Red Hill Energy Inc.

(An Exploration Stage Company)
Consolidated Financial Statements
June 30, 2009
(Unaudited, See Advisory to Reader)

Red Hill Energy Inc.

#2080 - 777 Hornby Street, Vancouver, BC, V6Z 1S4
Tel: (604) 683-7361 Fax: (604) 662-3231

Advisory to Reader

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an auditor.

Red Hill Energy Inc.
(An Exploration Stage Company)
Consolidated Balance Sheet
(Unaudited, See Advisory to Reader)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 432,941	$ 1,389,333
Accounts receivable and accrued interest	5,347	20,016
Prepaid expenses and deposits	4,850	5,462
	443,138	1,414,811
Property and equipment, net (Note 6)	79,716	82,922
Reclamation Deposit	2,000	2,000
Mineral properties (Note 7)	15,435,397	15,118,140
	$ 15,960,251	$ 16,617,873
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,859	$ 85,517
	4,859	85,517
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	33,002,987	33,002,987
Contributed Surplus (Note 8(e))	4,001,147	2,905,947
Deficit	(21,048,742)	(19,376,578)
	15,955,392	16,532,356
	$ 15,960,251	$ 16,617,873

Approved by the Board:

" G. Arnold Armstrong "
Director

" Ranjeet Sundher "
Director

See notes to consolidated financial statements.

Red Hill Energy Inc.
(An Exploration Stage Company)
Consolidated Statement of Income and Deficit
(Unaudited, See Advisory to Reader)

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
General and Administrative Expenses				
Amortization	**$ 6,168**	$ 7,079	**$ 11,556**	$ 13,977
Consulting and management fees (Note 8 (c))	**70,033**	66,335	**464,562**	120,083
Director fees (Note 8 (c))	**-**	-	**666,900**	7,628
Professional fees	**29,179**	22,791	**34,370**	27,205
Stock exchange and shareholder services	**13,575**	31,893	**27,079**	46,529
Advertising and promotion (Note 8(c))	**20,114**	61,763	**110,618**	131,163
Office and administration	**35,608**	23,123	**66,801**	74,038
Travel and accommodation	**40,951**	140,730	**78,616**	166,638
Foreign exchange loss (gain)	**41,456**	1,040	**25,260**	5,585
Insurance	**-**	2,842	**-**	3,902
Salary and benefits (Note 8(c))	**29,699**	40,866	**177,340**	86,012
Loss before other items	**286,783**	398,462	**1,663,102**	682,760
Other items				
Interest, net	**(313)**	295	**2,004**	5,475
Mineral property written-off	**(1,282)**	(308)	**(11,066)**	(115,212)
Net loss and comprehensive loss for period	**(288,378)**	(398,475)	**(1,672,164)**	(792,497)
Deficit - beginning of period	**(20,760,364)**	(17,370,682)	**(19,376,578)**	(16,976,660)
Deficit - end of period	**$(21,048,742)**	$ (17,769,157)	**$(21,048,742)**	$ (17,769,157)
Earnings (Loss) Per Share	**$ (0.01)**	$ (0.01)	**$ (0.03)**	$ (0.02)
Weighted Average Number of Shares Outstanding	**51,509,873**	47,459,869	**51,509,873**	47,459,857

See notes to consolidated financial statements.

Red Hill Energy Inc.
(An Exploration Stage Company)
Consolidated Statement of Cash Flows
(Unaudited, See Advisory to Reader)

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Cash flows from operating activities				
Net loss	**$ (288,378)**	$ (398,475)	**$ (1,672,164)**	$ (792,497)
Adjustments non-cash items:				
Stock based compensation	**-**	18,475	**1,095,200**	42,193
Mineral properties written off	**1,282**	308	**11,066**	115,212
Amortization	**6,168**	7,079	**11,556**	13,977
	(280,928)	(372,613)	**(554,342)**	(621,115)
Changes in non-cash working capital				
Accounts receivable	**(1,579)**	(759)	**14,669**	(3,561)
Prepaid expenses and deposits	**-**	9	**612**	(40)
Accounts payable and accrued liabilities	**(51,162)**	(25,492)	**(80,658)**	(137,512)
	(333,669)	(398,855)	**(619,719)**	(762,228)
Cash flows from investing activities				
Purchase of capital assets	**(8,349)**	(2,067)	**(8,349)**	(2,724)
Expenditures on mineral properties	**(87,296)**	(139,609)	**(328,324)**	(316,496)
	(95,645)	(141,676)	**(336,673)**	(319,220)
Cash flows from financing activities				
Shares issued	**-**	96	**-**	96
Prepaid share subscription	**-**	1,611,355	**-**	1,611,355
	-	1,611,451	-	1,611,451
Foreign Exchange Effect on Cash	**-**	-	**-**	-
Net increase (decrease) in cash	**(429,314)**	1,070,920	**(956,392)**	530,003
Cash and cash equivalents - beginning of period	**862,255**	452,557	**1,389,333**	993,474
Cash and cash equivalents - end of period	**$ 432,941**	$ 1,523,477	**$ 432,941**	$ 1,523,477

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 properties, principally in Mongolia.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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 and non compliance with regulatory requirements.

At June 30, 2009, the Company had working capital of $438,279 (2008 - $1,509,119) and an accumulated deficit of $21,048,742 (2008 - $17,769,157). 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) Interim financial statements

The interim financial statements follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2008, however, they do not include all the information and disclosures required by the annual financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results for the entire year. The information contained in the interim financial statements should be read in conjunction with the Company's latest annual financial statements and notes thereto.

2. Significant Accounting Policies (continued)

(b) Basis of presentation

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

The Company's interest in a joint venture is included in the accounts of the Company using the proportionate consolidation method whereby a venturer's pro rata share of each of the assets, liabilities, revenues and expenses that are subject to joint control is combined on a line-by-line basis with similar items in the venturer's financial statements. This method of accounting differs from full consolidation in that only the venturer's portion of all assets, liabilities, revenues and expenses is taken up rather than the full amount, offset by non-controlling interests.

(c) Investment in and expenditures on resource properties

The Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and the development of mineral claims, net of all incidental revenues received. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on estimated recoverable reserves. The aggregate costs related to abandoned mineral claims will be charged to operations at the time of abandonment. General and administrative expenditures that are not directly related to specific mineral properties are expensed in the period in which they are incurred.

(d) 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 this translation of foreign currency are included in the determination of net loss for the year.

(e) Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share has not been presented separately as the outstanding stock options are anti-dilutive.

2. Significant Accounting Policies (continued)

(f) 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 amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts for revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

(g) 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 period that the temporary differences are expected to reverse. A valuation allowance is provided to reduce the asset to the net amount management estimates to be reasonable to carry as a future income tax asset.

(h) 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.

(i) Stock-based compensation plans

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.

2. Significant Accounting Policies (continued)

(j) 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.
Leasehold improvements are amortized on a straight-line basis of the term of the 5 year lease.

(k) Cash and cash equivalents
Cash and cash equivalents consist of cash and short-term deposits with original maturity of less than three months.

(l) 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.

(m) Adoption of new accounting policies
(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.
(ii) Financial instruments
In February 2007, the CICA issued two new standards, Section 3862, "Financial Instruments Disclosures", and Section 3863, "Financial Instruments 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 instruments, 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.
(iii) Going-concern
In June 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation", which requires management to make an assessment of the Company's ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going-concern.
The Company has included disclosures recommended by these new Handbook sections.

2. Significant Accounting Policies (continued)

(n) Future accounting changes

(i) 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 GAAP 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 Canadian GAAP. 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. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	June 30, **2009**	December 31, 2008
Bank - Canada	$ **82,592**	$ 366,869
Bank - Mongolia	**50,349**	29,844
Banker's Acceptance with average interest rate of 1.05%	**300,000**	992,620
(December 31, 2008 - 3.05%)	$ **432,941**	$ 1,389,333

4. Financial Instrument Risk Exposure and Risk Management

(a) Market risk

The significant market risks to which the Company is exposed are foreign exchange risk, interest rate risk, and commodity price risk. These are discussed further below:

(b) Fair value

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments. The fair value of the long-term investment is disclosed in note 7.

(c) Credit risk

A financial instrument that potentially subjects the Company to concentration of credit risk is its cash. The Company has placed the majority of its cash with a major Canadian commercial bank.

4. Financial Instrument Risk Exposure and Risk Management (continued)

(d) Currency risk

The Company translates the results of US transactions into Canadian currency using rates approximating the average exchange rate for the year. The exchange rate may vary from time to time. The Company translates Mongolian transactions into Canadian currency at rates approximating the average exchange rate for the year. Management believes that the currency risk is minimal for Mongolian dollars as the risk is mitigated by the fact that the majority of the Mongolian transactions are completed in US currency.

(e) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2009, the Company had a cash and cash equivalents balance of $432,941 (2008 - $1,523,477) to settle current liabilities of $4,859 (2008 - $24,683). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(f) Commodity price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, particularly as they relate to coal, uranium, base and precious metals, individual equity movements, and the stock market in general to determine the appropriate course of action to be taken by the Company.

(g) Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably posssible" over a one year period:

(i) Interest rate risk is minimal as cash and cash equivalents include investment-grade short-term deposit certificates with fixed interest rates. In addition, the Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

(ii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depends upon the world price of coal, and to a lesser degree based on current exploration projects uranium, base metal and precious metal prices. These commodity prices have fluctuated widely in recent years. There is no assurance that, even as commercial quantities of coal may be produced in the future, a profitable market will exist for them. A decline in the market price of these commodities may also require the Company to reduce its mineral resources, which could have a material and adverse effect on the Company's value. As of June 30, 2009, the Company was not a producer of coal or other commodities. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

5. Capital Management

The Company considers its capital structure to consist of share capital, stock options and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended June 30, 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

6. Property and equipment

			2009	2008
	Cost	**Accumulated Amortization**	**Net**	Net
Furniture and Equipment	$ **92,565**	$ **49,635**	$ **42,930**	$ 46,533
Leasehold Improvements	**7,244**	**724**	**6,520**	-
Vehicle **46,262**	**22,864**	**23,398**	27,527	
Computer Equipment	**24,245**	**17,377**	**6,868**	8,862
	$ **170,316**	$ **90,600**	$ **79,716**	$ 82,922

7. Investment in and Expenditures on Resource Properties

The Company's investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful production from the properties or from the proceeds of their disposal.

	2009	2008
Banbury Property (note 7(a))		
Cost	$ **1**	$ 1

7. Investment in and Expenditures on Resource Properties (continued)

Gold Ram Property (note 7(b))		
Cost	-	11,857
Exploration expenditures	-	38,430
Write-off	-	(50,287)
	-	-
Khondloy Property (note 7(c))		
Cost	-	33,402
Exploration expenditures	-	116,879
Write-off	-	(150,281)
	-	-
Naranbulag Property (note 7(d))		
Cost	-	186,396
Exploration expenditures	-	24,773
Write-off	-	(211,169)
	-	-
Argalant Property (note 7(e))		
Cost	-	119,485
Exploration expenditures	-	209,670
Write-off	-	(329,155)
	-	-
Ulan Ovoo Property (note 7(f))		
Cost	**10,537,737**	10,537,737
Exploration expenditures	**2,374,903**	2,081,391
	12,912,640	12,619,128
Chandgana Tal Property (note 7(g))		
Cost	**814,334**	814,334
Exploration expenditures	**465,798**	465,003
	1,280,132	1,279,337
Chandgana Khavtgai (note 7(h))		
Cost	**589,053**	589,053
Exploration expenditures	**580,976**	555,777
	1,170,029	1,144,830

7. Investment in and Expenditures on Resource Properties (continued)

Uranium Properties (note 7(i))

Exploration expenditures	**83,660**	83,045
Write-off of property	**(11,065)**	(8,202)
	72,595	74,844
Total Mineral Properties	**$ 15,435,397**	$ 15,118,140

(a) Banbury Property

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

On October 29, 2008, the Company granted a three year option to a private B.C. numbered company to acquire an undivided 60% interest in its 100% owned Banbury Gold property. The Banbury property consists of five crown grants located in the Similkameen Division of Yale District near Hedley, B.C.

The purchase option requires the Optionee to make payments and incurr expenditures on the Property as follows:

(a) on or before October 31, 2009, expending $50,000 on an analysis and compilation of data and preparation of a summary report on the Property; and

(b) on or before October 31, 2010, paying $100,000 to the Company and expending $750,000 on exploration and development work on the Property; and

(c) on or before October 31, 2011, paying $150,000 to the Company and expending $1,000,000 on exploration and development work on the Property.

(b) Gold Ram Property

The Company acquired a 100% interest in the Gold Ram in South Gobi, Mongolia. The Gold Ram project (15,533 hectares) is located in the western Gobi region of Mongolia, 190km southwest of the south Gobi's capital city, Dalanzadgad.

During the period ended December 31, 2008, the Company wrote-off its investment in the Gold Ram Property.

(c) Khondloy Property

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

During the period ended December 31, 2008, the Company sold its investment in the Khondloy Property for US$40,000, the balance of the carrying value was written-off.

7. Investment in and Expenditures on Resource Properties (continued)

(d) Naranbulag Property
The Company purchased a 100% interest in the Naranbulag Property (1,428 hectares) located in Zavkhan Province, about 700km west of Mongolia's capital Ulaan Bataar. 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.
During the period ended December 31, 2008, the Company wrote-off its investment in the Naranbulag Property.

(e) 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 Exploration's 100% owned Argalant property.
Under the terms of the agreement Red Hill 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 Red Hill is entitled to, at its discretion, pay Planet US$1,000,000 for an additional 20% interest in the property. If Red Hill does not exercise its second option the two companies will then proceed forward on a 60/40% basis. If Red Hill does exercise its second option the two companies will proceed forward on an 80/20% basis.
During the period ended December 31, 2008, the Company wrote-off its investment in the Argalant Property. The option agreement expired on October 6, 2008.

(f) Ulaan Ovoo Property
On November 15, 2005, the Company entered into a letter of intent with Ochir LLC 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 licence 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.
A finder's fee of 75,000 common shares was paid to a third party by the Company in respect of the Ulaan Ovoo purchase.
As at December 31, 2007, the Company had made payments totalling US$9,600,000.

7. Investment in and Expenditures on Resource Properties (continued)

(f) Ulaan Ovoo Property (continued)

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

(g) Chandgana Tal Property
The Company entered into an agreement to acquire a 100% interest in a Coal exploration property known as Chandgana Tal. The Chandgana Tal property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 km 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. A finder's fee of 50,000 common shares was paid to a third party by the Company. The purchase price was paid as follows:

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

During the period ended December 31, 2006, payments totaling 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.

(h) Chandgana Khavtgai
The Company entered into an agreement to acquire a 100% interest in a Coal exploration property known as Chandgana Khavtgai. The Chandgana Khavtgai property consists of one license, and is located in the northeast part of the Nyalga coal basin, approximately 290 km east of Ulaan Bataar. Under the terms of the agreement, the Company paid a total of US$570,000. The purchase price was paid as follows:

- US$280,000 within 7 days of signing the letter agreement.
- US$290,000 on or before the date which is 90 days from the date of signing the letter agreement.

During the period ended December 31, 2007, payments totaling US$570,000 were made.

7. Investment in and Expenditures on Resource Properties (continued)

(i) Mongolia Uranium Joint Venture

On June 14, 2005, the Company entered into a Letter Agreement with Maple Minerals Corp. (now known as Mega Uranium Ltd. "Mega") for uranium exploration and target generation in Mongolia. The agreement covered the Company's current uranium ground holdings in Mongolia, 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 extensive gold/copper property holdings and coal property holdings are not included in this agreement.

Upon completion of a due diligence review by Mega, a definitive formal option agreement was executed. The formal option agreement granted Mega the exclusive option to earn a 50% interest in the Company's uranium properties through the expenditure of US$1.5 million 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 in its capital within 3 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 million over the subsequent three years.

During the month of December 31, 2007, Mega completed the earn in requirement of expending US$1.5 million on uranium exploration in Mongolia. Mega has earned a 50% interest in all of Red Hill's uranium claims. Mega declined to exercise its option to expend an additional US$2 million over three years to earn a 60% interest. A joint venture has been formed and all future uranium exploration will be funded on a 50-50 pro-rata basis. Red Hill's net interest in the joint venture as at June 30, 2009, was $72,595 (December 31, 2008, - $74,844). A new Joint Venture LLC was incorporated in Mongolia on March 4, 2008 for the puposes of this joint venture named Redhill Mega Uranium LLC. All the uranium licences have been transferred to the new Joint Venture LLC.

7. Investment in and Expenditures on Resource Properties (continued)

(i) Mongolia Uranium Joint Venture (continued)

The Company's proportionate share of the assets, liabilities, expenses, net loss and cash flows of the joint venture as at June 30, 2009 and December 31, 2008 are as follows:

	2009	2008
Cash and cash equivalents	**$ 9,920**	$ 11,311
Accounts receivable	**76**	6,077
Deposits	**-**	612
Property and equipment	**443**	571
Mineral property interests	**72,594**	74,844
Total assets	**83,033**	93,415
Accounts payable	**-**	3,048
Net assets	**83,033**	90,367
Write-off of mineral properties	**(11,065)**	(8,202)
General and administrative expenses	**(10,717)**	(24,920)
Foreign exchange gain (loss)	**11,799**	(31,216)
Interest income	**13**	63
Net loss	**(9,969)**	(64,275)
Cash flows provided by (used in) operating activities	**(5,281)**	76,253
Cash flows used in investing activities	**(7,534)**	(69,966)
Cash flows provided by financing activities	**11,424**	5,024
Net (decrease) increase in cash	**(1,391)**	11,311

There are no contingencies or commitments in the joint venture as at June 30, 2009.

8. Share Capital

(a) Authorized

Unlimited Common shares without par value.

(b) Issued

	Number of Shares	Amount
Balance, year ended December 31, 2007	**47,459,846**	**$ 30,416,950**
Private placement	**4,050,000**	**2,632,500**
Share issuance costs	**-**	**(46,559)**
Shares issued in trust	**28**	**96**
Balance, year ended December 31, 2008 and period ended June 30, 2009	**51,509,874**	**$ 33,002,987**

8. Share Capital (continued)

On July 4, 2008, the Company closed a $2,632,500 private placement. Under the placement, the Company issued 4,050,000 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 $0.90 per share during the warrant term. The units issued under the placement are subject to a hold period that expires on November 5, 2008. A finder's fee of 5.0% on the proceeds placed payable in cash was paid on portions of the placement.

(c) Share purchase options

Details of the status of the Company's stock option plans as at December 31, 2008 and June 30, 2009 and changes during the respective year are as follows:

	Number of Shares	Exercise Price	Expiry Date
Outstanding, December 31, 2007	3,730,000	0.74	Weighted Average
Options cancelled	(125,000)	0.92	April 5, 2012
Granted July 22, 2008	550,000	0.88	
Options cancelled	(100,000)	0.65	February 9, 2011
Options expired	(335,000)	0.48	November 24, 2008
Outstanding, December 31, 2008	3,720,000	$ 0.78	Weighted Average
Options cancelled	(600,000)	0.50	
Options cancelled	(425,000.00)	0.60	
Options cancelled	(50,000)	0.95	
Options cancelled	(575,000)	0.45	
Options cancelled	(50,000)	1.20	
Options cancelled	(130,000)	1.10	
Options cancelled	(725,000)	0.92	
Options cancelled	(50,000)	1.20	
Options cancelled	(520,000)	1.18	
Options cancelled	(550,000)	0.88	
Options granted	3,960,000	0.37	
Options granted	100,000	0.36	
Outstanding, June 30, 2009	4,105,000	0.37	

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

8. Share Capital (continued)

On July 22, 2008, the Company granted 550,000 incentive options to directors, employees, and consultants with an exercise price of $0.88 expiring July 22, 2013. As a result compensation expense of $385,000 was recognized as stock-based compensation expense during the period ended December 31, 2008.

On January 23, 2009, the Company cancelled its stock option contracts with directors, employees, and consultants as follows:

Expiring June 10, 2009 for 600,000 shares at an exercise price of $.050;
Expiring March 1, 2010 for 425,000 shares at an exercise price of $0.60;
Expiring December 24, 2010 for 50,000 shares at an exercise price of $0.95;
Expiring January 31, 2011 for 575,000 shares at an exercise price of $0.45;
Expiring March 15, 2011 for 50,000 shares at an exercise price of $1.20;
Expiring April 3, 2011 for 130,000 shares at an exercise price of $1.20;
Expiring April 5, 2012 for 725,000 shares at an exercise price of $0.92;
Expiring July 12, 2012 for 50,000 shares at an exercise price of $1.20;
Expiring October 30, 2012 for 520,000 shares at an exercise price of $1.18; and
Expiring July 22, 2013 for 550,000 shares at an exercise price of $0.88.

The Company granted 3,960,000 new stock options to directors, employees and consultants with an exercise price of $0.37 per share expiring January 23, 2014. As a result, compensation expense of $1,069,200 was recognized in the accounts of the Company.

On February 2, 2009, the Company granted 100,000 stock options to a consultant with an exercise price of $0.36 per share expiring February 3, 2014. As a result, compensation expense of $26,000 was recognized in the accounts of the Company.

The Black-Scholes model was calculated based on the following assumptions:

Expected life (years)	5
Interest rate	3.46%
Volatility	94.39%
Dividend yield	0%

8. Share Capital (continued)

The stock-based compensation has been included in the statements of operations and deficit as at June 30, 2009 and December 31, 2008 as follows:

	2009	2008
Directors' fees	$ **666,900**	$ 254,973
Advertising and promotion	**59,750**	48,354
Salaries	**76,950**	45,185
Consulting fees	**291,600**	54,868
	$ **1,095,200**	$ 403,380

(d) Warrants outstanding

The following warrants are outstanding at June 30, 2009, and December 31, 2008:

Expiry Date	Number of Warrants 2009	Number of Warrants 2008	Exercise Price
April 3, 2010	**3,750,000**	3,750,000	$1.25
May 31, 2010	**1,215,000**	1,215,000	$1.25
July 4, 2010	**2,025,000**	2,025,000	$0.90
	6,990,000	6,990,000	

On February 23, 2009, the Company extended the expiry date of 3,750,000 warrants expiring on April 3, 2009 to April 3, 2010, and 1,215,000 warrants expiring on May 31, 2009 to May 31, 2010.

(e) Contributed surplus

	2009	2008
Balance, beginning of year	$ **2,905,947**	$ 2,502,567
Options exercised	**-**	-
Stock-based compensation	**1,095,200**	403,380
Balance, end of period	$ **4,001,147**	$ 2,905,947

9. Related Party Transactions

(a) The Company has paid accounting fees of $6,000 (2008 - $6,000), management consulting fees of $21,000 (2008 - $21,000), and rent of $19,205 (2008 - $18,330) to a company controlled by a common director.

(b) The Company has paid legal fees of $22,370 (2008 - $9,111) to law firms in which a director and an officer are principals.

(c) The Company paid consulting fees of $97,903 (2008 - $36,036) to a company controlled by a director and officer.

10. Commitments

The Company has entered into an investor relations services contract with The Richmond Club Corp. with a monthly fee of $1,450, which expired June 2009.

The Company has entered into an investor relations services contract with Mau Capital expiring in December 2009, with a monthly fee of $2,500 per month.

11. Segmented information

The Company has one operating segment, which is the exploration and development of exploration properties. Geographic segmentation of the Company's assets are as follows: Canada - $858,501 (December 31, 2008 - $1,415,935) and Mongolia - $15,101,750 (December 31, 2008 - $15,201,938).
The majority of the Company's operating expenses are incurred in Canada, with a small portion in Mongolia. All exploration expenditures are incurred in Mongolia.

Red Hill Energy Inc.

(An Exploration Stage Company)
#2080 – 777 Hornby Street, Vancouver, B.C., V6Z 1S4
Tel: 604-683-7361 Fax: 604-662-3231

Management Discussion and Analysis
For the period ended June 30, 2009

Red Hill Energy Inc.
Period Ended June 30, 2009
Management Discussion and Analysis

The following discussion and analysis, prepared as of August 24, 2009, should be read together with the unaudited consolidated financial statements for the period ended June 30, 2009 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

The reader should also refer to the annual audited financial statements for the years ended December 31, 2008 and 2007, and the Management Discussion and Analysis for those years.

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Additional information related to the Company is available for view on SEDAR at www.sedar.com and the Company web site at www.redhillenergy.com

Description of Business

At the Annual General Meeting held on May 26, 2006, the shareholders of UGL approved a name change to Red Hill Energy Inc. Red Hill Energy Inc. (formerly UGL Enterprises Ltd.) is a mineral resource exploration and development stage public company. The principal business activity of the Company is the acquisition, exploration and development of mineral properties. Since June 1, 2003, the Company has been focusing on the acquisition, exploration and development of properties located in Mongolia. The Company is a reporting issuer in British Columbia and Alberta, and trades on the TSX Venture Exchange under the symbol "RH". The Company has a business relationship with Mine Info Ltd., a leading Mongolian Exploration company, and has a full time office in the capital city, Ulaan Baatar. All Red Hill work programs are supervised by Mr. Glenn Griesbach, P.Geo., Mr. Mel Klohn, L.P.Geo Director, and Mr. Garry Clark, P.Geo Director all of whom periodically act as Red Hill's Qualified Persons for work in Mongolia as well as assisting and advising with all operations. Mongolian logistical support is provided by Mine Info Ltd., a leading Mongolian consulting and exploration group based in Mongolia's capital Ulaan Baatar.

Red Hill Energy Inc.
Period Ended June 30, 2009
Management Discussion and Analysis

Selected Annual Information

Year Ended December 31	2008	2007	2006
Total Revenues (including interest)	$26,761	$225,477	$372,284
Loss before discontinued operations and extraordinary items	2,399,918	3,297,695	1,478,971
Loss per share before discontinued and extraordinary items	0.05	0.08	0.05
Net Loss	2,399,918	3,297,695	1,478,971
Loss per share	0.05	0.08	0.05
Total Assets	16,617,873	16,143,319	9,058,048
Cash dividends declared per share	$0.00	$0.00	$0.00

Summary of Quarterly Results

Quarter Ended	2009		2008				2007	
	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep
Total Revenues *	(313)	$2,317	$10,554	$10,732	$295	$5,180	$(67,349)	$151,923
Net Loss	288,378	1,383,786	193,246	1,414,175	398,475	394,022	1,186,131	679,726
Loss per share	0.01	0.03	0.01	0.02	0.01	0.01	0.03	0.01

* Revenues presented above include interest net of bank charges. The previously filed quarterly financial statements do not present interest income net of bank charges. Hence, the revenues presented above will not agree to those quarterly financial statements. Starting in 2009, financial statement presentation for interest income will be changed to agree with the year end presentation.

Significant Events

On April 29, 2009, the Company announced positive pre-feasibility study results for the Ulaan Ovoo thermal coal project. A detailed discussion of the study results follows below under the coal projects section.

On June 15, 2009, the Company announced it had signed an agreement with Falcon Mining AG of Zug, Switzerland whereby Falcon Mining was to acquire a 100% interest in Red Hill Mongolia LLC, a wholly owned subsidiary of Red Hill Energy, which owns a 100% interest in Red Hill's Ulaan Ovoo coal project in northern Mongolia.

Under the terms of the agreement Falcon Mining agreed to pay Red Hill Energy US$30 million with the first US$3,000,000 due within 14 days of Red Hill Energy receiving both shareholder and TSX-V regulatory approval. Eight months thereafter an additional payment of US$7,000,000 was to be made, followed by further US$10,000,000 within 12 months and finally, three annual payments of US$3,333,333 totaling US$10,000,000. Pursuant to the agreement, the shares of Red Hill Mongolia LLC were to be transferred to Falcon Mining following receipt by Red Hill of US$10,000,000 of the purchase price, but held in escrow, along with other documentation, until such time as the full

US$30,000,000 had been paid. All payments are non-refundable once made, provided however that in the event Red Hill is unable to complete the transfer of the shares upon the date Falcon Mining is to pay the US$7,000,000 payment due to certain specific circumstances, Red Hill will refund the US$3,000,000 cash payment previously made by Falcon Mining or will grant to Falcon Mining a 2% net smelter return royalty over the Ulaan Ovoo project, which may be purchased by Red Hill at any time for US$3,000,000. No finder's fees are payable in respect of the transaction and the transaction is at arm's length.

On July 13, the Company announced that during its Annual General Meeting held on July 10th, 2009, its shareholders voted over 99% in favour of the Red Hill Energy/Falcon Mining transaction on Red Hill Energy's Ulaan Ovoo coal project.

On July 27, 2009, the Company announced that Falcon Mining had given notice that it was unable to meet its financial obligations as outlined in the agreement. As a result of Falcon Mining failing to make the payment when due, the Company exercised its right to terminate the agreement.

Performance Summary for the three months ended June 30, 2009

The Company has earned interest revenue from cash and investments held in banks.

The Company's accounting policy is to record its mineral properties at cost. Exploration and development expenditures relating to mineral properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the deferred costs are written off.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates funds will be invested to finance the growth of its business.

The Company realized a loss for the three month period ended June 30, 2009, of $288,378 as compared to $398,475 in 2008. The Company realized a loss per share of $0.01 as compared to a loss per share of $0.01 in 2008.

Using the Black-Scholes options pricing model, the calculated stock-based compensation expense was $Nil for the three month period ended as compared to $18,475 in 2008.

Consulting expenses for the period were $70,033 as compared to $66,335 in 2008. Consulting expenses consist of amounts paid to Geology Consultants for matters not directly applicable to any particular project, and amounts paid for the services of the Managing Director of Operations and CFO, Ranjeet Sundher.

Professional fees for the period were $29,179 as compared to $22,791 in 2008. The professional fees consist of auditing, legal and accounting services.

Advertising and promotion expenses for the period were $20,114 as compared to $61,763 in 2008. Advertising and promotion expenses include $Nil in stock-based compensation as compared to $18,475 in 2008 for the three month period.

The Company entered into an investor relation services contract with the Richmond Club Corp. expiring June 2009. The Richmond Club was paid a monthly fee of $1,450 and in 2008 was granted 45,000 stock options, vesting 25% every three months exercisable at $0.78 per share, expiring January 29, 2010.

The Company has entered into an investor relations services contract with the Mau Capital Management expiring December 2009. Mau Capital was paid a monthly fee of $2,500 and was granted 125,000 stock options, vesting 25% every three months exercisable at $0.37 per share, expiring January 23, 2014. The Company cancelled all the previously granted stock options to Mau Capital Management.

Other advertising and promotion expenses consist of the attending various industry trade shows and events and updating the Company web site. The Company also sponsors a children's charity in Mongolia.

Foreign exchange loss for the period was $41,456 as compared to $1,040 loss in 2008.

Office and administration expenses for the period were $35,608 as compared to $23,123 in 2008. The office administration expenses include rent and telephone expenses.

Travel expenses for the period were $40,951 as compared to $140,730 in 2008. Travel expenses include flights, accommodation, and auto expenses. The decrease is due to reduced travel by management during the period. Travel expense will fluctuate each quarter depending on the travel activity of management and staff.

Salary and benefits expenses for the period were $29,699 as compared to $40,866 in 2008. The Company has one Director on salary and three employees to assist with public relations and promotion. The Company also employs a number of resident Mongolians to assist with administration, geology, and translation.

Red Hill Energy Inc.
Period Ended June 30, 2009
Management Discussion and Analysis

Performance Summary for the six months ended June 30, 2009

The Company realized a loss for the six month period ended June 30, 2009, of $1,672,164 as compared to $792,497 in 2008. The Company realized a loss per share of $0.03 as compared to a loss per share of $0.02 in 2008.

Using the Black-Scholes options pricing model, the calculated stock-based compensation expense was $1,095,200 for the period ended as compared to $42,193 in 2008. During the six month period ended the Company cancelled stock purchase options totaling 3,675,000 shares, and granted 4,060,000 new stock options to directors, employees and consultants.

Consulting expenses for the period were $464,562 as compared to $120,083 in 2008. Consulting expenses include $291,600 in stock-based compensation as compared to $Nil in 2008 for the six month period. Consulting expenses consist of amounts paid to Geology Consultants for matters not directly applicable to any particular project, and amounts paid for the services of the Managing Director of Operations and CFO, Ranjeet Sundher.

Professional fees for the period were $34,370 as compared to $27,205 in 2008. The professional fees consist of auditing, legal and accounting services.

Stock exchange and shareholder services expenses for the period were $27,079 as compared to $46,529 in 2008.

Advertising and promotion expenses for the period were $110,618 as compared to $131,163 in 2008. Advertising and promotion expenses include $59,750 in stock-based compensation as compared to $42,193 in 2008.

The Company entered into an investor relation services contract with the Richmond Club Corp. expiring June 2009.The Richmond Club was paid a monthly fee of $1,450 and in 2008 was granted 45,000 stock options, vesting 25% every three months exercisable at $0.78 per share, expiring January 29, 2010.

The Company has entered into an investor relations services contract with the Mau Capital Management expiring December 2009. Mau Capital was paid a monthly fee of $2,500 and was granted 125,000 stock options, vesting 25% every three months exercisable at $0.37 per share, expiring January 23, 2014. The Company cancelled all the previously granted stock options to Mau Capital Management.

Other advertising and promotion expenses consist of the attending various industry trade shows and events and updating the Company web site. The Company also sponsors a children's charity in Mongolia.

Foreign exchange loss for the period was $25,260 as compared to $5,585 in 2008.

Office and administration expenses for the period were $66,801 as compared to $74,038 in 2008. The office administration expenses include rent and telephone expenses.

Travel expenses for the period were $78,616 as compared to $166,638 in 2008. Travel expenses include flights, accommodation, and auto expenses.

Salary and benefits expenses for the period were $177,340 as compared to $86,012 in 2008. The Company has one Director on salary and an employee to assist with public relations and promotion. The Company also employs a number of resident Mongolians to assist with administration, geology, and translation.

Mineral Properties
Copper/Gold Projects:

During the prior year, the Company wrote-off its investments in its copper/gold projects in Mongolia.

<u>Banbury</u>
The Company owns a 100% undivided interest in six patented mineral claims near Hedley, B.C. described as the Banbury Property. The interest is recorded at a nominal value of $1.

On October 30, 2008, the Company granted an exclusive option to 0838331 B.C. Ltd. for a three year period ending on October 31, 2011 to acquire an undivided 60% participating interest in the Company's 100% owned Banbury Gold Property. The purchase option requires the Optionee to make cash payments and incur expenditures on the Property as follows:

(a) on or before October 31, 2009, expending $50,000 on an analysis and compilation of data and preparation of a summary report on the Property; and

(b) on or before October 31, 2010, paying $100,000 to the Optionor and expending $750,000 on exploration and development work on the Property; and

(c) on or before October 31, 2011, paying $150,000 to the Optionor and expending $1,000,000 on exploration and development work on the Property.

Red Hill Energy Inc.
Period Ended June 30, 2009
Management Discussion and Analysis

Coal Projects:

Ulaan Ovoo

On November 15, 2005, the Company entered into a letter of intent with Ochir LLC 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 was held by the vendor under a transferable, 55 year mining licence 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 was US$9,600,000.

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

As at December 31, 2007, the Company had made payments totalling US$9,600,000. On October 30, 2007, the Company made the final payment of US$5,600,000 completing the acquisition.

Chandgana Tal Project

On March 29, 2006, the Company entered into a letter agreement with Coal Khentiy Ltd. that set out the terms to acquire a 100% interest in the property known as Chandgana Tal. The Chandgana Tal property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 km east of Ulaan Bataar. Under the terms of the agreement, the Company paid a total of US$400,000, plus 250,000 common shares. A finder's fee of 50,000 common shares was paid to a third party.

The purchase price was paid as follows:

Within 3 days of the date that the agreement was accepted and approved by the TSX Venture Exchange, the issuance of 250,000 common shares.

US$50,000 within 21 days of signing the letter agreement;

US$75,000 on or before July 1, 2006;

US$275,000 on or before October 1, 2006.

As at December 31, 2006, the Company had made payments totalling US$400,000 and 250,000 shares were issued to the Vendor.

Chandgana Khavtgai

On August 7, 2007, the Company entered into a letter agreement that set out the terms to acquire a 100% interest in the property known as Chandgana Khavtgai. The Chandgana Khavtgai property consists of one license, and is located in the northwest part of the Nyalga coal basin, approximately 290 km east of Ulaan Bataar, 9 km southwest of the Chandgana Tal coal project. Under the terms of the agreement, the Company paid a total of US$570,000. The purchase price was paid as follows:

US$280,000 within 7 days of signing the letter agreement.
US$290,000 on or before the date which is 90 days from the date of signing the letter agreement.

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

Uranium Projects:

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") for uranium exploration and target generation in Mongolia. The agreement covered the Company's current uranium ground holdings in Mongolia, 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 Red Hill will cooperate during the term of the agreement in the generation and acquisition of other uranium exploration targets in Mongolia. Red Hill's coal/gold/copper property holdings are not included in this agreement.

Upon completion of the due diligence review by Mega, a definitive formal option agreement was executed. The formal option agreement grants Mega the exclusive option to earn a 50% interest in Red Hill's uranium properties through the expenditure of US$1.5 million over three years, with a minimum of US$350,000 expended within the first year. As per the agreement, Mega issued Red Hill 50,000 common shares in its capital within 3 business days of the date that the executed formal agreement was accepted and approved by the TSX Venture Exchange. In addition, Mega was required to issue to Red Hill the equivalent of CDN$75,000 in its common share capital (determined using the ten day average closing price) within 10 business days of the later of the date upon which Red Hill issues 250,000 common shares for the acquisition of its interest in the Nergui property, and the date that the executed formal agreement is accepted and approved by the TSX Venture Exchange. During the year ended December 31, 2005, the Company decided not to complete the acquisition and wrote-off its investment in the Nergui Property, and the shares were not issued.

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

During the period ended December 31, 2007, Mega completed the expenditure of US$1.5 million and earned a 50% interest in all the Uranium projects. Mega declined to exercise its option to increase its interest to 60% by expending a further US$2 million. A joint venture has been formed with the parties contributing 50-50 funding pro-rata going forward.

March 4, 2008, a new Joint Venture LLC was incorporated in Mongolia, named Redhill Mega Uranium LLC. The new LLC is owned 50% by Red Hill Energy Inc. and 50% by Mega Uranium Ltd. All of the Uranium licences held by Red Hill in Mongolia have been transferred into the new LLC.

For the Current Fiscal Year to Date

(a) Schedule of increases in deferred costs:

Name	Opening Balance	Increase (Decrease)	Write-off	Ending Balance
Banbury	$1	$0	$0	$1
Chandgana Tal	1,279,337	795	0	1,280,132
Chandgana Khavtgai	1,144,830	25,199	0	1,170,029
Ulaan Ovoo	12,619,128	293,512	0	12,912,640
Uranium Joint Venture	74,844	8,816	(11,065)	72,595
Total	$15,118,140	$328,322	$(11,065)	$15,435,397

(b) Schedule of exploration and development expenses:
Acquisition costs:

	Acquisition costs, beginning	Incurred (recovered) during period	Properties written-off	Acquisition, end of period
Banbury	$1	$0	$0	$1
Chandgana Tal	$814,334	0	0	$814,334
Chandgana Khavtgai	$589,053	0	0	$589,053
Ulaan Ovoo	$10,537,737	0	0	$10,537,737
Total	$11,941,125	$0	$0	$11,941,125

(b) Exploration expenses:

	Chandgana Tal	Chandgana Khavtgai	Ulan Ovoo	Uranium Properties/JV	Total
Exploration, Beginning of period	$465,003	$555,777	$2,081,391	$74,844	$3,177,015
Licences and tax	795	14,018	16,700	8,816	40,329
Transport, Shipping, Other Assays		330	362 3,779		692 3,779
Geological Consulting		10,851	273,843		284,694
Other Field Work			(1,172)		(1,172)
Exploration expenses written off				(11,065)	(11,065)
Exploration, End of period	$465,798	$580,976	$2,374,903	$72,595	$3,494,272

Exploration Results

All Red Hill work programs are supervised by one or more of Mr. Glenn Griesbach, P.Geo., Mr. Mel Klohn, L.P.Geo Director and, Mr. Garry Clark, P.Geo Director all of whom periodically act as Red Hill's Qualified Persons for work in Mongolia as well as assisting and advising with all operations. Mongolian logistical support is provided by Mine Info, a leading Mongolian consulting and exploration group based in Mongolia's capital Ulaan Baatar.

Copper/Gold Projects:

During the period ended December 31, 2008, the investments in the copper/gold projects were written-off.

Uranium Projects:

During the year ended December 31, 2007, Mega completed the earn-in requirement of expending US$1.5 million on uranium exploration in Mongolia. Mega has earned a 50% interest in all of Red Hill's uranium claims. Mega has declined to exercise its option to expend an additional US$2 million over three years to earn a 60% interest. A joint venture has been formed and all future uranium exploration will be funded on a 50-50 pro-rata basis. A new Joint Venture LLC was incorporated in Mongolia on March 4, 2008 for the purposes of this joint venture named Redhill Mega Uranium LLC. All the uranium licenses have been transferred to the new Joint Venture LLC as at December 31, 2008.

Exploration activity consisted of geology field work during the year ended December 31, 2008, on the uranium projects. During the period ended December 31, 2008, after careful review, management decided not to proceed further with the Naidal property and the Emeelt property and wrote off its investment in these projects.

During the period ended June 30, 2009, a uranium licence named Khangal was written-off. The remaining six uranium licenses were maintained. No exploration work was performed.

Coal Projects:

Ulaan Ovoo Property

The Company initiated an independent Pre-Feasibility Study for the Ulaan Ovoo project in 2008. The Company engaged Minarco-MineConsult (MMC), based in Sydney, Australia, to prepare a comprehensive pre-feasibility study on the Ulaan Ovoo project.

On April 29, 2009, the Company announced a positive, NI 43-101 compliant, pre-feasibility study ("PFS") for the 100% owned Ulaan Ovoo coal project. This PFS follows from the project's scoping study, prepared by Behre Dolbear that was filed on SEDAR on November 9, 2006. The scoping study reported a NI 43-101 compliant resource estimate of 208 million tonnes, of which 174.5 Mt are Measured and 34.3 Mt are Indicated Resources.

The Project involves open cut mining of coal and waste rock using conventional shovel and truck techniques. Higher quality coal of > 5,000 kcal/kg (as-received basis), known as "by-pass coal," will be crushed and stockpiled while other coal, known as "washed coal", will be beneficiated in a wash plant prior to stockpiling. Both washed and by-pass coal will be blended on the product stockpile to derive a consistent product prior to transport from the site by rail to the Port of Nadhodka on the Russian eastern seaboard and sold on the export thermal market. Infrastructure construction is proposed for the latter half of 2009, overburden removal commencing in 2010 with mining and sale of coal proposed to commence in 2011.

The PFS concludes that the Project is financially robust with an estimated after-tax NPV (10% discount rate) of US$250 Million at a coal price of US$76 per tonne (fob, Port of Nadhodka) and a discounted cash flow-internal rate of return (DCF-IRR) of 19%. Project values for a range of coal prices are shown in Table 1.

Table 1. Technical Project Value

Thermal Coal Price (US$/t product FOB)	$60	$68	$76
NPV @ 10% (US$ millions)	-$231	$0	$250
DCF-IRR (%)	1%	10%	19%
Payback (years)	-	-	9.5
Cash Mining Cost (US$/t product)	$55	$56	$56
Average Annual Revenue (US$ millions)[1]	$354	$399	$449
Average Annual After-Tax Net Profit (US$ millions)[1]	$10	$40	$76

1. Coal prices are FOB Port of Nadhodka, Russia

Project highlights are summarized in Table 2.

Table 2. Project Production and Expenditure

Item	
Total Mined Coal (ROM Mt)	108
Mine Life (production years)	17
ROM Production Rate (Mtpa)	6.3
Average Stripping Ratio (bcm/ROM t)	1.8
Saleable Coal Production	
Total Saleable Coal @ 15% ash (Mt)	100
Average Annual Sales (Mtpa)	5.9
Average Cash Costs (US$/t product)	
On-Site Cost	$15
Off-Site Cost	$41
Total Cash Cost	$56
Capital Cost (US$ millions)	
Initial Capital Cost	$337
Sustaining/Replacement Capital	$155
Total Life of Mine Capital Cost	$492

Mtpa = million metric tonnes per annum; t = metric tonne; ROM = run of mine

Production Summary

The PFS defines an open-cut mining strategy of expanding the mine from lower stripping ratio areas to higher stripping ratio areas to maximise the Project's economic potential. All waste rock will be directed to a large surface dump to the north and west of the pit as the steep coal dips prevent in-pit dumping of waste rock.

The total project life is 21 years, comprising a 2-year construction phase (2009 to 2010) followed by an 18-year mining period with site reclamation in the final year. The initial construction phase involves site preparation, infrastructure construction, and waste pre-stripping and stockpiling of coal. Major infrastructure to be constructed on site includes a wash plant, power station, coal stockpiles and handling equipment, mine offices, equipment workshops, and a staff camp facility.

Coal processing will be conducted on site with approximately 60% of the coal crushed and placed directly on the product stockpile and the remainder beneficiated using a wash plant. Average wash plant yield has been estimated at 80%. The initial three production years (2011 to 2013) will target higher quality coal seams which require no washing for sale. From 2016 on, between 2.5 and 4.8 Mt of ROM coal per year will be processed through the wash plant. The final coal product will be a thermal coal of moderate energy at nominally 5,000 kcal/kg ar. The coal product is proposed to be railed to the Port of Nadhodka starting in 2011 for sale on the export market.

Mining commences with the stockpiling of small amounts of ROM coal in 2010 and saleable coal production begins in 2011. ROM coal production increases to 6 Mtpa from 2012 to 2015 and targets higher quality seams suitable for “by-pass” and direct sale. From 2016 on, annual ROM coal production ranges from 6.5 to 7 Mt to achieve a coal product of 6 Mt.

The mine plan indicates an overall stripping ratio (bcm/ROM t) of 1.8:1. The strip ratio is initially above average at > 2.5 (bcm/ROM t) to establish pit development and coal inventory. After Year 11 (2021), the stripping ratio averages 0.8:1 until the end of the mine life.

Potential Mineable Coal

The quantity of open-pit mineable coal is estimated at 108 Mt of run-of-mine (ROM) coal at a stripping ratio of 1.8 to 1 (waste bcm: coal ROM t). The saleable product is estimated at 100 Mt of thermal coal. Only Measured and Indicated resources were included to calculate the potential mineable coal resource. Reserve status has not been assigned to the potentially mineable resource due to the current uncertainty with coal price forecasts and has hence been defined as > potential mineable quantities of coal.

Workforce

The mining workforce requirements were estimated based on MMC‘s experience with similar sized projects and previous studies in Mongolia. Joharko provided the wash plant workforce requirements. A key assumption was that maintenance personnel for the mining equipment would be provided by the equipment suppliers under a maintenance agreement. The remaining workforce, including sufficient staff for all levels of management, supervision, planning, and equipment operation would be directly employed by the mine. Table 3 shows a breakdown of the total site workforce including staff and support services for a typical year. In general, the workforce will range from 500 to 600 employees.

Table 3. Typical Mine Workforce at Full Production

Personnel	**Total**
Management	47
Mining Operations	309
Community Relations	16
HR and Safety	20
Tech Services	69
Coal Handling & Processing Plant (CHPP)	35
Infrastructure	30
Total	**526**

Capital Expenditures

The mine development plan assumes that capital spending begins in 2009, with the majority of capital spending (equipment and facilities) occurring up to 2014 and completion of the wash plant. Initial capital expenditure was calculated through to 2014 to include all major capital. Thereafter there will be on-going capital expenditures classified as either replacement or sustaining capital primarily being replacement mining equipment. The components of capital spending are listed in Table 4.

Table 4. Initial and Sustaining Capital Costs

Capital Item	US$ (millions)
Overburden Removal Equipment	75
Coal Mining Equipment	22
Support Equipment	9
Coal Handling/Blending/Wash Plant (CHPP)	94
Coal Transport (New Rail Spur)	120
Mine Site Buildings, Roads & Camp	18
Total Initial Capital	**$338**
Sustaining / Replacement Capital	**$155**
Total Project Capital Spending	**$493**

Mine Operating Costs

The mine operating costs reflect a typical truck-and-shovel open-pit operation with a favourable stripping ratio and limited coal beneficiation requirements. Estimated cash costs are summarized in Table 5.

Table 5. Estimated Production Cash Costs

Unit Cash Costs per Product Tonne	US$/t
Overburden Removal	$5
Coal Mining & Haulage to CHPP	$2
Field Support Cost	$1
Coal Washing & Handling (CHPP)	$3
Admin & Overheads	$3
Total Mine Operating Costs/tonne	**$14**
Transport	$30
Port	$9
Royalty	$2
Total Project Operating Costs/tonne (FOB)[1]	**$55**

1. FOB Port of Nadhodka, Russia

Additional Project Opportunities

Several opportunities emain at Ulaan Ovoo for generating additional revenues and profits, as well as for lowering costs. These opportunities were considered outside the scope of the work, but may be addressed in subsequent feasibility studies. These opportunities include:

? Export coal through and to China;
? Increase the quantity of saleable coals through resource additions achieved by exploration drilling. Additional resource drilling, if successful, could either expand the mine size or extend mine life;
? Decrease mining costs by using local mining contractors and/or using lower priced Russian or Chinese mining equipment;
? Improve washing yields through selective mining, and
? Gain competitive access to the domestic Mongolian or Russian markets.

The Project has no significant issues that would prevent successful mining and processing of the coal. Furthermore, there are a number of opportunities to increase the coal resource, reduce coal loss and add value to the Project.

A Detailed Environmental Impact Assessment (DEIA) and Environmental Protection Plan (EPP) were approved for Ulaan Ovoo by the Mongolian Ministry of Nature and the Environment under Mongolia's 2006 Minerals Law and 1995 Environmental Protection Law. Approval of the DEIA is required before the project can be developed. The Ulaan Ovoo Coal Project has already been granted a fully transferable mining licence from the Mongolian government. The mining license is valid for 30 years and is extendible for an additional 45 years.

Qualified Person

Mr. Romeo Ayoub, an Independent Consulting Mining Engineer for Minarco-MineConsult, is the Qualified Person as defined by NI 43-101, and has reviewed and approved the results presented.

There are five known structural basins in the vicinity of the Ulaan Ovoo coal property covered by fve exploration licenses 100% controlled by Red Hill, three of which are considered highly prospective for further discoveries of economic coal. The life of the future Ulaan Ovoo coal operation could be greatly increased beyond the currently anticipated 34-40 year mine life should any of these surrounding basins be proven to contain significant coal accumulations.

Chandgana Tal Project
No exploration activity took place during the period ended June 30, 2009 on this project. The project property licenses have been maintained.

The Company plans to commission a detailed Transportation and Economic Assessment Study for this project.

Chandgana Khavtgai Project
Exploration activity consisted of a geophysical survey during the year ended December 31, 2008 on this project. The project property licenses have been maintained.

The Company plans to commission a detailed Transportation and Economic Assessment Study for this project.

On September 6, 2007, the Company announced that it had entered into an agreement to purchase a 100% interest in, and had already commenced significant exploratory drilling operations on, the 37,000 hectare Chandgana Khavtgai coal exploration property located in the Nyalga Coal Basin in southeast central Mongolia. Red Hill Geologists believed Chandgana Khavtgai might contain a significantly sized extension to the Nyalga Coal Basin.

The Chandgana Khavtgai property is located 9 km southwest of Red Hill's Chandgana Tal coal project. Both Chandgana Khavtgai and Chandgana Tal are contiguous to Tethys Mining's Nyalga Coal Basin property, 100% owned Mongolian subsidiary of international mining conglomerate CVRD (Companhia Vale do Rio Doce) of Brazil. CVRD is actively exploring their Nyalga coal licences.

Field exploration on Chandgana Khavtgai identified several thick coal outcrop zones that appeared to indicate the continuation of the same 30-50 metre coal seam observed at Red Hill's Chandgana Tal property. The coal outcrop extends at least 4 km onto the new license area. Red Hill geologists believed that this license had the potential to significantly increase Red Hill's coal resource in this area.

A month long, 7 hole, 1,200 m drilling program was completed on Chandgana Khavtgai in August and September 2007. These 7 holes were widely spaced in order to test the quality and full extent of the coal deposit. In addition, surface trenches were dug to fully define the coal outcrop zone.

On October 25, 2007, the Company announced that it had made a new coal discovery on the Chandgana Khavtgai property. The recently completed drill program has defined a 678.4 million tonne coal resource, with 188.7 million tonnes measured and 489.7 million tonnes indicated. Additionally, another 439.6 million tonnes of inferred coal resource has been outlined.

An independent NI 43-101 Technical Report was prepared on the new Chandgana Khavtgai resource and was filed on Sedar.com as required by the TSX. The resources defined in the NI 43-101 report are in-line with those reported on October 25, 2007.

The 7 hole drill program (1,237 metres) on the property recovered 160 total metres of coal core from 5 holes. Nearly all of the coal is contained within a single 25-60 metre thick coal seam from surface covering an area of approximately 1,800 hectares. The seam doubles in thickness with depth, maintaining an average stripping ratio of approximately 2.1:1.

The Chandgana coal deposits are amenable to low cost surface mining operations. In both Chandgana projects, the coal is outcropping, offering easy access to the seams. The Nyalga Coal Basin, which hosts the deposits, is linked by road to Mongolia's capital Ulaan Baatar (300 km to the west) and to the Mongolian Railroad (160 km to the west), providing direct rail access to China to the south and Russia to the north.

Red Hill coal discoveries to date are as follows:

PROJECT/ BASIN	MEASURED	INDICATED	MEASURED & INDICATED	INFERRED
ULAAN OVOO / (NORTHERN BASIN)	174.5	34.3	208.8 million	35.9
CHANDGANA TAL (NYALGA BASIN)	141.3	(none)	141.3 million	(none)
CHANDGANA KHAVTGAI (NYALGA BASIN)	188.7 million	489.7 million	678.4 million	440 million
TOTAL	504.5	524.0	**1,028.5 Million**	**475.9 Million**

Red Hill's coal quality is demonstrated as follows:

PROJECT	ASH (%)	SULFUR (%)	BTU/lb	Kcal/kg	STRIPPING RATIO (Avg)	SEAM THICKNESS (Avg)
ULAAN OVOO (as received)	11.6	0.37	9,367	5,204	2.0:1 (1st 140 million tonnes)	53.9 metres
CHANDGANA TAL (air-dried)	12.49	0.68	7,628	4,238	0.53:1	40 metres
CHANDGANA KHAVTGAI (air-dried)	10.3	0.50	7,800	4,400	1.9:1	38.0 metres

Related party transactions

The Company paid accounting fees of $6,000, rent of $19,205, and management fees of $21,000 to a company controlled by G. Arnold Armstrong, Director and Chairman of the Company.

The Company has paid legal fees of $22,370 to a law firm in which G. Arnold Armstrong, Director and Paul Simpson, an officer, are principals.

The Company paid consulting fees of $97,903 to a company controlled by Ranjeet Sundher, Director and CFO.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of recoverable value on its mineral properties as well as the value of stock-based compensation. Both of these estimates involve considerable judgment and are, or could be, affected by significant factors that are beyond the Company's control.

Mineral properties
The Company's recorded value of its mineral properties is in all cases on historical costs that expect to be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale. The Company is in an industry that is exposed to a number of risks and uncertainties, including exploration risk, development risk, commodity price risk, operating risk, ownership risk, ownership and political risk, funding and currency risk, as well as environmental risk.

Stock-based compensation
The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend, among other things, upon a variety of factors including the market value of the Company's shares and financial objectives of the holders of the options. The Company has used historical data to determine volatility in accordance with Black-Scholes modeling, however the future volatility is inherently uncertain and the model has its limitations. While these estimates can have a material impact on the stock-based compensation and hence results of operations, there is no impact on the Company's financial condition.

Changes in Accounting Policy

During the year ended December 31, 2008, the Company adopted the following new accounting policies:

Capital disclosures and financial instruments – disclosures and presentation
On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Corporation on January 1, 2008.

Capital Disclosures
Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Financial Instruments
Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Amendments to Section 1400 – General Standards of Financial Statement Presentation
In June 2007, the CICA amended Handbook Section 1400, Going Concern, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1, 2008. The adoption of this standard had no impact on the Corporation's operating results or financial position.

During the period ended June 30, 2009 the Company adopted the following new accounting policy:

Goodwill and Intangible Assets
In November 2007, the CICA approved Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450 "Research and Development Costs". This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2009, with earlier adoption encouraged. The

standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is currently assessing the impact of these new accounting standards on its financial statements.

Future accounting changes

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

IFRS Changeover Plan: Assessment as of December 31, 2008

The Company is currently assessing the impact of IFRS on its financial statements and is in the process of designing a changeover plan. The key elements of the plan will address the impact of IFRS on:

- accounting policies, including choices among policies permitted under IFRS, and implementation decisions such as whether certain changes will be applied on a retrospective or a prospective basis;
- information technology and data systems;
- internal control over financial reporting;
- disclosure controls and procedures, including investor relations and external communications plans;
- financial reporting expertise, including training requirements; and
- business activities, such as foreign currency, as well as matters that may be influenced by GAAP measures.

The Company has begun the process of training and educating key staff members on IFRS and the changeover plan. The Company is considering engaging the services of professional IFRS consultants to assist with the changeover to IFRS. The Company is beginning the process of identifying differences in Canadian GAAP/IFRS 1. IFRS 1 requires an explanation of the effect of the transition from old Canadian GAAP to IFRS when the first financial statements are issued.

Red Hill Energy Inc.
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Management Discussion and Analysis

Commitment

The Company has entered into an investor relations services contract with the Richmond Club Corp effective December 2007 for eighteen months. The Richmond Club will receive a monthly fee of $1,450 expiring June 2009.

The Company renewed an investor relations services contract with Mau Capital for a 12 month period. Mau Capital will receive a fee of $2,500 per month expiring December 2009.

Other MD&A Requirements

(a) Summary of Securities Issued During the Period:
None.

During the period the following warrants were exercised:
None.

During the period the following options were exercised:
None.

(b) Summary of Options Granted During the Period:
3,960,000 exercisable at $0.37 per share expiring January 23, 2014
100,000 exercisable at $0.36 per share expiring January 23, 2014

As at the End of the Period
(a) Share Capital:
i. Authorized: Unlimited Common Shares without par value.
ii. Issued and outstanding: 51,509,874 Common Shares.

(b) Summary of Options, Warrants and Convertible Securities:

Options:
45,000 exercisable at $0.78 per share expiring on January 29, 2010.
3,960,000 exercisable at $0.37 per share expiring January 23, 2014
100,000 exercisable at $0.36 per share expiring January 23, 2014

Warrants:

3,750,000 whole warrants $1.25 per share until April 3, 2010.
1,215,000 whole warrants $1.25 per share until May 31, 2010.
2,025,000 whole warrants $0.90 per share until July 4, 2010.

(c) List of Directors and Officers:

G. Arnold Armstrong,	Director, Chairman & CEO, Vancouver, B.C.
Ranjeet Sundher,	Director, President, & CFO, Singapore
Lloyd S. Bray,	Director, West Vancouver, B.C.
J. Garry Clark,	Director, Thunder Bay, Ontario
Paul McKenzie,	Director, Vancouver, B.C.
Mel Klohn,	Director, Spokane Valley, Washington, USA
Paul Simpson	Secretary, Vancouver, B.C.

On January 23, 2009, the Company cancelled its stock option contracts with Directors, employees and consultants as follows:

Expiring June 9, 2010 for 600,000 shares at an exercise price of $0.50,
Expiring March 1, 2010 for 425,000 shares at an exercise price of $0.60,
Expiring January 31, 2011 for 575,000 shares at an exercise price of $0.45,
Expiring March 15, 2011 for 50,000 shares at an exercise price of $1.20,
Expiring April 3, 2001 for 130,000 shares at an exercise price of $1.10,
Expiring April 5, 2012 for 725,000 shares at an exercise price of $0.92,
Expiring July 12, 2012 for 50,000 shares at an exercise price of $1.20,
Expiring October 30, 2012 for 520,000 shares at an exercise price of $1.18,
Expiring December 24, 2010 for 50,000 shares at an exercise price of $0.95,
Expiring July 22, 2013 for 550,000 shares at an exercise price of $0.88.

On February 23, 2009, the Company extended the expiry date of 3,750,000 warrants expiring on April 3, 2009, and having an exercise price of $1.00 during the first year of the warrant term and $1.25 during the second year of the warrant term to April 3, 2010, with the exercise price of the warrant during the third year of the warrant term being $1.25.

On February 23, 2009, the Company extended the expiry date of 1,215,000 warrants expiring on May 31, 2009, and having an exercise price of $1.25 per share, to May 31, 2010.

Liquidity and Capital Resources

The Company ended the period with $432,941 (2008 - $1,523,477) cash and working capital of $438,279 (2008 - $1,509,119).

Net cash used in operating activities for the period was $619,719 as compared to net cash used of $762,228 during the period ended 2008.

Net cash used for investing activities for the current period was $336,673 as compared to net cash used of $319,220 during the period ended 2008.

Net cash provided from financing activities for the current period was $Nil as compared to net cash provided of $1,611,451 during the period ended 2008.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Financial Instruments

The Company has not entered into any specialized financial agreements to minimize its investment risk, commodity risk, and currency risk.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The CEO and CFO have evaluated the effectiveness of the company's disclosure controls and procedures and assessed the design of the company's internal control over financial reporting as of June 30, 2009, pursuant to the requirements of Multilateral Instrument 52-109.

Management has concluded that, as of June 30, 2009, weaknesses existed.

A weakness existed in the design of internal control over financial reporting caused by a lack of adequate segregation of duties between (a) the authorization, recording, review and reconciliation of transactions, and (b) the recording of receipts and the reconciliation of bank accounts. This weakness has the potential to result in material misstatements in the company's financial statements, and should also be considered a weakness in its disclosure controls and procedures.

A weakness existed in the design of internal control over financial reporting caused by the absence of a policy requiring documentation of the performance of critical control procedures. This weakness leads to uncertainty as to whether the control procedures are being carried out, such that material misstatements in the financial statements may fail to be prevented or detected. This weakness should also be considered a weakness in the company's disclosure controls and procedures.

The Company has designed and implemented changes in the Company's internal control over financial reporting improving the documentation of the performance of critical control procedures and improving the segregation of duties to improve internal control; however, weaknesses still exist.

Management has concluded and the board has agreed that, taking into account the present stage of the company's development and the best interests of its shareholders, the company does not have sufficient size and scale to warrant the hiring of additional staff to correct these weaknesses at this time.

No material changes in the Company's internal control over financial reporting were identified by management during the most recent interim period.

Risk factors

The principal activity of the Company is mineral exploration which is inherently risky. There is intensive government legislation from state, provincial, federal, municipal and aboriginal governments, surrounding the exploration for and production of minerals from our and any mining operations. Exploration and development is also capital intensive and the Company currently has no source of income. Only the skills of its management and staff in mineral exploration and exploration financing serve to mitigate these risks, and therefore constitute one of the main assets of the Company.

The Corporation has its cash deposited with a large, federally insured, commercial bank which it believes to be creditworthy. Federal deposit insurance covers deposit balances up to $100,000. Therefore, the majority of the Company's cash on deposit exceeds federal deposit insurance available.

Title

Title to mineral properties, as well as the location of boundaries on the grounds may be disputed. Moreover, additional amounts may be required to be paid to surface right owners in connection with any mining development. At all of such properties where there are current or planned exploration activities, the Company believes that it has either contractual, statutory, or common law rights to make such use of the surface as is reasonably necessary in connection with those activities. Although the Company believes it has taken reasonable measures to ensure proper title to its properties, there is no guarantee that title to its properties will not be challenged or impaired.

Successful challenges to the title of the Company's properties could impair the development of operations on those properties.

Political Risk

The Company's ability to conduct operations or exploration and development activities is subject to changes in legislation or government regulations or shifts in political attitudes beyond the Company's control.

Government policy may change to discourage foreign investment, nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body.

There is no assurance that provisions under Mongolian law for compensation and reimbursement of losses to investors under such circumstances would be effective to restore the value of the Company's original investment. Similarly, the Company's operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, environmental legislation, mine safety and annual fees to maintain mineral licenses in good standing. There can be no assurance that Mongolian laws protecting foreign investments will not be amended or abolished or that existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described above.

Permits and Licenses

Although the Company either currently holds or has applied for or is about to apply for all consents which it requires in order to carry out its current exploration and development programs, the Company cannot be certain that it will receive the necessary permits and licenses on acceptable terms or at all, in order to conduct further exploration and to develop its properties. The failure to obtain such permits, or delays in obtaining such permits could adversely affect the operations of the Company. Government approvals and permits are currently and may in the future be required in connection with the operations of the Company. To the extent such approvals are required and not obtained; the Company may be curtailed or prohibited from continuing its mining operations or from proceeding with planned exploration or development of mineral properties.

Exploration and Development Efforts May Be Unsuccessful

There is no certainty that the expenditures to be made by the Company in the exploration and development of its properties as described herein will result in discoveries of mineralized material in commercial quantities. Most exploration and development projects do not result in the discovery of commercially mineable ore deposits and no assurance can be given that any particular level of recovery of ore reserves will in fact be realized or that any identified mineral deposit will ever qualify as a commercially mineable (or viable) ore body which can be legally and economically exploited. Estimates of reserves, mineable deposits and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short term factors relating to ore reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale. Material changes in ore reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

Lack of Infrastructure

The Company has projects located in extremely remote areas which currently lack basic infrastructure, including sources of electric power, water, housing, food and transport, necessary to develop and operate a major mining project. While the Company has established the limited infrastructure necessary to conduct its exploration and development activities, substantially greater sources of power, water, physical plant and transport infrastructure in the area will need to be established before the Company can conduct mining operations. Lack of availability of the means and inputs necessary to establish such infrastructure may adversely affect mining feasibility. Establishing such infrastructure will, in any event, require significant financing, identification of adequate sources of raw materials and supplies and necessary approvals from national and regional governments, none of which can be assured.

Lack of Cash Flow

None of the Company's properties have advanced to the commercial production stage and the Company has no history of earnings or cash flow from operations. The Company does not expect to generate material revenue from mining operations or to achieve self-sustaining commercial mining operations for several years.

The Company has paid no dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. Historically, the only source of funds available to the Company is through the sale of its securities. Future additional equity financing would cause dilution to current shareholders.

No Proven Reserves

The properties in which the Company has an interest or right to earn an interest are in the exploratory stage only and are without a known body of ore in commercial production.

Red Hill Energy Inc.
Period Ended June 30, 2009
Management Discussion and Analysis

Uncertainty of Obtaining Additional Funding Requirements

Programs planned by the Company may necessitate additional funding, which could cause a dilution of the value of the investment of the shareholders of the Company. The recuperation value of mining properties indicated in the balance sheet depends on the discovery of mineralization that can be profitably exploited and on the Company's capacity to obtain additional funds in order to realize these programs.

The Company's exploration activities can therefore be interrupted at any moment if the Company is incapable of obtaining the necessary funds in order to continue any additional activities that are necessary and that are not described in the exploration programs outlined in the Company's geological report for its properties.

Mineral Prices May Not Support Corporate Profit

The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of mineral resources are developed, a profitable market will exist for the sale of same. Factors beyond the control of the Company may affect the marketability of any substances discovered. The price of minerals is volatile over short periods of time, and is affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining techniques.

Competition

The mining industry is intensively competitive in all its phases. The Company competes with companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for the recruitment and retention of qualified employees.

Environmental Regulations

The current and future operations of the Company, including further exploration, development activities and commencement of production on its properties, require permits from various Mongolian governmental authorities.

Such operations are subject to various laws governing land use, the protection of the environment, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. There can be no assurance, however, that all permits which the Company may require for construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in development of new mining properties.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions.

Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations.

Uncertainty of Reserves and Mineralization Estimates

There are numerous uncertainties inherent in estimating proven and probable reserves and mineralization, including many factors beyond the control of the Company. The estimation of reserves and mineralization is a subjective process and the accuracy of any such estimates is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, metallurgical testing and production and the evaluation of mine plans subsequent to the date of any estimate may justify revision of such estimates. No assurance can be given that the volume and grade of reserves recovered and rates of production will not be less than anticipated. Assumptions about prices are subject to greater uncertainty and metals and commodity prices have fluctuated widely in the past. Declines in the market price of coal, base or precious metals also may render reserves or mineralization containing relatively lower grades of ore uneconomic to exploit. Changes in operating and capital costs and other factors including, but not limited to, short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades, may materially and adversely affect reserves.

Foreign Operations

The Company's foreign activities are subject to the risk normally associated with conducting business in foreign countries, including exchange controls and currency fluctuations, limitations on repatriation of earnings, foreign taxation, laws or policies of particular countries, labour practices and disputes, and uncertain political and economic environments, as well as risk of war and civil disturbances, or other risk that could cause exploration or development difficulties or stoppages, restrict the movement of funds or result in the deprivation or loss of contract rights or the taking of property by nationalization or expropriation without fair compensation. Foreign operations could also be adversely impacted by laws and policies affecting foreign trade, investment and taxation. The Company currently has exploration projects located in Mongolia and Canada.

Operating Hazards and Risks Associated with the Mining Industry

Mining operations generally involve a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Hazards such as unusual or unexpected formations and other conditions are involved.

Operations in which the Company has direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of precious and base metals, any of which could result in work stoppages, damage to or destruction of mines and other producing facilities, damage to life and property, environmental damage and possible legal liability for any or all damage. The Corporation may become subject to liability for cave-ins and other hazards for which it cannot insure or against which it may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration activities.

Ability to Manage Growth

Should the Company be successful in its efforts to develop its mineral properties or to raise capital for other mining ventures it will experience significant growth in operations. If this occurs management anticipates that additional expansion will be required in order to continue development. Any expansion of the Company's business would place further demands on its management, operational capacity and financial resources. The failure to manage growth effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

Lack of a Dividend Policy

The Company does not presently intend to pay cash dividends in the foreseeable future, as any earnings are expected to be retained for use in developing and expanding its business. However, the actual amount of dividends received from the Company will remain subject to the discretion of the Company's board of directors and will depend on results of operations, cash requirements and future prospects of the Company and other factors.

Possible Dilution to Present and Prospective Shareholders

The Company's plan of operation, in part, contemplates the accomplishment of business negotiations by the issuance of cash, securities of the Company, or a combination of the two, and possibly, incurring debt. Any transaction involving the issuance of previously authorized but unissued common shares, or securities convertible into common shares, would result in dilution, possibly substantial, to present and prospective holders of common shares.

Dependence on Key Personnel

The Company strongly depends on the business and technical expertise of its management and key personnel. There is little possibility that this dependence will decrease in the near term.

As the Company's operations expand, additional general management resources will be required, especially since the Company encounters risks that are inherent in doing business in several countries.

Conflict of Interest

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest which they may have in any project or opportunity of the Company. If a conflict arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

Lack of Trading Volume

The lack of trading volume of the Company's shares reduces the liquidity of an investment in the Company's shares.

Volatility of Share Price

Market prices for shares of early stage companies are often volatile. Factors such as announcements of mineral discoveries, financial results, and other factors could have a significant effect on the price of the Company's shares.

Outlook and Investor Relations

The Company continues to keep the shareholders advised as to the status of exploration and development on all its properties. For more information please visit the Company's website at www.redhillenergy.com.

The Company continues to be logged into the SEDAR electronic filing system for the purpose of reporting on a timely basis. SEDAR can be accessed via the Internet at www.sedar.com.

Forward Looking Statements

Certain statements contained in this Management Discussion and Analysis constitute "forward-looking statements". These statements relate to future events or the Company's future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Information concerning the interpretation of drill results, mineral resource and reserve estimates and capital cost estimates may also be deemed as forward-looking statements as such information constitutes a prediction of what mineralization might be found to be present and how much capital will be required if and when a project is actually developed. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Management Discussion and Analysis should not be relied upon. These statements speak only as of the date of this Management Discussion and Analysis. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by forward-looking statements contained in this Management Discussion and Analysis. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about:

- general business and economic conditions;
- the supply and demand for, deliveries of, and the level and volatility of prices of copper, uranium, or other mineral commodities under exploration;
- the availability of financing for the Company's exploration and development projects on reasonable terms;
- the ability to procure equipment and operating supplies in sufficient quantities and on a timely basis;
- the ability to attract and retain skilled staff;
- market competition;
- the accuracy of our resource estimate (including, with respect to size, grade and recoverability) and the geological, operational and price assumptions on which it is based; and
- tax benefits and tax rates.

These forward-looking statements involve risks and uncertainties relating to, among other things, risks related to international operations, actual results of current exploration activities, conclusions of economic evaluations, changes in project parameters as plans continue to be refined, as well as those factors discussed in the section "Risk Factors". Factors that could cause actual results to differ materially include, but are not limited to, the risk factors discussed in the section. The Company cautions that the foregoing list of important factors is not exhaustive. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are incorporated by reference herein, except in accordance with applicable securities laws.