

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") should be read in conjunction with Regal Energy Ltd's ("Regal" or the "Company") unaudited interim financial statements as at and for the three and six months ended March 31, 2009 and the audited consolidated financial statements as at and for the year ended September 30, 2008. The accompanying financial statements of Regal have been prepared by management and approved by the Company'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).

This MD&A is current as at May 28, 2009.

NON-GAAP FINANCIAL MEASUREMENTS

Included in the MD&A are references to certain financial measures commonly used in the oil and gas industry, such as funds flow from operations and operating netbacks. These measures have no standardized meanings, are not defined by Canadian generally accepted accounting measures ("GAAP"), and accordingly are referred to as non-GAAP measures. These supplemental measures are used by management to assess operating results between periods and between peer companies as they provide an indication of the results generated by the Company's principal business activities before the consideration of how these activities are financed or how the results are taxed.

Regal determines funds flow from operations as cash provided by operating activities prior to changes in non-cash working capital items. A reconciliation of cash provided by operating activities to funds flow from operations is presented below:

	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Cash provided by (used in) operating activities	\$(2,353,791)	\$(2,808)	\$(2,509,424)	\$195,607
Changes in non-cash working capital items	974,760	12,840	848,446	(247,255)
Funds flow from (used in) operations	\$(1,379,031)	\$10,032	\$(1,660,978)	\$(51,648)

Operating netbacks are calculated by taking production revenue and deducting royalty and operating expenses. Regal's reported amounts may not be comparable to similarly titled measures reported by other companies. These terms should not be considered an alternative to, or more meaningful than, cash provided by operating, investing and financing activities or net income as determined by Canadian GAAP as an indicator of the Company's performance or liquidity.

OTHER MEASUREMENTS

The reporting and measurement currency of this MD&A is the Canadian dollar.

Reported production represents Regal's ownership share of sales before the deduction of royalties. Where amounts are expressed on a barrel of equivalent ("boe") basis, natural gas has been converted at a ratio of six thousand cubic feet to one boe. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation. References to natural gas liquids ("liquids") include condensate, propane, butane and ethane and one barrel of liquids is considered to be equivalent to one boe.

ADVISORY REGARDING FORWARD LOOKING STATEMENTS

Certain disclosures set forth in this MD&A constitute forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “anticipate”, “believes”, “budget”, “continue”, “could”, “estimate”, “forecast”, “intends”, “may”, “plan”, “predicts”, “projects”, “should”, “will” and other similar expressions. All estimates and statements that describe the Company’s future, goals, or objectives, including Management’s assessment of future plans and operations, may constitute forward-looking information under securities laws. Forward-looking statements involve known and unknown risks and uncertainties which include, but are not limited to: exploration, development and production risks; assessments of acquisitions; reserve measurements; availability of drilling equipment; access restrictions; permits and licenses; aboriginal claims; title defects; commodity prices; commodity markets, transportation and marketing of crude oil, liquids and natural gas; reliance on operators and key personnel; competition; corporate matters; funding requirements; access to credit and capital markets; market volatility; cost inflation; foreign exchanges rates; general economic and industry conditions; environmental risks; Kyoto protocol; and government regulation and taxation.

Forward-looking statements relate to future events and/or performance and although considered reasonable by Regal at the time of preparation, may prove to be incorrect and actual results may differ materially from those anticipated in the statements made. Regal does not undertake any obligation to publicly update forward-looking information except as required by applicable securities law.

THE COMPANY

The Company 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 Company 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 Company 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 Company on the basis of 1 for 30,000, conversion of the preferred shares of the Company on the basis of 0.012 common shares for each preferred share, and a change in the name of the Company from SiberCore Technologies Incorporated to Azeri Capital Inc.

On December 31, 2005, the Company 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 Company’s name to Regal Energy Ltd. (the “Plan of Arrangement”). Pursuant to the Plan of Arrangement, 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 share of the Company for each five shares of Regal Energy Corp. previously held.

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

The Company 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 Company, 1389787 Alberta Ltd. and G2. The Company and G2 were amalgamated on October 1, 2008.

The principal and head office of the Company is located at Suite 310, 333 5th Avenue S.W., Calgary, Alberta T2P 3B6. The registered office of the Company is located at 3500, 855 – 2nd Street S.W., Calgary, Alberta T2P 4J8.

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

RECENT FINANCING, AND DIRECTOR AND MANAGEMENT CHANGES

During the second quarter of fiscal 2009 the Company concentrated its efforts on strengthening its financial position and addressing previous working capital deficiencies. On March 31, 2009, the Company successfully completed a private placement of 277,500,000 units at \$0.05 per unit for gross proceeds of \$13,875,000 (net \$12,658,483). Each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to acquire an additional common share at a price of \$0.075 to be adjusted upwards on an equivalent basis for the consolidation of the common shares on the basis of up to 15 common shares for one common share pursuant to customary adjustment provision (and if such consolidation of common shares does not occur prior to the first anniversary of issuance, each warrant will have an exercise price of \$0.10, subject to customary adjustment provisions). The term of the warrant is 36 months, provided however, that if at any time from four months after closing, the daily volume-weighted average trading price of the common shares on the TSX-V exceeds \$0.12 for 25 consecutive trading days and the Company gives written notice to the warrant holders within ten trading days of the end of such period, the expiry date will be reduced to 30 days from the giving of notice.

The Company applied the net proceeds from the financing against its bank indebtedness and other accounts payable, leaving it with approximately \$6.3 million of working capital and \$3.8 million of available credit facilities at quarter end.

In conjunction with the private placement, Hugh G. Ross and Michael H. Halvorson were appointed to the Company's board of directors, while Hugh Mogensen and Jake Pronk resigned. Mr. Ross also replaced Curtis A. Hartzler as President and CEO; Ketan Panchmatia was appointed VP Finance and CFO; Greg Groten was appointed VP Exploration; and Jack Lane was appointed VP Operations. Subsequent to March 31, 2009, Julian Din was appointed VP Business Development.

UPCOMING CORPORATE CHANGES

Subsequent to quarter end, the Company announced that it is proposing a consolidation of its issued and outstanding common shares on the basis of one new common share for up to 15 common shares currently outstanding. As of the date of this MD&A, there are 427,550,209 common shares outstanding, and it is anticipated that post consolidation, there will be approximately 28,503,000 common shares outstanding, depending on the final consolidation ratio.

In connection with the share consolidation, the Company is proposing a name change and may also seek a new stock trading symbol from the TSX Venture Exchange. The Company is proposing to change its name to "Novus Energy Inc" or such other name as may be determined by the Board of Directors and acceptable to the TSX Venture Exchange.

Both the share consolidation and name change are being proposed to holders of common shares at the Company's upcoming Annual General and Special Meeting on June 11, 2009 (the "Meeting"). Further details with regards to the background, reasoning and impact of the proposed share consolidation and name change are contained in the Company's information circular dated May 7, 2009 (the "Circular"), a copy of which is available at the Company's website www.regalenergy.ca or at www.sedar.com.

At the Meeting, the Company is also proposing to change its auditors from KPMG LLP to Collins Barrow Calgary LLP. The change is not a result of any reportable events. Further details regarding the change of auditors are available in the Circular.

Lastly, on May 15, 2009, the Company announced that it has changed its financial year-end from September 30 to December 31 effective October 1, 2008. Further details regarding the change in financial year, including the Company's interim reporting periods, are available in the Company's Notice of Change of Year-End, a copy of which is available at www.sedar.com.

RESULTS OF OPERATIONS

Production

Regal's average daily production for the second fiscal quarter of 2009 was 306 boe/d, down slightly from the 316 boe/d recorded in the previous quarter and up significantly from the 173 boe/d recorded in the second fiscal quarter of 2008. For the six month period ended March 31, 2009, the Company's average daily production was 311 boe/d up from 176 boe/d recorded in the first six months of the 2008 fiscal year.

The figures for the three and six months ended March 31, 2009 include production from G2 Resources Inc, which the Company acquired through a Plan of Arrangement on July 2, 2008, and a well at Eight Mile, BC, which did not come on production until the third fiscal quarter of 2008.

Average production	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Natural gas (mcf/d)	1,385	840	1,371	845
Oil & liquids (bbls/d)	75	33	83	36
Oil equivalent (boe/d)	306	173	311	176

Revenue and pricing

Gross production revenue for the three months ended March 31, 2009 was \$911,220 versus \$798,328 in the comparative three month period. For the six month period ended March 31, 2009, gross production revenue was \$2,163,427 versus \$1,489,959 a year ago. In general, increases in revenue due to increased production volumes were dampened by reduced commodity prices for both oil and natural gas.

Sales revenue	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Natural gas	\$641,480	\$557,090	\$1,478,925	\$997,723
Oil & liquids	269,740	241,238	684,502	492,237
Total	\$911,220	\$798,328	\$2,163,427	\$1,489,959

Sales price per unit	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Natural gas (\$/mcf)	5.14	7.29	5.93	6.45
Oil & liquids (\$/bbl)	39.72	80.39	45.38	75.39
Blended (\$/boe)	33.05	50.73	38.18	46.14

Royalties

	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Crown	\$161,560	\$88,809	\$342,872	\$152,223
Freehold and GOR	63,640	70,649	168,791	120,719
Total	\$225,200	\$159,458	\$511,663	\$272,942
Total (per boe)	\$8.17	\$10.13	\$9.03	\$8.45

Royalties, which include crown, freehold and overriding royalties paid on oil, liquids and natural gas production, amounted to \$225,200 during the second quarter of 2009 compared to \$159,458 during the second fiscal quarter of 2008. For the six month period ended March 31, 2009, royalties were \$511,633 compared to \$272,942 a year ago.

As a percentage of production, royalties increased to 25% in the most recent quarter from 20% a year ago. Royalties were 24% of production for the six months ended March 31, 2009 versus 18% in the comparative period. Reasons for the increase include higher burdens on new production from the well at Eight Mile,

BC as well as higher royalty rates on properties that Regal acquired through the Plan of Arrangement with G2 Resources Inc, as neither situation was present in the comparative periods.

Operating expenses

	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Operating costs	\$624,378	\$310,457	\$1,168,488	\$680,265
Operating costs (per boe)	\$22.65	\$19.73	\$20.62	\$21.07

Total operating costs for the quarter ended March 31, 2009 amounted to \$624,378, or \$22.65/boe, compared to \$310,457, or \$19.73/boe, during the quarter ended March 31, 2008. For the six month period ended March 31, 2009 operating costs were \$1,168,488, or \$20.62/boe, compared to \$680,265, or \$21.07/boe, a year ago.

Operating netbacks

The following table summarizes the Company's operating netbacks. Operating netbacks are non-GAAP measures and are used by Regal to measure the profitability of crude oil and natural gas sales, subsequent to the deduction of royalty expenses and operating costs. This measure is not necessarily comparable to "Operating Netbacks" as reported by other entities.

Netback per boe	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Revenue	\$33.05	\$50.73	\$38.18	\$46.14
Royalties	(8.17)	(10.13)	(9.03)	(8.45)
Operating costs	(22.65)	(19.73)	(20.62)	(21.07)
Operating netbacks	\$2.23	\$20.87	\$8.53	\$16.62

The operating netback for the three months ended March 31, 2009 was \$2.23/boe compared to \$20.87/boe for the same period in 2008. For the six month period ending March 31, 2009, Regal's operating netback was \$8.53/boe versus \$16.62/boe in the comparative period. The largest reason for the declines was the reduction in overall commodity prices.

General and administrative expenses

Total general and administrative expenses during the second fiscal quarter of 2009 amounted to \$1,382,278 compared to \$251,406 a year ago. The largest contributor to this increase is approximately \$575,000 in severance cost associated with the management change pursuant to the terms of the March 31, 2009 private placement financing. Also included in general and administrative expenditures is an allowance for doubtful accounts of \$200,000 relating to certain joint venture partners unlikely to reimburse the Company their full share of capital costs incurred by the Company on their behalf.

Interest expense

Interest expense for the three months ended March 31, 2009 was \$44,427 compared to \$68,105 a year ago. For the six months ended March 31, 2009, interest expense was \$82,058, versus \$96,255 in the comparative period. As a result of the private placement which closed on March 31, 2009, the Company has paid off its bank debt and does not anticipate recording interest expense from bank debt in the near future.

Stock-based Compensation

The Company 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 second quarter of fiscal 2009, a recovery of \$56,639 of stock-based compensation expense was recognized due to the forfeiture of 2,955,000 stock options. For the first six months of the fiscal year, the Company recorded \$47,636 in stock-based compensation expense.

Depletion and Depreciation

Total depletion and depreciation expense for the quarter ended March 31, 2009 amounted to \$7,812,166 compared to \$386,622 for the quarter ended March 31, 2007. As at March 31, 2009, the Company performed a stage one ceiling test calculation which showed its undiscounted future net revenues from proved reserves, plus carrying values for undeveloped land less impairment allowances, being less than the carrying value of its oil and gas assets. Consequently, the Company performed a stage two ceiling test calculation which showed its future net revenues from proved and probable reserves discounted at 5%, plus carrying values for undeveloped land less impairment allowances, being less than the carrying value of its oil and gas assets. As a result of the ceiling test calculations, the Company recorded an impairment provision of \$7,000,000 at March 31, 2009.

Net earnings, funds flow and cash flow from operations

	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Weighted average shares outstanding	153,133,542	48,137,590	151,574,934	48,137,590
Net income (loss)	\$(9,146,943)	\$(415,613)	\$(10,508,297)	\$(913,755)
Per share-basic & diluted	(0.06)	(0.01)	(0.07)	(0.02)
Funds flow from (used in) operations ⁽¹⁾	(1,379,031)	10,032	(1,660,978)	(51,648)
Per share-basic & diluted	(0.01)	(0.00)	(0.01)	(0.00)
Cash flow from (used in) operations	(2,353,791)	(2,808)	(2,509,424)	195,607
Per share-basic & diluted	(0.02)	(0.00)	(0.02)	(0.00)

(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 Company considers funds flow from operations to be a key measure as it demonstrates the Company'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 "Non-GAAP financial measurements" section at the front of this MD&A. Funds flow from operations per share was calculated using the same weighted average shares outstanding used in calculating net earnings per share.

Capital Expenditures

During the second fiscal quarter of 2009, the Company recorded \$220,158 of net capital expenditures compared to \$(39,622) during the second fiscal quarter of 2008. During the most recently completed quarter, the Company concentrated its efforts on repair and workover projects mostly in the Roncott area and was able to recoup some expenditures recorded in earlier periods.

	Three months ended		Six months ended	
	Mar 31, 2009	Mar 31, 2008	Mar 31, 2009	Mar 31, 2008
Land acquisition / retention	\$70,145	\$4,748	\$120,144	\$5,305
Geological, geophysical and seismic	6,787	12,350	382,533	12,350
Drilling and completions	314,751	69,015	591,759	899,308
Equipping and tie-ins	(175,932)	380,306	450,555	920,245
Property acquisitions / dispositions	4,407	(506,041)	52,479	(488,541)
Furniture and fixtures	-	-	2,416	1,300
	\$220,158	\$(39,622)	\$1,599,886	\$1,349,967

LIQUIDITY AND CAPITAL RESOURCES

Capital structure

The Company considers its capital structure to include share capital, working capital, and bank debt. The Company manages its capital structure in order to meet its financial obligations, and 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. There were no changes in the Company's approach to capital management during the quarter.

The Company's share capital is not subject to any external restrictions, however its credit facility is subject to periodic reviews. The Company's credit facility is also subject to a covenant that requires the Company to maintain a working capital ratio, as defined by the bank, of no less than 1:1. The Company was in compliance with this requirement at March 31, 2009, as the ratio was 5.3:1.

Equity Instruments

On March 31, 2009, the Company completed a private placement financing of 277,500,000 units at \$0.05 per unit for gross proceeds of \$13,875,000 (net \$12,658,483). Under the terms of the financing, each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to acquire an additional common share at a price of \$0.075 to be adjusted upwards on an equivalent basis for the consolidation of the common shares on the basis of up to 15 common shares for one common share pursuant to customary adjustment provision (and if such consolidation of common shares does not occur prior to the first anniversary of issuance, each warrant will have an exercise price of \$0.10, subject to customary adjustment provisions). The term of the warrant is 36 months, provided however, that if at any time from four months after closing, the daily volume-weighted average trading price of the common shares on the TSX-V exceeds \$0.12 for 25 consecutive trading days and the Company gives written notice to the warrant holders within ten trading days of the end of such period, the expiry date will be reduced to 30 days from the giving of notice.

As at March 31, 2009 and the date of this MD&A, the Company had the following equity instruments outstanding:

Shares outstanding	427,550,209
Shares issuable upon exercise of outstanding warrants	301,651,000
Shares issuable upon the exercise of outstanding stock options	8,120,000
<hr/> Total equity instruments outstanding	<hr/> 737,321,209

The following table summarizes the outstanding warrants by expiry date:

Date of Grant	Number of warrants	Exercise Price	Date of Expiry
Jul 17, 2007	1,850,000	\$0.35	Jul 16, 2009
Jul 10, 2008	22,301,000	\$0.26	Jul 10, 2010
Mar 31, 2009	277,500,000	\$0.075	Mar 31, 2012
	<hr/> 301,651,000		

The following table summarizes the outstanding stock options by expiry date:

Date of Grant	Number of options	Exercise Price	Date of Expiry
Jan 1, 2006	350,000	\$0.95	Jan 1, 2011
Feb 12, 2007	500,000	\$0.30	Feb 12, 2012
Jul 16, 2008	7,270,000	\$0.20	Jul 16, 2013
	<hr/> 8,120,000		

Working capital and bank debt

At March 31, 2009, the Company had positive working capital of \$6,298,052 compared to a working capital deficiency of \$3,099,567 and \$4,761,242 at September 30, 2008 and December 31, 2008 respectively. Components of the working capital deficiency are contained in the following table:

	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008
Cash and cash equivalents	\$6,484,215	\$487,343	\$-
Accounts receivable	1,773,059	1,643,020	2,298,600
Deposits and prepaid expenses	360,769	424,518	484,460
Bank debt	-	(3,350,000)	(2,593,819)
Accounts payable and accrued liabilities	(2,319,991)	(3,966,123)	(3,288,808)
Total working capital (deficiency)	\$6,298,052	\$(4,761,242)	\$(3,099,567)

The significant improvement in the Company's financial position was achieved through the March 31, 2009 private placement as previously described.

At March 31, 2009 the Company had no bank debt. The Company has available a revolving operating demand facility of \$3,780,000 which reduces by \$120,000 per month commencing April 1, 2009 and bears interest at the bank prime rate plus one and one-quarter percent. The above facility is secured by a \$15,000,000 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.

COMMITMENTS AND CONTINGENCIES

At March 31, 2009, the Company had commitments for lease payments for office space expiring in December, 2009 totaling \$211,500 for 2009.

At March 31, 2009, the Company had commitments for rental compressors totaling \$92,709 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 Capital Inc. 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.

RELATED PARTY TRANSACTION

Pursuant to the March 31, 2009 private placement, the Company paid a fee of 1% of the gross proceeds of the financing, or \$138,750, to Nova Bancorp Securities Ltd for the provision of certain advisory services in connection with the private placement. Harry Knutson and Richard Wlodarczak, who are directors of the Company, are also directors, officers, and shareholders of Nova Bancorp Securities Ltd. The transaction was in the normal course of business and has been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

SUMMARY OF QUARTERLY RESULTS

(000s, except per boe amounts)	Three months ended Mar 31, 2009	Three months ended Dec 31, 2008	Three months ended Sep 30, 2008	Three months ended Jun 30, 2008
Petroleum and natural gas sales	\$911	\$1,252	\$2,001	\$1,433
Net loss	9,147	1,361	2,080	92
Funds flow from (used in) operations	(1,379)	(282)	(481)	484
Capital expenditures, net	220	1,380	2,720	(206)
Average daily production (boe/d)	306	316	365	248
Average selling price (\$/boe)	33.05	43.04	59.53	63.44
Operating netback (\$/boe)	2.23	14.49	25.61	34.74
Weighted average shares outstanding	153,134	150,050	71,033	48,138

(000s, except per boe amounts)	Three months ended Mar 31, 2008	Three months ended Dec 31, 2007	Three months ended Sep 30, 2007	Three months ended Jun 30, 2007
Petroleum and natural gas sales	\$798	\$692	\$533	\$542
Net loss	416	498	3,126	430
Funds flow from (used in) operations	10	(62)	(3)	(30)
Capital expenditures, net	(40)	1,390	1,219	718
Average daily production (boe/d)	173	180	154	145
Average selling price (\$/boe)	50.73	41.78	37.69	41.17
Operating netback (\$/boe)	20.87	12.59	13.56	17.76
Weighted average shares outstanding	48,138	48,138	46,813	37,394

CHANGES IN ACCOUNTING POLICIES

Adoption of new accounting policies

a) Goodwill and intangible assets

Effective October 1, 2008 the Company adopted the new standard for Goodwill and Intangible Assets, which states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an 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 did not impact on Company's financial statements.

b) Credit risk and the fair value of financial assets and financial liabilities

On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's financial statements.

Accounting pronouncements

a) International Financial Reporting Standards (“IFRS”)

In January 2006, the CICA Accounting Standards Board (“AcSB”) 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 IFRS by 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

b) Business combinations

In January 2009, the AcSB issued CICA Handbook Section 1582, “Business Combinations” which replaces previous guidance on business combinations. This Section applies to Business Combinations entered into on or after January 1, 2011 with earlier adoption permitted. The Company will monitor and assess the impact of the new Section on its financial statements and whether or not it will elect to adopt the standards in advance of the transition to IFRS.

c) Consolidated financial statements

In January 2009, the AcSB issued CICA Handbook Section 1601, “Consolidations” and 1602 “Non-controlling Interests”. Section 1601 carries forward the requirements of Section 1600, “Consolidated Financial Statements”, other than those relating to non-controlling interests which would be covered in Section 1602. These standards are effective for annual and interim periods beginning on or after January 1, 2011 with earlier adoption permitted. The Company will monitor and assess the impact of the new Sections on its financial statements and whether or not it will elect to adopt the standards in advance of the transition to IFRS.