RED HILL ENERGY INC.
(formerly UGL Enterprises Ltd.)

Consolidated Financial Statements
December 31, 2007 and 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Red Hill Energy Inc. are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgment based on information currently available.

Management has developed and is maintaining a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual financial statements prior to their submission to the Board of Directors for approval.

The consolidated financial statements for the years ended December 31, 2007 and 2006 have been audited by Smythe Ratcliffe LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

"G.A. Armstrong"	*"Ranjeet Sundher"*
G.A. Armstrong	Ranjeet Sundher
CEO	President

Vancouver, British Columbia
April 11, 2008

AUDITORS' REPORT

TO THE SHAREHOLDERS OF RED HILL ENERGY INC.
(formerly UGL Enterprises Ltd.)

We have audited the consolidated balance sheets of Red Hill Energy Inc. (formerly UGL Enterprises Ltd.) as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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 December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
April 11, 2008

7th Floor, Marine Building
355 Burrard Street, Vancouver, BC
Canada V6C 2G8

Fax: 604.688.4675
Telephone: 604.687.1231
Web: SmytheRatcliffe.com

A Member of PKF International

RED HILL ENERGY INC.
(formerly UGL Enterprises Ltd.)
Consolidated Balance Sheets (note 1)
December 31

		2007		2006
				(note 12)
Assets				
Current				
Cash and cash equivalents	$	993,474	$	1,804,484
Accounts receivable		5,336		60,556
Deposits		1,388		3,047
		1,000,198		1,868,087
Reclamation Deposit		2,000		2,000
Property and Equipment (note 4)		107,746		106,583
Mineral Property Interests (note 5)		15,033,375		7,081,378
	$	16,143,319	$	9,058,048
Liabilities				
Current				
Accounts payable and accrued liabilities	$	154,308	$	32,217
Joint venture funding obligation (notes 5(e) and 10)		46,154		0
		200,462		32,217
Shareholders' Equity				
Capital Stock (note 6)		30,416,950		21,199,430
Contributed Surplus (note 6(e))		2,502,567		1,505,366
Deficit		(16,976,660)		(13,678,965)
		15,942,857		9,025,831
	$	16,143,319	$	9,058,048

Commitments (note 9)
Subsequent Event (note 10)

Approved on behalf of the Board:

"G.A. Armstrong"
.... Director
G.A. Armstrong

"Paul McKenzie"
.... Director
Paul McKenzie

RED HILL ENERGY INC.
(formerly UGL Enterprises Ltd.)
Consolidated Statements of Operations and Deficit
Years Ended December 31

	2007	2006
		(note 12)
Expenses		
Foreign exchange loss	$ 835,562	$ 14,238
Consulting fees (note 6(c))	667,654	428,388
Advertising and promotion (note 6(c))	480,184	303,803
Directors' fees (note 6(c))	468,578	227,286
Salaries and benefits (note 6(c))	260,448	230,507
Office	254,375	184,916
Travel	243,584	168,359
Professional fees	98,174	70,346
Stock exchange and shareholder services	35,566	55,159
Insurance	15,900	0
Amortization	33,863	25,416
Loss Before Other Items	(3,393,888)	(1,708,418)
Other Items		
Interest, net	218,688	70,680
Gain on sale of property and equipment	6,789	0
Gain on sale of marketable securities	0	301,604
Write-off of mineral property interests (note 5)	(129,284)	(142,837)
Net Loss and Comprehensive Loss for Year	(3,297,695)	(1,478,971)
Deficit, Beginning of Year	(13,678,965)	(12,199,994)
Deficit, End of Year	$ (16,976,660)	$ (13,678,965)
Loss per Share	$ (0.08)	$ (0.05)
Weighted Average Number of Common Shares Outstanding	43,310,373	31,601,656

See notes to consolidated financial statements.

RED HILL ENERGY INC.
(formerly UGL Enterprises Ltd.)
Consolidated Statements of Cash Flows
Years Ended December 31

	2007	2006
		(note 12)
Operating Activities		
Net loss	$ (3,297,695)	$ (1,478,971)
Items not involving cash		
Stock-based compensation	1,181,050	525,606
Gain on sale of marketable securities	0	(301,604)
Gain on sale of property and equipment	(6,789)	0
Unrealized foreign exchange gain	11,108	0
Amortization	33,863	25,416
Write-off of mineral property interests	129,284	142,837
	(1,949,179)	(1,086,716)
Changes in non-cash working capital		
Accounts receivable	55,220	(50,728)
Deposits	1,659	(1,256)
Accounts payable and accrued liabilities	19,327	(14,076)
	76,206	(66,060)
Cash Used in Operating Activities	(1,872,973)	(1,152,776)
Investing Activities		
Proceeds from secured loan	0	349,410
Proceeds on sale of marketable securities	0	472,104
Proceeds on sale of property and equipment	29,025	0
Purchase of property and equipment	(57,262)	(49,784)
Expenditures on mineral property interests	(7,932,363)	(5,732,435)
Cash Used in Investing Activities	(7,960,600)	(4,960,705)
Financing Activities		
Proceeds from issuance of common shares	9,510,702	5,371,719
Share issuance costs	(477,031)	0
Share subscriptions	0	(32,649)
Cash Provided by Financing Activities	9,033,671	5,339,070
Foreign Exchange Effect on Cash	(11,108)	0
Outflow of Cash and Cash Equivalents	(811,010)	(774,411)
Cash and Cash Equivalents, Beginning of Year	1,804,484	2,578,895
Cash and Cash Equivalents, End of Year	$ 993,474	$ 1,804,484
Supplemental Cash Flow Information		
Interest paid	$ 0	$ 0
Income taxes paid	$ 0	$ 0
Shares issued as finders' fees	$ 0	$ 119,940
Shares issued for property interest	$ 0	$ 300,000
Mineral property expenditures included in accounts payable and joint venture funding obligation	$ 158,368	$ 9,450

See notes to consolidated financial statements.

1. NATURE OF OPERATIONS

The Company is an exploration stage public company. The principal business activity of the Company is the acquisition, exploration and development of mineral property interests, principally in Mongolia. All of the Company's projects in Mongolia are in the initial stages of contract formalization and obtaining necessary government approvals.

At December 31, 2007, the Company had working capital of $799,736 (2006 - $1,835,870) and an accumulated deficit of $16,976,660 (2006 - $13,678,965). The Company will require additional financing or outside participation to meet its planned corporate and administrative expenses for the coming year and to undertake further exploration and subsequent development of its mineral property interests. The Company's ability to continue as a going-concern is dependent on continued financial support from its shareholders, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company's liabilities as they become payable.

These financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These financial statements do not include any adjustments for the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going-concern.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars. The consolidated financial statements include the accounts of the Company and its wholly-owned integrated Mongolian subsidiaries, Chandgana Coal LLC, UGL Enterprises LLC and Red Hill LLC. All intercompany balances and transactions have been eliminated.

(b) Cash and cash equivalents

Cash equivalents consist of highly liquid, short-term investments that are readily convertible to known amounts of cash, with original maturities of three months or less.

(c) Amortization

Amortization of property and equipment is recorded on a declining-balance basis at the following annual rates:

Furniture and equipment	- 20%
Vehicle	- 30%
Computer equipment	- 45%

Additions during the year are amortized at one-half the annual rates.

(d) Mineral property interests

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include acquisition costs and exploration expenditures, net of any recoveries received. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Mineral property interests (Continued)

All capitalized costs are reviewed quarterly, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of an interest exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the interest for an amount greater than the deferred costs, the interest is written down for the impairment in value.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received.

Capitalized costs will be depleted over the useful lives of the interests upon commencement of commercial production or written off if the interests are abandoned or the applicable mineral rights are allowed to lapse.

(e) Revenue recognition

The Company recognizes interest income on its cash and cash equivalents on an accrual basis at the stated rates over the term to maturity.

(f) Stock-based compensation

The Company accounts for stock options granted to directors, employees and consultants using the fair value method. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over the vesting period with a corresponding increase in contributed surplus. Upon exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to capital stock.

(g) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, diluted loss per share is not presented where the effects of various conversions and exercise of options and warrants would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;

(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

(iii) Revenues and expenses, at the average rate of exchange for the year.

Gains and losses arising from the translation of foreign currency are included in the net loss for the year.

(i) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the rates of amortization for property and equipment, the recoverability of mineral property interests, valuation of asset retirement obligations and accrued liabilities, the assumptions used in the determination of the fair value of stock-based compensation and the determination of the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

(j) Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. A valuation allowance is provided to reduce the asset to the net amount management estimates to be more likely than not to be realized.

(k) Asset retirement obligations

The Company recognizes an estimate of the liability associated with an asset retirement obligation (“ARO”) in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount will be depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion will be charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Adoption of new accounting policies

(i) Financial instruments

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3855, "Financial Instruments - Recognition and Measurement", which established standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The Company classifies its debt and investments into held-to-maturity, trading or available-for-sale categories. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet based on the contractual maturity date and are stated at amortized cost. Investments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings.

Debt and investments not classified as held-to-maturity or as trading are classified as available-for-sale and carried at fair value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders' equity.

The adoption of this section had no material impact on the Company's consolidated financial statements.

(ii) Comprehensive Income

Effective January 1, 2007, the Company adopted CICA Handbook Section 1530, "Comprehensive Income", which established standards for presentation and disclosure of comprehensive income. Comprehensive income is the overall change in net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. The historical make up of net income has not changed. Other comprehensive income includes gains or losses, which generally accepted accounting principles requires to be recognized in a period but excluded from net income for that period.

The adoption of this section had no material impact on the Company's consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Future accounting changes

(i) Capital disclosures

In February 2007, the CICA issued Handbook Section 1535, “Capital Disclosures”, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity’s objectives, policies and procedures for managing capital. This new section is effective for years beginning on or after October 1, 2007. The Company is in the process of assessing the impact of this new section on its consolidated financial statements.

(ii) Financial instruments

In February 2007, the CICA issued two new standards, Section 3862, “Financial Instruments Disclosures”, and Section 3863, “Financial Instruments Presentation”. These sections will replace the existing Section 3861, “Financial Instruments Disclosure and Presentation”. Section 3862 provides users with information to evaluate the significance of the financial instruments of the entity’s financial position and performances, nature and extent of risks arising from financial instrument, and how the entity manages those risks. Section 3863 deals with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The new sections are effective for years beginning on or after October 1, 2007. The Company is in the process of assessing the impact of these new sections on its consolidated financial statements.

(iii) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. FINANCIAL INSTRUMENTS

(a) Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and joint venture funding obligation approximate their fair values because of the short-term maturity of these financial instruments.

3. FINANCIAL INSTRUMENTS (Continued)

(b) Credit risk

A financial instrument that potentially subjects the Company to a concentration of credit risk is its cash. The Company has placed the majority of its cash with a major Canadian commercial bank. The Company is also exposed to credit risk with respect to its accounts receivable, which consists of an amount receivable from a Mongolian company.

(c) Currency risk

The Company's investments in mineral properties require it to make expenditures in Mongolian and US dollars in relation to its exploration activities in Mongolia. The Company does not utilize derivatives or other techniques to manage foreign currency risks.

4. PROPERTY AND EQUIPMENT

			2007			
		Cost		Accumulated Amortization		Net
Furniture and equipment	$	91,460	$	33,293	$	58,167
Vehicle		46,262		6,940		39,322
Computer equipment		20,257		10,000		10,257
	$	157,979	$	50,233	$	107,746

			2006			
		Cost		Accumulated Amortization		Net
Furniture and equipment	$	82,981	$	19,849	$	63,132
Vehicle		43,463		13,042		30,421
Computer equipment		16,290		3,260		13,030
	$	142,734	$	36,151	$	106,583

5. MINERAL PROPERTY INTERESTS

The Company's investment in and expenditures on mineral property interests is comprised of the following:

	Ulaan Ovoo (note 5(a))	Chandgana Tal (note 5(b))	Argalant (note 5(d))	Uranium (note 5(e))	Naranbulag (note 5(f))	Khondloy (note 5(g))	Gold Ram (note 5(h))	Other (notes 5(i), (j) and (k))	Total
Balance, December 31, 2005	$ 247,389	$ 0	$ 291,236	$ 35,012	$ 200,744	$ 108,822	$ 36,349	$ 142,838	$ 1,062,390
Acquisition Costs									
Cash payments	3,917,623	454,334	0	0	0	0	0	0	4,371,957
Common shares	59,940	360,000	0	0	0	0	0	0	419,940
	3,977,563	814,334	0	0	0	0	0	0	4,791,897
Deferred Exploration Costs									
Assaying	30,307	0	8,861	6,147	0	0	0	0	45,315
Drilling	550,163	0	0	462,940	0	0	0	0	1,013,103
Geological consulting	429,263	0	0	81,180	0	0	0	0	510,443
Licenses and tax	39,460	1,464	0	3,896	8,543	12,537	5,597	0	71,497
Option exploration funding	0	0	0	(775,366)	0	0	0	0	(775,366)
Other fieldwork	34,101	12,398	3,115	133,767	0	0	0	0	183,381
I/P resistivity survey	0	0	19,605	210,412	0	0	0	0	230,017
Transportation and shipping	57,843	0	0	33,695	0	0	0	0	91,538
	1,141,137	13,862	31,581	156,671	8,543	12,537	5,597	0	1,369,928
Write-offs	0	0	0	0	0	0	0	(142,837)	(142,837)
Balance, December 31, 2006	$ 5,366,089	$ 828,196	$ 322,817	$ 191,683	$ 209,287	$ 121,359	$ 41,946	$ 1	$ 7,081,378

5. MINERAL PROPERTY INTERESTS (Continued)

	Ulaan Ovoo (note 5(a))	Chandgana Tal (note 5(b))	Chandgana Khavtgai (note 5(c))	Argalant (note 5(d))	Uranium * (note 5(e))	Naranbulag (note 5(f))	Khondloy (note 5(g))	Gold Ram (note 5(h))	Other (notes 5(i), (j) and (k))	Total
Balance, December 31, 2006	$ 5,366,089	$ 828,196	$ 0	$ 322,817	$ 191,683	$ 209,287	$ 121,359	$ 41,946	$ 1	$ 7,081,378
Acquisition Costs										
Cash payments	6,327,234	0	589,053	0	0	0	0	0	0	6,916,287
Joint venture funding obligation	0	0	0	0	46,154	0	0	0	0	46,154
	6,327,234	0	589,053	0	46,154	0	0	0	0	6,962,441
Deferred Exploration Costs										
Assaying	26,816	59,720	19,610	0	614	0	0	0	0	106,760
Drilling	0	189,725	272,923	0	486,277	0	0	0	0	948,925
Geological consulting	99,496	102,059	94,248	0	98,429	0	0	0	0	394,232
Licenses and tax	89,788	4,668	221	3,074	76,014	1,681	28,463	6,246	0	210,155
Option exploration funding	0	0	0	0	(930,024)	0	0	0	0	(930,024)
Other fieldwork	43,778	80,458	77,893	0	171,955	0	0	0	0	374,084
Transportation and shipping	3,535	6,093	1,369	0	1,832	0	0	1,879	0	14,708
	263,413	442,723	466,264	3,074	(94,903)	1,681	28,463	8,125	0	1,118,840
Write-offs	0	0	0	0	(129,284)	0	0	0	0	(129,284)
Balance, December 31, 2007	$11,956,736	$1,270,919	$1,055,317	$ 325,891	$ 13,650	$ 210,968	$ 149,822	$ 50,071	$ 1	$15,033,375

***** Uranium property includes Naidal, Bagnaran and Maikhan (written-off in year) properties.

5. MINERAL PROPERTY INTERESTS (Continued)

(a) Ulaan Ovoo Property

On November 15, 2005, the Company entered into a letter of intent with Ochir LLC ("Ochir") that sets out the terms to acquire a 100% interest in the property known as Ulaan Ovoo coal project. The Ulaan Ovoo Property is located in Selenge Province, Mongolia. It is held by the vendor under a transferable 55-year mining license with a 45-year option for extension granted by the government of Mongolia. The purchase price for the 100% interest, together with all equipment, buildings and other facilities, assembled and constructed at the property is US $9,600,000. The purchase price will be paid as follows:

- US $500,000 (paid) within 14 days of execution of the letter of intent, comprised of a US $200,000 non-refundable deposit and US $300,000 secured loan, which will revert to a payment upon completion of a NI 43-101 technical report and receipt of all necessary regulatory approvals. The remaining US $9,100,000 shall be paid as follows:

  (i) US $500,000 on or before March 1, 2006 (paid);
  (ii) US $500,000 on or before May 1, 2006 (paid);
  (iii) US $500,000 on or before July 1, 2006 (paid);
  (iv) US $1,500,000 on or before November 1, 2006; and
  (v) US $6,100,000 on or before November 1, 2007.

A finder's fee of 75,000 common shares is payable to a third party by the Company in respect of the Ulaan Ovoo purchase.

On May 10, 2006, the Company agreed to amend the purchase agreement as follows:

- Ochir shall incorporate and register with the relevant Mongolian authorities a Mongolian-Canadian Joint Venture Company ("JVC") in Mongolia and transfer into the JVC the Ulaan Ovoo mining and exploration licenses. The initial shareholders of the JVC shall be Ochir at 51% and the Company at 49% of the outstanding equity of the JVC. In consideration for the transfer of the licenses to the JVC, an accelerated payment of US $500,000 (paid) shall be paid by the Company to Ochir within 30 days of the successful transfer of the licenses. The remaining US $1,000,000 shall remain due on or before November 1, 2006. Within 30 days of the US $1,000,000 payment (paid), Ochir shall transfer to the Company its 51% interest in the JVC. The final payment of US $6,100,000 (paid) was due November 1, 2007.

On September 25, 2006, the Company agreed to further amend the purchase agreement as follows:

- On signing the amendment, US $750,000 (paid) shall be paid and Ochir shall transfer to the Company its 51% interest in the JVC. A payment of US $750,000 shall be due on or before April 1, 2007. The final payment of US $5,600,000 shall be due on or before November 1, 2007.

As at December 31, 2007, the Company had made payments totalling US $9,600,000.

5. MINERAL PROPERTY INTERESTS (Continued)

(a) Ulaan Ovoo Property (Continued)

On November 15, 2006, the Company entered into an agreement with a private Mongolian corporation (the "Vendor") to purchase a 100% title and interest in five mineral licenses including licenses that are contiguous and entirely surrounding the Ulaan Ovoo Property. The aggregate purchase price for the licenses is US $400,000, with US $50,000 being payable within 10 days of signing the agreement and the balance of the payment due upon transfer of ownership title to the Company (paid). Under the terms of the agreement the Vendor will retain a 2% net smelter return royalty on the five newly acquired licenses. A finder's fee of 58,500 shares was issued to a third party on the acquisition. The Vendor owes the Company US $50,000, which amount has been included in the cost of the properties as it became uncollectible.

(b) Chandgana Tal Property, Mongolia

The Company entered into an agreement on March 29, 2006, to acquire a 100% interest in a coal exploration property known as Chandgana. The property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 kilometres east of Ulaan Bataar. Under the terms of the agreement, the Company paid a total of US $400,000, plus 250,000 common shares of the Company at a deemed price of $1.20 per share. The Company paid a finder's fee of 50,000 common shares at a deemed price of $1.20 per share to a third party. The purchase price was paid as follows:

(i) The issuance of 250,000 common shares of the Company within 3 days of the date that the agreement was accepted and approved by the TSX Venture Exchange;
(ii) US $50,000 within 21 days of signing the letter agreement;
(iii) US $75,000 on or before July 1, 2006; and
(iv) US $275,000 on or before October 1, 2006.

During the year ended December 31, 2006, payments totalling US $400,000 were made, 250,000 shares were issued to the vendor, and 50,000 shares were issued as a finder's fee to a third party.

(c) Chandgana Khavtgai Property, Mongolia

The Company entered into an agreement to acquire a 100% interest in a coal exploration property known as Chandgana Khavtgai. The property consists of one license, and is located in the northeast part of the Nyalga coal basin, approximately 290 kilometres east of Ulaan Bataar. The purchase price was paid as follows:

(i) US $280,000 within seven days of signing the letter agreement; and
(ii) US $290,000 on or before the date that is 90 days from the date of signing the letter agreement.

During the year ended December 31, 2007, payments totalling US $570,000 were made.

5. MINERAL PROPERTY INTERESTS (Continued)

(d) Argalant Property

On October 6, 2005, and amended on August 13, 2006, the Company entered into a letter of intent with Planet Exploration Ltd. (“Planet”), which gives the Company an option to earn a 60% interest, and a second option to earn an additional 20% interest in Planet’s 100% owned Argalant Property. Under the terms of the agreement, the Company paid Planet US $100,000 and will incur an aggregate of US $1,500,000 of exploration expenditures on Argalant within three years. Within a six-month period of completing the US $1,500,000 in expenditures the Company is entitled to, at its discretion, to pay Planet US $1,000,000 for an additional 20% interest in the property. If the Company does not exercise its second option the two companies will then proceed forward on a 60%/40% basis. If the Company does exercise its second option the two companies will proceed forward on an 80%/20% basis.

(e) Mongolia Uranium Option Agreement

On June 14, 2005, the Company entered into a Letter Agreement with Maple Minerals Corp. (now known as Mega Uranium Ltd. (“Mega”). The agreement covers the Company’s current uranium ground holdings in Mongolia, totalling approximately 339,000 hectares, which were then comprised of 18 granted exploration licenses and an option to earn 100% of two exploration licenses in the Nergui Project. In addition, Mega and the Company will cooperate during the term of the agreement in the generation and acquisition of other uranium exploration targets in Mongolia. The Company’s gold/copper property holdings are not included in this agreement. Upon completion of the due diligence review by Mega, a definitive formal option agreement will be executed. The formal option agreement will grant Mega the exclusive option to earn a 50% interest in the Company’s uranium properties through the expenditure of US $1,500,000 over three years, with a minimum of US $350,000 expended within the first year. Mega was required to issue the Company 50,000 common shares (received) in its capital within three business days of the date that the executed formal agreement was accepted and approved by the TSX Venture Exchange.

Upon Mega earning a 50% interest, a joint venture will be formed with the parties contributing pro-rata. Mega will also have the option to increase its interest to 60% by expending a further US $2,000,000 over the subsequent three years.

5. MINERAL PROPERTY INTERESTS (Continued)

(e) Mongolia Uranium Option Agreement (Continued)

During the year ended December 31, 2007, Mega completed the earn-in requirement of expending US $1,500,000 on uranium exploration in Mongolia. Mega has earned a 50% interest in all of the Company's uranium claims. Mega has declined to exercise its option to expend an additional US $2,000,000 over three years to exercise its interests to 60%. A joint venture has been formed and all future uranium exploration will be funded on a 50/50 pro-rata basis. The Company's net interest in the joint venture as at December 31, 2007, is $13,650. Mega has pre-funded the joint venture by the amount of $46,154. Subsequent to December 31, 2007, a new Joint Venture LLC was incorporated in Mongolia for the purposes of this joint venture. All the uranium licenses will be transferred to the new Joint Venture LLC (see note 10).

Naidal Property

The Company acquired a 100% interest in a property known as Naidal Uranium Project located in the province of Tuv in northeast Mongolia. The acquisition cost for the Naidal project (39,810 hectares) was US $5,000 and 100,000 shares at a deemed price of $0.40 per share (issued).

Maikhan Property

The Company acquired a 100% interest in a property known as Maikhan. The Maikhan Property was acquired by payment of US $40,000 and is located in the Khentii and Dornod provinces of Mongolia.

During the year ended December 31, 2007, the Company wrote-off its investment in the Maikhan property.

Baganaran Property

The Company acquired a 100% interest in a property known as Baganaran by payment of US $30,000. The Baganaran Property is located in the Darnogovi Province of Mongolia.

(f) Naranbulag Property, Mongolia

The Company purchased a 100% interest in the Naranbulag Property (1,428 hectares) located in Zavkhan Province. The Company agreed to purchase the license from the vendor for US $26,000 and Cdn $152,000 payable through the issuance of 200,000 shares at a deemed price of $0.76 per share (paid and issued).

(g) Khondloy Property, Mongolia

The Company has a 100% interest in the Khondloy Property (9,078 hectares) located in Bayanhonger Province, Mongolia, for US $25,000.

5. MINERAL PROPERTY INTERESTS (Continued)

(h) Gold Ram Property, Mongolia

The Company holds a 100% interest in the Gold Ram Property in South Gobi, Mongolia. The Gold Ram project (15,533 hectares) is located in the western Gobi region of Mongolia.

(i) Banbury Property, BC, Canada

The Company owns a 100% undivided interest in six mineral claims near Hedley, BC, described as the Banbury Property. The interest is recorded at a nominal value of $1.

(j) Bayan Undur Property, Mongolia

The Company acquired a 100% interest in a property known as Bayan Undur (28,830 hectares) located in Bulgan sum of Khovd Province.

During the year ended December 31, 2006, the Company wrote-off its investment in the Bayan Undur Property.

(k) Shavar Uul Property, Mongolia

The Company acquired a 100% interest in a property known as Shavar Uul (2,933 hectares) located in the area of Erdene sum of Gobi Altai Province.

During the year ended December 31, 2006, the Company wrote-off its investment in the Shavar Uul Property.

(l) Realization of assets

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

(m) Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

5. MINERAL PROPERTY INTERESTS (Continued)

(n) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

6. CAPITAL STOCK

(a) Authorized
Unlimited common shares without par value

(b) Issued

	2007		2006	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	35,918,374	$ 21,199,430	26,062,937	$ 15,334,193
Issued during year				
Private placement	9,930,000	8,430,000	3,300,000	2,475,000
Share issuance costs	0	(477,031)	0	(78,750)
Share subscription	0	0	163,243	32,649
Property payment (note 5(b))	0	0	250,000	300,000
Shares issued as finder's fees for mineral property interests	0	0	183,500	119,940
Exercise of stock options	180,000	83,150	175,000	82,000
Exercise of warrants	1,431,472	997,552	5,783,694	2,860,821
Contributed surplus on exercise of stock options	0	183,849	0	73,577
Balance, end of year	47,459,846	$ 30,416,950	35,918,374	$ 21,199,430

6. CAPITAL STOCK (Continued)

(b) Issued (Continued)

(i) On April 5, 2007, the Company closed a $6,000,000 private placement. Under the placement, the Company issued 7,500,000 units; each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $1 per share for the first year, and $1.25 for the second year. A finder's fee of $390,150, equal to 7.5% of the proceeds placed, was paid on a portion of the placement.

(ii) On June 8, 2007, the Company closed a $2,430,000 private placement. Under the placement, the Company issued 2,430,000 units; each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $1.25 per share. A finder's fee of $31,500, equal to 6% of the proceeds placed, was paid on a portion of the placement.

(iii) On December 12, 2006, the Company closed a $2,475,000 private placement. Under the private placement, the Company issued 3,300,000 units; each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $1 per share for the first year, and $1.25 for the second year. A finder's fee of $78,750, equal to 7.5% of the proceeds placed, was paid on a portion of the placement.

(c) Share purchase options

The maximum number of common shares issuable under the terms of the Company's stock option plan shall not exceed 10% of the issued and outstanding shares of the Company at the time the stock options are granted, less the number of shares, if any, subject to prior stock options issued. As at December 31, 2007, the Company has 1,015,985 stock options available for issuance.

Details of the status of the Company's stock option plans as at December 31, 2007 and 2006 and changes during the respective years are as follows:

	2007			2006		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Fair Value	Number of Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding, beginning of year	2,595,000	$ 0.53	$ 0.57	1,840,000	$ 0.51	$ 0.50
Granted	1,540,000	$ 0.98	$ 0.98	930,000	$ 0.60	$ 0.68
Exercised	(180,000)	$ 0.46	$ 0.44	(175,000)	$ 0.43	$ 0.45
Forfeited/expired	(225,000)	$ 0.46	$ 0.50	0	$ 0.00	$ 0.00
Outstanding, end of year	3,730,000	$ 0.74	$ 0.76	2,595,000	$ 0.53	$ 0.57

6. CAPITAL STOCK (Continued)

(c) Share purchase options (Continued)

Stock-based compensation has been included in the statements of operations and deficit as follows:

	2007	**2006**
Consulting fees	$ 469,955	$ 252,030
Advertising and promotion	160,065	0
Directors' fees	445,080	227,286
Salaries and benefits	105,950	46,290
	$ 1,181,050	$ 525,606

As at December 31, 2007 and 2006, the following director, employee and consultant stock options were outstanding:

Expiry Date	Fair Value at Grant Date	Exercise Price	Number of Options 2007	Number of Options 2006	Exercisable Options 2007	Exercisable Options 2006
January 21, 2007	$ 0.45	$ 0.40	0	200,000	0	200,000
November 24, 2008	$ 0.40	$ 0.48	335,000	365,000	335,000	365,000
June 10, 2009	$ 0.43	$ 0.50	600,000	650,000	600,000	650,000
January 29, 2010	$ 0.78	$ 0.78	45,000	0	33,750	0
March 1, 2010	$ 0.70	$ 0.60	425,000	500,000	425,000	500,000
December 24, 2010	$ 0.95	$ 0.95	50,000	0	12,500	0
January 31, 2011	$ 0.50	$ 0.45	575,000	600,000	575,000	600,000
February 9, 2011	$ 0.68	$ 0.65	100,000	100,000	100,000	100,000
March 15, 2011	$ 1.17	$ 1.20	50,000	50,000	50,000	50,000
April 3, 2011	$ 1.38	$ 1.10	130,000	130,000	130,000	130,000
April 5, 2012	$ 0.92	$ 0.92	850,000	0	850,000	0
July 12, 2012	$ 1.20	$ 1.20	50,000	0	25,000	0
October 30, 2012	$ 1.18	$ 1.18	520,000	0	520,000	0
Balance, end of year			3,730,000	2,595,000	3,656,250	2,595,000
Weighted average outstanding life of options			3.05 years	2.89 years	3.05 years	2.89 years

On January 29, 2007, the Company granted 45,000 options to consultants with an average exercise price of $0.78 and an expiry date of January 29, 2010, of which 25% vested immediately, and the remaining vesting 25% each quarter thereafter. As at December 31, 2007, 33,750 options vested and $15,728 was charged to stock-based compensation.

6. **CAPITAL STOCK** (Continued)

(c) Share purchase options (Continued)

On July 12, 2007, the Company granted 50,000 options to consultants with an average exercise price of $1.20 and an expiry date of July 12, 2012, of which 25% vested immediately, and the remaining vesting 25% each quarter thereafter. As at December 31, 2007, 25,000 options vested and $24,625 was charged to stock-based compensation.

On December 24, 2007, the Company granted 50,000 options to consultants with an average exercise price of $0.95 and an expiry date of December 24, 2010, of which 25% vested immediately, and the remaining vesting 25% each quarter thereafter. As at December 31, 2007, 12,500 options vested and $6,163 was charged to stock-based compensation.

The Company applies the fair value method using the Black-Scholes option pricing model to account for options granted to employees, directors and non-employees.

During the year ended December 31, 2007, the Company granted a total of 1,540,000 (2006 - 930,000) stock options and, as a result, compensation expense of $1,181,050 (2006 - $525,606) was recognized in the accounts of the Company. The Black-Scholes option pricing model was calculated based on the following assumptions:

	2007	**2006**
Expected life (years)	4.94	5
Interest rate	4.16%	4.07%
Volatility	108.69%	105.54%
Dividend yield	0%	0%

(d) Warrants outstanding

	2007		**2006**	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	3,006,472	$ 0.85	7,140,166	$ 0.53
Issued	4,965,000	$ 1.06	1,650,000	$ 1.00
Expired	(12,500)	$ 0.60	0	$ 0.00
Exercised	(1,431,472)	$ 0.70	(5,783,694)	$ 0.49
Outstanding and exercisable, end of year	6,527,500	$ 1.11	3,006,472	$ 0.85

6. CAPITAL STOCK (Continued)

(d) Warrants outstanding (Continued)

The following warrants are outstanding at December 31, 2007 and 2006:

Expiry Date	Exercise Price	Number of Warrants **2007**	**2006**
February 4, 2007	$ 0.60	0	665,000
March 8, 2007	$ 0.60	0	562
March 31, 2007	$ 0.75	0	633,334
April 8, 2007	$ 0.75	0	57,576
December 12, 2007/2008 (note 6(b)(iii))	$ 1.00/$ 1.25	1,562,500	1,650,000
May 31, 2008/2009 (note 6(b)(ii))	$ 1.25	1,215,000	0
April 3, 2008/2009 (note 6(b)(i))	$ 1.00/$1.25	3,750,000	0
Balance, end of year		6,527,500	3,006,472
Weighted average life of warrants outstanding		1.21 years	1.15 years

(e) Contributed surplus

	2007	**2006**
Balance, beginning of year	$ 1,505,366	$ 1,053,337
Options exercised	(183,849)	(73,577)
Stock-based compensation (note 6(c))	1,181,050	525,606
Balance, end of year	$ 2,502,567	$ 1,505,366

7. INCOME TAX LOSSES

The Company has operating losses that may be carried forward to apply against future years' income for Canadian income tax purposes. The tax effect has not been recorded in these financial statements. The losses expire as follows:

Available to	Amount
2008	$ 90,000
2009	56,000
2010	194,000
2014	395,000
2015	688,000
2026	615,000
2027	1,873,000
	$ 3,911,000

7. INCOME TAX LOSSES (Continued)

The components of the future income tax assets after applying enacted corporate rates are as follows:

	2007	2006
Future income tax assets		
Non-capital loss carry-forwards for Canadian tax purposes	$ 992,740	$ 714,814
Tax value over book value of capital assets	44,096	56,040
Tax value over book value of share issue costs	107,219	21,496
Tax value over book value of mineral property interests	1,727,979	2,246,444
	2,872,034	3,038,794
Valuation allowance	(2,872,034)	(3,038,794)
	$ 0	$ 0

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

Significant components of the provision for income taxes are as follows:

	2007	2006
Income tax benefits at statutory rates	$ (1,125,200)	$ (504,600)
Stock-based compensation	403,000	179,300
Non-taxable portion of gain on sale of marketable securities	0	(51,500)
Temporary differences	86,000	52,400
Unrecognized losses	468,200	324,400
Tax rate variation	168,000	0
Income tax expense	$ 0	$ 0

8. RELATED PARTY TRANSACTIONS

The Company has:

(a) paid accounting fees of $12,000 (2006 - $12,000), management consulting fees of $39,000 (2006 - $22,500) and rent of $18,495 (2006 - $18,000) to a company controlled by a common director;

(b) incurred legal fees of $552 (2006 - $19,513) with a law firm in which a director is a principal; and

(c) incurred legal fees of $29,445 (2006 - $nil) with a law firm in which an officer is a principal.

The above charges are measured at the exchange amount, which is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

9. COMMITMENTS

(a) The Company has entered into an investor relations services contract with the Richmond Club Corp. expiring in December 2008, with a monthly fee of $1,450.

(b) The Company has entered into an investor relations services contract with Mau Capital Management expiring in July 2008, with a monthly fee of $2,500 per month.

10. SUBSEQUENT EVENT

On March 10, 2008, a new joint venture was incorporated in Mongolia named Redhill Mega Uranium LLC ("LLC"). The LLC is owned 50% by the Company and 50% by Mega. The Company is in the process of transferring all the uranium licences to the LLC. All future uranium exploration activity in Mongolia will be performed by the LLC in accordance with the joint venture agreement.

11. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration of mineral properties. Geographic information is as follows:

	2007	2006
Assets		
Canada	$ 1,009,082	$ 1,927,304
Mongolia	15,134,237	7,130,744
	$ 16,143,319	$ 9,058,048

12. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's presentation.