2006	1,005,000	0.95	2.25	Jan. 1, 2011	1,005,000
Feb. 12, 2007	1,675,000	0.30	3.37	Feb. 12, 2012	1,675,000
July 16, 2008	10,510,000	0.20	4.79	July 16, 2013	3,503,322
	13,375,000	\$0.28			6,368,322

At September 30, 2008, there are 13,375,000 common shares reserved for issuance for outstanding options.

As part of the July 10, 2008 private placement, the Corporation granted 1,650,000 agent's Compensation Options which are exercisable into Units at a price of \$0.20 per Unit for twenty-four months from the closing date, or July 10, 2010.

When stock options are exercised, the consideration received along with the corresponding amounts previously recorded in contributed surplus are credited to share capital. No adjustment is made for fully vested stock options that expire unexercised.

During the year ended September 30, 2008, the Company recognized \$596,848 (2007 - \$204,668) of stock compensation expense for options granted under the Company's stock option plan.

Subsequent to September 30, 2008, 2,300,000 options expired, of which 2,110,000 were exercisable.

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. Equity Instruments (continued)

e) Contributed surplus:

The following table presents changes in contributed surplus:

	2008	2007
Balance, beginning of year	\$ 1,216,220	\$ 823,552
Stock based compensation	596,848	204,668
Expiry of warrants	308,398	188,000
July 10, 2008 warrants issued as finders fee	176,814	-
Balance, end of year	\$ 2,298,280	\$1,216,220

The fair value of stock options and warrants is calculated using the following assumptions for the years ended September 30, 2008 and 2007:

	2008	2007
Risk-free interest rate	3.20%	4.25%
Expected volatility	100%	72%
Expected life	5 years	5 years
Weighted average grant-date fair value (\$ per share)	0.20	0.30

f) Per share amounts

Basic loss per share is calculated using the weighted average number of shares of 71,033,028 (2007 – 36,598,730) outstanding for the period. Options and warrants were excluded from the dilution calculation as they were anti-dilutive for the year ended September 30, 2008 and 2007.

The numbers of options and warrants that would have been included in the computation of diluted earnings per share would have been 54,735,689 (2007 – 8,956,810).

7. Asset Retirement Obligation

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

	2008	2007
Asset retirement obligation, beginning of year	\$397,558	\$287,450
Change in estimate	(31,191)	14,970
Liabilities incurred on drilling	7,761	84,079
Liabilities assumed on acquisitions	629,191	26,105
Asset disposition (note 4)	(84,719)	(13,040)
Well abandonment costs incurred	(5,161)	(41,619)
Accretion expense	37,360	39,613
Asset retirement obligation, end of year	\$950,799	\$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 \$1,930,000 (2007 - \$684,000). 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 2018.

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007

8. Income Taxes

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:

	2008	2007
Property and equipment	\$ 6,222,870	\$ (861,960)
Non-capital losses	7,301,201	9,587,672
Scientific research and development pools	4,819,390	5,386,377
Share issue costs	517,690	294,639
	18,861,151	14,406,728
Valuation allowance	(18,861,151)	(13,808,228)
Net future tax asset	\$ -	\$ 598,500

The actual income tax provision differs from the expected amount calculated by applying the Canadian combined federal and provincial corporate income tax rate to the loss before income taxes. The major components of these differences are explained as follows:

	2008	2007
Loss before income taxes	\$ (3,085,655)	\$ (5,004,495)
Corporate income tax rate	29.50%	33.12%
Computed expected tax recovery	\$ (910,268)	\$ (1,657,489)
Future tax rate adjustments	99,052	329,278
Stock compensation expense	176,070	67,786
Non-deductible expenses	3,688	5,654
Valuation allowance	(631,458)	(841,361)
Income tax reduction	\$ -	\$ (617,500)

The Company has non-capital losses of approximately \$28,632,000, available for reduction against future taxable income, and which expire between 2009 and 2027. The Company has research and development expenditures of \$18,899,000 available to reduce future taxable income.

The following is a summary of the estimated Canadian tax pools as at September 30, 2008:

	2008
Capital cost allowance	\$ 12,732,000
Canadian oil and gas expenditures	13,288,000
Canadian development expenditures	13,614,000
Canadian exploration expenditures	12,602,000
Scientific research and development	18,899,000
Non-capital losses	28,632,000
Share issue costs and other	2,030,000
	\$ 101,797,000

Canada Revenue Agency ("CRA") has conducted an audit of transfer pricing on international transactions between SiberCore Technologies Incorporated and its United States subsidiary, SiberCore America Inc. for the years 2000, 2001 and 2002. SiberCore Technologies Incorporated was the predecessor company of Azeri and ultimately Regal Energy Ltd. The Company has received a proposed settlement letter from CRA that would result in a reduction of tax pools in the amount of \$1,501,453. CRA has also proposed to charge a cash penalty of approximately \$150,000. The Company has responded to the proposed settlement letter and provided further information supporting management's view that CRA's position has no merit and intends to object to any notice of assessment that may be received. The outcome of this audit is uncertain at this time and as such no provisions have been made in these financial statements.

REGAL ENERGY LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008 and 2007

9. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions.

- a) On November 30, 2006, the Company completed a financing of 5,000,000 common shares at a price of \$0.20 per common share and 4,583,333 flow-through common shares at a price of \$0.24 per common share. Of the total of 5,000,000 common shares issued, 2,500,000 common shares were acquired directly by Nova Bancorp Investments Ltd. and 2,500,000 common shares were acquired by Rhone 2005 LP. Two directors of the Company, are also directors, officers and shareholders of Nova Bancorp Investments Ltd, and are both directors of the General Partner of Rhone 2005 LP. Nova Bancorp Securities Ltd. acted as agent in the financing. Nova Bancorp Securities Ltd. is a related party to the Company as two directors of the Company, are also directors, officers and shareholders of Nova Bancorp Securities Ltd. In connection with the financing the agent received 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 and expired unexercised on May 30, 2008. In connection with this financing the Nova Bancorp Securities Ltd. was paid a commission of \$46,690.
- b) 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. 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 which ever was earlier. In connection with the renewal, a fee of 3% was paid to the lenders. Effective at the renewal date, the interest was 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. Concurrent with the completion of the Business Combination with G2, the bridge financing was re-paid on July 10, 2008. Total interest and renewal fees paid for the bridge financing during the year ended September 30, 2008 was \$36,914.
- c) On February 1, 2007, Nova Bancorp Securities Ltd., acted as agent in a financing of 3,335,000 common shares at a price of \$0.20 per share for gross proceeds of \$667,000. The agent exercised its over allotment option to sell up to an additional 3,339,922 common shares at a price of \$0.20 per share, and was paid a commission of \$46,690 and was granted 333,500 warrants that entitle the holder to purchase one common share of the Company for each warrant held at a price of \$0.20 per share, and expired unexercised on August 1, 2008.
- d) On June 28 and July 16, 2007, Nova Bancorp Securities Ltd. acted as co-agent in a financing of 7,000,000 flow-through common shares at a price of \$0.30 per share, and was paid a commission of \$77,000.

All related party transactions are in the normal course of operations and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

REGAL ENERGY LTD.
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10. Supplemental Cash Flow Information

	2008	2007
Changes in non-cash working capital balances related to:		
Accounts receivable	\$ 1,346,689	\$ 131,538
Deposits and prepaid expenses	(250,628)	(3,296)
Accounts payable and accrued liabilities	(2,229,908)	292,906
	\$ (1,133,847)	\$ 421,148
Changes in non-cash working capital balances related to:		
Operating activities	\$ 762,460	\$ (132,164)
Investing activities	(1,896,307)	553,312
	\$ (1,133,847)	\$ 421,148
	2008	2007
Interest paid	\$ 219,554	\$ 106,509

11. Commitments and Contingencies

At September 30, 2008 the Company had commitments to spend \$390,000 on flow-through qualified exploration and development expenditures by December 31, 2008. This commitment has been fulfilled prior to December 31, 2008, and the Company has no further flow-through commitments.

At September 30, 2008, the Company had commitments for lease payments for office space expiring in December, 2009 totaling \$70,500 for 2008 and \$282,000 for 2009.

At September 30, 2008, the Company had commitments for rental compressors totaling \$112,973 in 2008 and \$123,612 in 2009. These rental agreements are subject to 30 days cancellation notices.

12. Financial Instruments

As disclosed in Note 2 (l), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk, foreign exchange risk, fair value risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

- a) Fair value of financial assets and liabilities: The carrying value of accounts receivable, and accounts payable and accrued liabilities approximate their fair value due to their relatively short periods to maturity. The bank indebtedness approximates its fair value since it bears interest at a floating rate.

The classification of financial instruments and their respective carrying values and fair values are as follows:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Accounts receivable	\$2,298,600	\$2,298,600	\$486,313	\$486,313
Total financial assets	\$2,298,600	\$2,298,600	\$486,313	\$486,313

REGAL ENERGY LTD.
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12. Financial Instruments (continued)

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial liabilities:				
Accounts payable and accrued liabilities	\$3,288,808	\$3,288,808	\$1,854,140	\$1,854,140
Bank indebtedness	2,593,819	2,593,819	1,078,357	1,078,357
Total financial liabilities	\$5,882,627	\$5,882,627	\$2,932,497	\$2,932,497

- b) Credit risk: Substantially all of the accounts receivable are with customers and joint interest partners in the oil and gas industry and are subject to normal industry credit risks. 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 interest partner, costs of such operations are paid for in advance by the partner of the operation being conducted. Should any of the Company's customers or partners be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts on the balance sheet. During 2008 the Company recorded an allowance for doubtful accounts in the amount of \$151,257, and recorded the corresponding amount as an expense.

The following table presents the aging the Company's accounts receivable:

Total accounts receivable	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$2,298,600	\$121,913	\$420,754	\$45,463	\$1,710,470

- c) Interest rate risk: The Company is exposed to fluctuations in interest rates. At September 30, 2008, the Company has \$2,593,819 (2007 - \$1,078,357) of debt with a variable rate of interest (Note 5). A one percent change in the interest rate would change the Company's net loss by approximately \$26,000 for the year.
- d) Foreign exchange risk: The Company is exposed to foreign currency fluctuations as commodity prices received are referenced to U.S. dollar denominated prices. The Company does not utilize any financial instruments to mitigate the risks arising from changes in foreign currency rates.
- e) Liquidity risk: Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to ensure that it has sufficient resources available to meet its liabilities when due. At September 30, 2008 the Company's accounts payable and accrued liabilities were \$3,288,808 all of which are due for payment within normal terms of trade which is generally between 30 and 60 days. The Company regularly reviews its accounts receivable balances and follows up on amounts past due. The Company also relies on its credit facility to manage its liquidity and the settlement of liabilities due.

The Company's financial liabilities are summarized below:

	Total	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
Accounts payable and accrued liabilities	\$3,288,808	\$1,826,590	\$581,961	\$236,035	\$644,222
Bank indebtedness	2,593,819	2,593,819	-	-	-
Total	\$5,882,627	\$4,420,409	\$581,961	\$236,035	\$644,222

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13. Capital Management

The Company considers its capital structure to include share capital, warrants, and bank indebtedness.

The Company manages its capital structure in order to ensure sufficient resources are available to support the exploration and development of its existing properties. The Company's Officers are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information including budgets and forecasts. The Company's Directors are responsible for overseeing this process. Methods used by the Company to manage its capital include the issuance of new share capital and warrants which has historically been accomplished through private placements primarily with institutional investors. The recent problems in the global credit markets have resulted in a drastic reduction in the ability of companies to raise capital through the public markets. Management has not been able to meet its primary capital management goal of maintaining debt to cash flow ratio of 2 to 1.

There were no changes in the Company's approach to capital management during the year.

Pursuant to its Credit Facility, the Company is required to maintain its Working Capital Ratio, as defined by the bank, at not less than 1.0 to 1.0. The Company was in compliance with this requirement at September 30, 2008.