

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is management's discussion and analysis ("MD&A") of Regal Energy Ltd.'s ("Regal", "the Corporation", or "the Company") unaudited operating and financial results for the three months ended December 31, 2008. This MD&A should be read in conjunction with Regal's unaudited interim financial statements and related notes for the three months ended December 31, 2008 and the Audited Consolidated Financial Statements for the year ended September 30, 2008. This MD&A is current as at February 26, 2009. 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 and Regal's website (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 are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) and Regal's website (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.

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 Corporation acquired all of the G2 Resources Inc. (“G2”) outstanding shares on July 10, 2008 pursuant to an Arrangement Agreement dated April 30, 2008 among the Corporation 1389787 Alberta Ltd. and G2. The Corporation and G2 were amalgamated on October 1, 2008.

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 Suite 3700, 400 - 3rd Avenue S.W., Calgary, Alberta T2P 4H2.

Regal Energy Ltd.’s common shares are listed and posted for trading on the TSX Venture Exchange under the symbol REG.

RESULTS OF OPERATIONS

Highlights

During the first quarter of fiscal 2009, capital expenditures totaled \$1.4 million, including \$0.3 million for drilling and completions and \$0.6 million for equipping and tie-in. During the quarter the Company concentrated its efforts on three core areas. At Roncott, Saskatchewan workovers were done on the 16-35 and 9-36 wells, at Wapiti, Alberta the 1-31 and 11-3 wells were tied in and readied for production and a gas well was drilled at Thorsby, Alberta. This well has been cased, perforated and is currently awaiting a frac treatment.

Regal’s average production rate during the first quarter resulted in sales of 316 Boe/d or 75 percent higher than the same quarter last fiscal year. The Corporation received an average selling price of \$43.04 per Boe as compared to \$41.78 for the quarter ended December 31, 2007.

Production during the quarter did not meet the expectations of the Company as forecast in the press release of October 28, 2008 when the Company’s current rate of production was estimated at 425 Boe/d. Numerous factors contributed to the lower production volumes. At Eight Mile the liquid yield and gas production was less than estimated and the well was down during the last two weeks of December (approximately 35 Boe/d). The well was returned to full capacity in January, 2009. Production at Kaybob had interruptions due to downstream facility limitations and hydrates during the

last quarter and was shut in for the last two weeks of December resulting in an average reduction of 15 Boe/d for the month. A casing failure at Nipisi resulted in the loss of approximately 20 Boe/d and is not expected to resume production for several more months. Production declines and operational difficulties during the cold weather in December also impacted on production, particularly at Garrington where three gas wells were shut in for more than half the month, and the balance of the Garrington wells had production interruptions (approximately 20 Boe/d). At Luseland the dispute with the Operator regarding expenditures resulted in approximately 20 Boe/d of production not being received.

The field operational difficulties resulting from the cold weather have now been resolved. The Operator at Kaybob is working to expand the facility which should improve our producing hours and production. Production at Eight Mile is stabilizing and at Wapiti two additional wells were placed on production during the last week of January, 2009. The two new Wapiti wells produced at an initial combined rate of 350 Mcf/d resulting in 290 Mcf/d net to the company (48 Boe/d).

OPERATING NETBACK

The following table summarizes the Company's operating netback. Operating netback is a non-GAAP measure and is a benchmark used in the oil and gas 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.

Netback Per Boe	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Revenue	\$43.04	\$41.78
Royalties	(9.85)	(6.85)
Operating Costs	(18.70)	(22.34)
Operating Netback	\$14.49	\$12.59

The operating netback for the three months ended December 31, 2008 was \$14.49 per Boe compared to \$12.59 per Boe in the comparable period in 2007. Gross revenue increased by \$1.26 per Boe and royalty expense increase by \$3.00 per Boe. These were offset by a decrease in operating costs of \$3.64 per Boe which caused an overall increase in the operating netback of \$1.90 per Boe.

The average prices of the components of revenue for the quarter ended December 31, 2008 included \$6.71 per Mcf for natural gas and \$50.01 per Boe for crude oil and natural gas liquids. This compares to \$5.64 per Mcf for natural gas and \$71.14 per Boe for crude oil and natural gas liquids in the equivalent period of last year. As approximately 70% of Regal's production is from natural gas, the year over year decrease of 29% in oil and NGL's prices was offset by 18% increase in natural gas prices, resulting in a Boe year over year realized price increase of 3%.

Royalty expense for the current quarter on a per Boe basis increased from \$6.85 per Boe in the first quarter of 2008 to \$9.85 per Boe in first fiscal quarter of 2009. This year-over-year increase in royalty expense is primarily due to understatement of royalties for the quarter ended December 31, 2007. The Company's average annual royalty expense as a percentage of revenue remains consistent at the 20% to 25% range.

Total operating costs of \$18.70 per Boe in the current fiscal quarter are \$3.64 per Boe lower than the \$22.34 per Boe experienced in the first fiscal quarter of 2008. The quarter ended December 31, 2007 included approximately \$3.50 per Boe of workover costs, resulting in a 16% decrease in year-over-year variance.

NET EARNINGS, FUNDS FLOW AND CASH FLOW FROM OPERATIONS

	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Weighted Average Shares Outstanding	150,050,209	48,137,590
Net Loss	\$1,361,354	\$498,142
Net Loss Per Share Basic and Diluted	\$0.01	\$0.01
Funds Flow From Operations ⁽¹⁾	\$(281,947)	\$(61,680)
Per Share Basic and Diluted	\$0.00	\$0.00
Cash Flow From (Used in) Operations	\$(155,633)	\$198,415
Per Share Basic and Diluted	\$0.00	\$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

Sales Volumes	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Natural Gas (Mcf)	124,811	78,166
Crude Oil & NGLs (Bbls)	8,294	3,528
Total Oil Equivalent (Boe)	29,096	16,556
Total (Boe/d)	316	180

Sales Revenue	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Natural Gas	\$837,444	\$440,633
Crude Oil & NGLs	414,763	250,998
Total	\$1,252,207	\$691,631

Sales Price Per Unit	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Natural Gas (\$/Mcf)	6.71	5.64
Crude Oil & NGLs (\$/Bbl)	50.01	71.14
Total Blended (\$/Boe)	43.04	41.78

Total working interest revenue during the three months ended December 31, 2008 amounted to \$1,252,207 (December 31, 2007 - \$691,631) and was made up of natural gas sales in the amount of \$837,444 (2007 - \$440,633) and crude oil and natural gas liquids sales of \$414,763 (2007 - \$250,998). During the quarter, 124,811 Mcf or 1,357 Mcf/d (2007 - 78,166 Mcf or 850 Mcf/d) of natural gas was sold and 8,294 Boe or 90 Boe/d (2007 - 3,528 Boe or 38 Boe/d) of crude oil and natural gas liquids was sold for a total of 29,096 Boe or 316 Boe/d sold (2007 - 16,556 Boe or 180 Boe/d). Natural gas and NGLs production increased mainly as a result of the addition of G2's production on July 10, 2008.

Sales volumes for the quarter ended December 31, 2008 increased by 136 Boe/d or 76% from the comparable period of 2007.

ROYALTIES

	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Crown royalties	\$181,312	\$63,414
Freehold royalties	22,659	8,267
Overriding royalties	82,492	41,803
Total	\$286,463	\$113,484
Total (per Boe)	\$9.85	\$6.85

Royalties, which include crown, freehold and overriding royalties paid on oil, natural gas liquids and natural gas production amounted to \$286,463 during the first quarter of 2009 compared to \$113,484 during the first quarter of fiscal 2008. Average royalties during the first fiscal quarter of 2009 amounted to \$9.85 per Boe or 23% of sales (2008 - \$6.85 per Boe or 16%). This year-over-year increase in royalty expense is primarily due to understatement of royalties for the quarter ended December 31, 2007. The Company's average annual royalty expense as a percentage of revenue remains consistent at the 20% to 25% range.

OPERATING EXPENSE

	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Operating costs	\$544,110	\$369,808
Per Boe	\$18.70	\$22.34

Total operating costs for the quarter ended December 31, 2008 amounted to \$544,110 or \$18.70 per Boe compared to \$369,808 or \$22.34 per Boe during the quarter ended December 31, 2007. The quarter ended December 31, 2007 included approximately \$3.50 per Boe of workover costs, resulting in a 16% decrease in year-over-year variance.

GENERAL AND ADMINISTRATIVE EXPENSE (G&A)

	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
G&A	\$630,589	\$242,221
Bad debt expense	37,665	-
Total G&A	\$668,254	\$242,221
Total (per Boe)	\$22.97	\$14.63

Total general and administrative expense during the first fiscal quarter of 2009 amounted to \$668,254 or \$22.97 per Boe compared to \$242,221 or \$14.63 per Boe during the equivalent period of fiscal 2008. The 57% increase in per Boe cost is due to higher overhead costs related to the G2 acquisition, and the Company's lower than anticipated production rate for the quarter.

INTEREST EXPENSE

Total interest expense for the first quarter ended December 31, 2008 amounted to \$37,631 compared to \$28,150 during the equivalent quarter ended December 31, 2007. Interest expense for the first quarter of 2009 is attributable to the increased level of the Corporation's borrowings on its credit facilities.

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 first quarter of fiscal 2009, \$104,275 of stock based compensation expense was recognized as compared to \$22,895 as stock compensation expense during the first fiscal quarter of fiscal 2008. The increase in stock based compensation is due to the new options issued as part of the G2 purchase.

DEPLETION AND DEPRECIATION

	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Depletion	\$913,675	\$373,782
Depreciation	20,051	5,714
Total	\$933,726	\$379,496
Total (per Boe)	\$32.09	\$22.92

Total depletion and depreciation expense for the quarter ended December 31, 2008 amounted to \$933,726 or \$32.09 per Boe compared to \$379,496 or \$22.92 per Boe for the quarter ended December 31, 2007. The depletion calculation is based on reserves as calculated by the Corporation's independent engineers as at September 30, 2008.

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 were excluded from the depletion calculation and were being amortized over a period of three years. Total amortization for the period ended December 31, 2008 was \$24,994 which is the same as for the same quarter one year earlier. At December 31, 2008 the intangible asset was fully amortized and is no longer recognized on the Company's balance sheet.

ACCRETION

Accretion expense represents the increase in the present value of the asset retirement obligation for the current period. During the quarter ended December 31, 2008 accretion expense amounted to \$16,412 compared to \$9,078 during the similar period in fiscal 2007. The increased expense on a year over year basis is due to additional wells acquired as part of the G2 transaction.

INCOME TAXES

The Corporation estimates that it has approximately \$102 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 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.

CAPITAL EXPENDITURES

During the first fiscal quarter of 2009, the Corporation recorded \$1,379,728 of capital expenditures compared to \$1,389,589 during the first fiscal quarter of 2008. During the quarter the Company concentrated its efforts on three core areas. At Roncott, Saskatchewan workovers were done on the 16-35 and 9-36 wells, at Wapiti, Alberta the 1-31 and 11-3 wells were tied in and readied for production and a gas well was drilled at Thorsby, Alberta. This well has been cased, perforated and is currently awaiting a frac treatment.

	Three Months Ended	
	Dec. 31, 2008	Dec. 31, 2007
Land Acquisition / Retention	\$49,999	\$557
Geological, Geophysical and Seismic	375,745	-
Drilling and Completions	277,006	830,293
Equipping and tie-ins	626,487	539,939
Property Acquisition / Disposition	48,075	17,500
Furniture and Fixtures	2,416	1,300
	<u>\$1,379,728</u>	<u>\$1,389,589</u>

FINANCIAL RESOURCES AND LIQUIDITY

At December 31, 2008, the Corporation had a working capital deficiency of \$4,761,242 compared to a working capital deficiency of \$3,099,567 at September 30, 2008 and \$3,836,298 at December 31, 2007. Components of the working capital deficiency are contained in the following table.

	Dec. 31, 2008	Sept. 30, 2008	Dec. 31, 2007
Cash and cash equivalents	\$487,343	\$-	\$-
Accounts receivable	1,643,020	2,298,600	1,284,028
Deposits and prepaid expenses	424,518	484,460	74,540
Bank indebtedness	(3,350,000)	(2,593,819)	(2,256,912)
Accounts payable and accrued liabilities	(3,966,123)	(3,288,808)	(2,937,954)
Total Working Capital	\$(4,761,242)	\$(3,099,567)	\$(3,836,298)

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

The Company is in compliance with the covenants contained within the Company's bank loan agreement at December 31, 2008.

As previously disclosed in the Company's February 10, 2009 press release, the Company intends to offer by private placement a minimum of 83,333,334 units ("Units") at a subscription price of \$0.06 for minimum gross proceeds of \$5,000,000. Each Unit consists of one common share ("Common Share") of the Company and one Common Share purchase warrant ("Warrants"). Each whole Warrant will have an exercise price of \$0.12 and a term of 36 months. Completion of the proposed private placement is scheduled for March 10, 2009.

LENDING FACILITY

The Corporation has a revolving operating demand facility of \$4,300,000 that bears interest at the bank prime rate plus one and one-quarter percent. Repayments of the facility are not required provided the amounts borrowed do not exceed \$4,300,000 or an amount to be determined from time to time. At December 31, 2008 there was \$3,350,000 drawn on the revolving operating demand facility. 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 December 31, 2008. The loan facility is subject to periodic review by the bank, with the most recent review completed in January, 2009. Considering the current industry economic conditions, the Company may be subject to further periodic reviews.

EQUITY CAPITAL

At December 31, 2008 Regal had 150,050,209 common shares outstanding. In addition, there were 41,360,689 share purchase warrants outstanding.

Common Shares:

	Shares	Amount
Balance, September 30, 2007	48,137,590	75,184,831
Private placement issued for cash	27,500,000	2,900,336
Shares issued on acquisition of G2 Resources Inc.	72,762,619	13,606,610
Shares issued as finder's fee	1,650,000	153,186
Tax impact of flow through share issue	-	(598,500)
Share issue costs	-	(569,158)
Balance, September 30, and December 31, 2008	150,050,209	\$90,677,305

Warrants:

	Number of Warrants	Number of Underlying Shares	Amount
Balance, September 30, 2007	6,005,810	6,005,810	496,265
December 31, 2007 expiry of warrants	(905,643)	(905,643)	(218,300)
May 30, 2008 expiry of warrants	(916,667)	(916,667)	(49,838)
August 1, 2008 expiry of warrants	(333,500)	(333,500)	(40,260)
July 10, 2008 private placement	27,500,000	27,500,000	2,599,664
July 10, 2008 warrants issued as finders fee	1,650,000	1,650,000	176,814
Warrants acquired from G2	8,360,689	8,360,689	-
Balance, September 30, and December 31, 2008	41,360,689	41,360,689	\$2,964,345
Total Common Shares and Warrants ("Equity Instruments") outstanding September 30, and December 31, 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	3,850,000	\$0.35	July 16, 2009
July 10, 2008	29,150,000	\$0.26	July 10, 2010
July 10, 2008	8,360,689	\$1.20	March 19, 2009
	41,360,689		

Options:

The Corporation has a stock option plan under which directors, employees and consultants are eligible to receive grants.

The following table summarizes the status of the Corporation's stock option plan and the activity from September 30, 2007 to December 31, 2008.

	Number of Options	Weighted Average Exercise Price	Expiry Date
Balance September 30, 2007	2,951,000	\$0.58	
Options cancelled	(86,000)	\$1.00	
Balance December 31, 2007	2,865,000	\$0.57	
Options granted	10,510,000	\$0.20	July 23, 2013
Balance September 30, 2008	13,375,000	\$0.28	
Forfeited	(2,300,000)	\$0.53	
Balance December 31, 2008	11,075,000	\$0.23	
Exercisable, December 31, 2008	4,258,333	\$0.27	

Date of Grant	Number Outstanding	Exercise Price	Weighted Average Remaining Contractual Life (Years)	Date of Expiry	Number Exercisable at Dec. 31, 2007
Jan. 1, 2006	350,000	\$0.95	2.00	Jan. 1, 2011	350,000
Feb. 12, 2007	500,000	\$0.30	3.12	Feb. 12, 2012	500,000
July 16, 2008	10,225,000	\$0.20	4.54	July 16, 2013	3,408,333
	11,075,000				4,258,333

As of the date of this MD&A, the Corporation has the following outstanding equity instruments:

Shares outstanding	150,050,209
Shares issuable upon exercise of warrants	41,360,689
Stock options outstanding	11,075,000
Total equity instruments outstanding	202,485,898

COMMITMENTS AND CONTINGENCIES

At December 31, 2008, the Company had commitments for lease payments for office space expiring in December, 2009 totaling \$282,000 for 2009.

At December 31, 2008, the Company had commitments for rental compressors totaling \$123,612 in 2009. These rental agreements are subject to 30 days cancellation notices.

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.

SUBSEQUENT EVENTS

On February 10, 2009, the Company announced that it intends to offer by private placement a minimum of 83,333,334 units ("Units") at a subscription price of \$0.06 for minimum gross proceeds of \$5,000,000. Each Unit consists of one common share ("Common Shares") of the Company and one Common Share purchase warrant ("Warrant"). Each whole Warrant will have an exercise price of \$0.12 and a term of 36 months. Completion of the proposed private placement (the "Closing") is scheduled for March 10, 2009.

Concurrent with the Closing, Hugh G. Ross and Michael H. Halvorson will be appointed to Regal's board of directors and Hugh Mogensen and Jake Pronk will resign from the Board. Mr. Ross will replace Curtis Hartzler as President and CEO of Regal. In addition, concurrent with the Closing, the following individuals will be appointed as officers of Regal: Ketan Panchmatia as VP Finance and CFO, Greg Groten as VP Exploration, Jack Lane as Manager Operations, and Connie Nischuk as Corporate Administrator (together with Mr. Ross, the "New Management"). Other officers may also be appointed at Closing as agreed by the Company.

The Company has also agreed to grant performance warrants equal to 10% of the outstanding Common Shares (including those issued in the private placement) to the New Management and other appointees to management, subject to completion of the Closing, approval of the TSXV and shareholder approval to be sought at the next annual general and special meeting of the Company. Each performance warrant will have an exercise price of \$0.06, which will be adjusted upwards on an equivalent basis for the consolidation of the common shares of the Company on an approximately 15 Common Share for one Common Share basis. The issuance of the performance warrants will also be subject to shareholder approval of this consolidation of the Common Shares, which the Company intends to seek at the next annual general and special meeting of the Company.

Closing (including appointment of the new Board appointees and New Management) is subject to a number of conditions, including the acceptance of the financing and change of management transaction by the TSXV.

SUMMARY OF QUARTERLY RESULTS

	Three months ended Dec. 31, 2008	Three months ended Sep. 30, 2008	Three months ended Jun. 30, 2008	Three months ended Mar. 31, 2008
Petroleum and natural gas sales (\$000)	1,252	2,001	1,433	798
Net loss (\$000)	1,361	2,080	92	401
Cash flow from (used in) operations (\$000)	(156)	372	146	(2,808)
Capital expenditures – net of dispositions (\$000)	1,380	2,720	(206)	(40)
Average daily production (Boe/d)	316	365	248	173
Average selling price (\$/Boe)	43.04	59.53	63.44	50.73
Operating Netback (\$/Boe)	14.49	25.61	34.74	20.87
Weighted average shares outstanding	150,050,209	71,033,028	48,137,590	48,137,590

	Three months ended Dec. 31, 2007	Three months ended Sep. 30, 2007	Three months ended Jun. 30, 2007	Three months ended Mar. 31, 2007
Petroleum and natural gas sales (\$000)	691,631	532,854	542,243	477,805
Net loss (\$000)	498	3,126	430	474
Cash flow from (used in) operations (\$000)	198	(171)	165	(143)
Capital expenditures – net of dispositions (\$000)	1,390	1,219	718	871
Average daily production (Boe/d)	180	154	145	124
Average selling price (\$/Boe)	41.78	37.69	41.17	42.77
Operating Netback (\$/Boe)	12.59	13.56	17.76	12.71
Weighted average shares outstanding	48,137,590	46,813,103	37,394,212	36,138,868

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to our Management as appropriate to allow timely decisions regarding required disclosure. The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of December 31, 2008, that the Corporation's disclosure controls and procedures are effective to provide reasonable assurance that material information related to Regal, is made known to them by employees or third party consultants working for the Corporation. It should be noted that while the Corporation's Chief Executive Officer and Chief Financial Officer believe that our disclosure controls and procedures will provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

CHANGES TO INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes to Regal's internal control over financial reporting since September 30, 2008, 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, 2008 audited financial statements.

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.

ADDITIONAL INFORMATION REGARDING REGAL ENERGY LTD.

Additional information regarding Regal Energy Ltd. is available on the internet at www.sedar.com and Regal's website (www.regalenergy.ca), or contacting the following officers.

Curtis A. Hartzler, President and Chief Executive Officer, or
Derek Batorowski, Chief Financial Officer
Telephone: (403) 263-4310
Fax: (403) 263-4368

NATIONAL INSTRUMENT 51-102

The Corporation's independent auditor has not performed an audit or review of the December 31, 2008 financial statements in accordance with the standards of the Canadian Institute of Chartered Accountants.