Red Hill Energy Inc.

Consolidated Financial Statements
March 31, 2008
(Unaudited, See Advisory to Reader)

Red Hill Energy Inc.

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Advisory to Reader

I have prepared these financial statements for Red Hill Energy Inc. in my capacity as Controller. No independent firm of professional accountants has audited, reviewed, compiled, or otherwise attempted to verify the accuracy or completeness of these financial statements.

"D. Frederiksen, CA"

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

	March 31, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 452,557	$ 993,474
Accounts receivable and accrued interest	8,138	5,336
Prepaid expenses and deposits	1,437	1,388
	462,132	1,000,198
Property and equipment, net (Note 4)	101,272	107,746
Reclamation Deposit	2,000	2,000
Mineral properties (Note 5)	15,057,324	15,033,375
	$ 15,622,728	$ 16,143,319
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	$ 42,288	$ 154,308
Joint venture funding obligation (Note 5(i))	7,887	46,154
	50,175	200,462
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	30,416,950	30,416,950
Contributed Surplus (Note 6(e))	2,526,285	2,502,567
Deficit	(17,370,682)	(16,976,660)
	15,572,553	15,942,857
	$ 15,622,728	$ 16,143,319

Approved by the Board:

" G. Arnold Armstrong "
Director

" Ranjeet Sundher "
Director

See notes to consolidated financial statements.

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

	Three months ended March 31	
	2008	2007
Revenue		
Interest	**$ 5,763**	$ 29,877
	5,763	29,877
General and Administrative Expenses		
Amortization	**6,898**	7,223
Consulting and management fees (Note 6 (c))	**53,748**	63,799
Director fees (Note 6 (c))	**7,628**	-
Professional fees	**4,414**	10,794
Stock exchange and shareholder services	**14,636**	16,266
Advertising and promotion (Note 6(c))	**69,400**	52,731
Office and administration	**50,915**	52,688
Travel and accommodation	**25,908**	41,584
Foreign exchange loss (gain)	**4,545**	17,317
Bank charges and interest	**583**	563
Insurance	**1,060**	-
Salary and benefits (Note 6(c))	**45,146**	44,168
	284,881	307,133
Mineral property written-off	**114,904**	-
Net income (loss)	**(394,022)**	(277,256)
Deficit - beginning of period	**(16,976,660)**	(13,678,965)
Deficit - end of period	**$(17,370,682)**	$ (13,956,221)
Earnings (Loss) Per Share	**$ (0.01)**	$ (0.01)
Weighted Average Number of Shares Outstanding	**47,459,846**	36,356,049

See notes to consolidated financial statements.

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

	Three months ended March 31	
	2007	2006
Cash flows from operating activities		
Net income (loss)	**$ (394,022)**	$ (277,256)
Adjustments non-cash items:		
Stock based compensation	**23,718**	-
Mineral properties written off	**114,904**	-
Amortization	**6,898**	7,223
	(248,502)	(270,033)
Changes in non-cash working capital		
Accounts receivable	**(2,800)**	45,099
Prepaid expenses and deposits	**(49)**	(8,201)
Accounts payable and accrued liabilities	**(112,020)**	(9,717)
	(363,371)	(242,852)
Cash flows from investing activities		
Purchase of capital assets	**(657)**	5,661
Expenditures on mineral properties	**(176,889)**	(497,268)
	(177,546)	(491,607)
Cash flows from financing activities		
Shares issued	**-**	908,036
	-	908,036
Net increase (decrease) in cash	**(540,917)**	173,577
Cash and cash equivalents - beginning of period	**993,474**	1,804,484
Cash and cash equivalents - end of period	**$ 452,557**	$ 1,978,061
Supplemental Cash Flow Information		
Shares issued as finders' fees	**$ -**	$ -
Shares issued for property	**$ -**	$ -

See notes to consolidated financial statements.

For the period ended March 31,	**2008**	2007

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.

Since June 1, 2003, the Company's principal activity has been the acquisition, exploration and development of mineral properties located in Mongolia held directly and through its subsidiary companies. All of the projects in Mongolia are in the initial stages of contract formalization and obtaining necessary government approvals. The ability of the Company to continue operations is dependent upon the continued financial support of its shareholders, other investors and lendors and with the successful development of the Company's interests in the mineral properties.

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, 2007. 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.

(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 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.

2. Significant Accounting Policies (continued)

(d) Cash and cash equivalents

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

(e) 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.

(f) 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.

(g) 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.

(h) Income taxes

Income taxes are calculated using the 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.

(i) Asset retirement obligations

Effective January 1, 2004, the Company adopted the new Canadian accounting requirements for asset retirement obligations. The new standard requires liability recognition for retirement obligations associated with long-lived assets at fair value. The asset retirement cost equal to the fair value of the retirement obligation is capitalized as part of the cost of the related asset. These capitalized costs are depreciated using a

2. Significant Accounting Policies (continued)

(i) Asset retirement obligations (continued)

straight-line method on the estimated life of the asset. Amounts are recorded once they become known or can be readily estimated.

(j) 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.

(k) 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.

(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.

3. Financial Instruments

(a) 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 5.

(b) 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. The Company is also exposed to credit risk with respect to its accounts receivable, which consists of an amount receivable from a Mongolian company.

(c) Currency risk

The Company 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.

4. Property and equipment

				2008	2007
			Accumulated		
		Cost	**Amortization**	**Net**	Net
Furniture and Equipment		$ **91,460**	$ **36,202**	$ **55,258**	$ 58,167
Vehicle	**46,262**	**9,888**	**36,374**	39,322	
Computer Equipment		**20,914**	**11,274**	**9,640**	10,257
		$ **158,636**	$ **57,364**	$ **101,272**	$ 107,746

5. 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.

	2008	2007
Banbury Property (note 5(a))		
Cost	$ **1**	$ 1
Gold Ram Property (note 5(b))		
Cost	**11,857**	11,857
Exploration expenditures	**38,386**	38,214
	50,243	50,071
Khondloy Property (note 5(c))		
Cost	**33,402**	33,402
Exploration expenditures	**116,879**	116,420
	150,281	149,822
Naranbulag Property (note 5(d))		
Cost	**186,396**	186,396
Exploration expenditures	**24,773**	24,572
	211,169	210,968
Argalant Property (note 5(e))		
Cost	**119,485**	119,485
Exploration expenditures	**206,406**	206,406
	325,891	325,891

For the period ended March 31,	2008	2007

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

Ulan Ovoo Property (note 5(f))		
Cost	**10,537,737**	10,537,737
Exploration expenditures	**1,512,957**	1,418,999
	12,050,694	11,956,736
Chandgana Tal Property (note 5(g))		
Cost	**814,334**	814,334
Exploration expenditures	**464,358**	456,585
	1,278,692	1,270,919
Chandgana Khavtgai (note 5(h))		
Cost	**589,053**	589,053
Exploration expenditures	**476,218**	466,264
	1,065,271	1,055,317
Uranium Properties (note 5(i))		
Cost, net	**(86,253)**	(86,253)
Write-off of property	**(114,904)**	-
Exploration expenditures	**118,352**	53,749
Joint venture funding obilgation	**7,887**	46,154
	(74,918)	13,650
Total Mineral Properties	**$ 15,057,324**	$ 15,033,375

(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.

(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.

(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.

5. 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.

(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.

(f) Ulan 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 Ulan Ovoo coal project. The Ulan 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.
The original agreement provided the purchase price to be paid as follows:
US$500,000 within 14 days of the execution of the letter of intent, comprised of a US$200,000 non-refundable deposit and US$300,000 secured loan, which will revert to a payment upon completion of a NI 43-101 technical report and receipt of all necessary regulatory approvals;
US$500,000 on or before March 1, 2006;
US$500,000 on or before May 1, 2006;
US$500,000 on or before July 1, 2006;
US$1,500,000 on or before November 1, 2006; and
US$6,100,000 on or before November 1, 2007
A finder's fee of 75,000 common shares was paid to a third party by the Company in respect of the Ulan Ovoo purchase.

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

(f) Ulan Ovoo Property (continued)

On May 10, 2006, the Company agreed to amend the purchase agreement as follows:
Ochir shall incorporate and register with the relevant Mongolian authorities a Mongolian-Canadian Joint Venture Company ("JVC") in Mongolia and transfer into the JVC the Ulan Ovoo Mining and Exploration Licenses. The initial shareholders of the JVC shall be Ochir 51% and Red Hill 49% of the outstanding equity of the JVC.
In consideration for the transfer of the Licenses to the JVC an accelerated payment of US$500,000 shall be paid by Red Hill to Ochir within 30 days of the successful transfer of the Licenses. The remaining US$1,000,000 shall remain due on or before November 1, 2006.
Within 30 days of the US$1,000,000 November 1, 2006 payment by Red Hill to Ochir, Ochir shall transfer to Red Hill its 51% interest in the JVC. The final payment of US$6,100,000 remains due on or before November 1, 2007.
On September 25, 2006, the Company agreed to amend the purchase agreement as follows:
On signing the amendment US$750,000 shall be paid and Ochir shall transfer to Red Hill its 51% interest in the JVC. A payment of US$750,000 shall be due on or before April 1, 2007. The final payment of US$5,600,000 shall be due on or before November 1, 2007.
As at December 31, 2007, the Company had made payments totalling US$9,600,000.

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 is 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 will retain 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. The Chandgana 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:

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

(g) Chandgana Tal Property (continued)

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.

(i) 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 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.

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

(i) Mongolia Uranium Option Agreement (continued)

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 period 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 declined to exercise its option to expended 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 March 31, 2008, was $(74,918) (December 31, 2007, - $13,650). Mega has pre-funded the joint venture by the amount of $7,887 (December 31, 2007 - $46,154). A new Joint Venture LLC was incorporated in Mongolia subsequent to year end for the puposes of this joint venture named Redhill Mega Uranium LLC. the LLC is owned 50% by the Company and 50% by Mega. All the urnaium licences have been transferred to the new Joint Venutre LLC.

6. Share Capital

(a) Authorized
Unlimited Common shares without par value.

(b) Issued

	Number of Shares	Amount
Balance, year ended December 31, 2006	**35,918,374**	**$ 21,199,430**
Private placement	**9,930,000**	**8,430,000**
Share issuance costs	**-**	**(477,031)**
Exercise of warrants	**1,431,472**	**997,552**
Exercise of stock options	**180,000**	**83,150**
Contributed surplus on exercise of stock options	**-**	**183,849**
Balance, year ended December 31, 2007	**47,459,846**	**$ 30,416,950**
Balance, period ended March 31, 2008	**47,459,846**	**$ 30,416,950**

6. Share Capital (continued)

(b) On April 5, 2007, the Company closed a $6,000,000 private placement. Under the placement, the Company issued 7,500,000 units, each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $1.00 per share during the first year of the warrant term and $1.25 per share during the second year of the warrant term, subject to forced exercise provisions. The units issued under the placement are subject to a hold period that expires on July 5, 2007. A finder's fee of 7.5% on the proceeds placed payable in cash was paid on portions of the placement.

On June 8, 2007, the Company closed a $2,430,000 private placement. Under the placement, the Company issued 2,430,000 units, each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $1.25 per share during the warrant term, subject to forced exercise provisions. The units issued under the placement are subject to a hold period that expires on October 1, 2007. A finder's fee of 6.0% on the proceeds placed payable in cash was paid on portions of the placement

For the period ended March 31,	**2008**	2007

(c) Share purchase options

Details of the status of the Company's stock option plans as at December 31, 2007 and March 31, 2008 and changes during the respective year are as follows:

	Number of Shares	Weighted Average Exercise Price	Expiry Date
Outstanding, December 31, 2005	1,840,000	0.50	
Granted January 31, 2006	650,000	0.45	January 31, 2011
Granted February 9, 2006	100,000	0.65	February 9, 2011
Options exercised	(50,000)	0.45	January 31, 2011
Granted March 15, 2006	50,000	1.20	March 15, 2011
Options exercised	(25,000)	0.48	November 24, 2008
Options exercised	(50,000)	0.50	June 10, 2009
Options exercised	(50,000)	0.45	January 31, 2011
Granted April 3, 2006	130,000	1.10	April 3, 2011
Outstanding, December 31, 2006	2,595,000	0.55	
Expired January 21, 2007	(200,000)	0.40	
Granted January 29, 2007	45,000	0.78	January 29, 2010
Granted April 5, 2007	875,000	0.92	April 5, 2012
Options exercised	(30,000)	0.48	November 24, 2008
Options exercised	(50,000)	0.50	June 10, 2009
Options exercised	(25,000)	0.60	March 1, 2010
Options exercised	(25,000)	0.45	January 31, 2011
Granted July 12, 2007	50,000	1.20	July 12, 2012
Granted October 30, 2007	520,000	1.18	October 30, 2012
Options exercised	(50,000)	0.35	March 1, 2010
Options cancelled	(25,000)	0.92	April 5, 2012
Granted December 24, 2007	50,000	0.95	December 24, 2010
Outstanding, December 31, 2007, and Period ended March 31, 2008	3,730,000	$ 0.74	

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.

6. Share Capital (continued)

On January 29, 2007, the Company granted 45,000 incentive options to a consultant with an exercise price of $0.78 vesting 25% every three months expiring January 29, 2010. As a result compensation expense of $15,728 was recognized as stock-based compensation expense during the year ended December 31, 2007, and $5,243 was recognized as stock-based compensation expense during the year ended March 31, 2008.

On July 12, 2007, the Company granted 50,000 incentive options to a consultant with an exercise price of $1.20 vesting 25% every three months expiring July 12, 2012. As a result compensation expense of $24,625 was recognized as stock-based compensation expense during the year ended December 31, 2007, and $12,312 was recognized as stock-based compensation expense during the year ended March 31, 2008.

On December 24, 2007, the Company granted 50,000 incentive options to a consultant with an exercise price of $0.95 vesting 25% every three months expiring December 24, 2010. As a result compensation expense of $6,163 was recognized as stock-based compensation expense during the year ended December 31, 2007, and $6,163 was recognized as stock-based compensation expense during the year ended March 31, 2008.

During the year ended December 31, 2007, the Company granted a total of 1,540,000 stock options to employees, directors, and non-employees, and, as a result, compensation expense of $1,181,050 was recognized in the accounts of the Company.

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

Expected life (years)	4.94
Interest rate	4.16%
Volatility	108%
Dividend yield	0%

The stock-based compensation has been included in the statements of operations and deficit as at March 31, 2008 and 2007 as follows:

	2008	2007
Directors' fees	**$ -**	$ -
Advertising and promotion	**23,718**	-
Salaries	**-**	-
Consulting fees	**-**	-
	$ 23,718	$ -

6. Share Capital (continued)

(d) Warrants outstanding

The following warrants are outstanding at December 31, 2007, and March 31, 2008:

Expiry Date	Number of Warrants 2008	Number of Warrants 2007	Exercise Price
December 12, 2008	**1,562,500**	1,562,500	$1.25
April 3, 2009	**3,750,000**	3,750,000	$1.00/$1.25
May 31, 2009	**1,215,000**	1,215,000	$1.25
	6,527,500	6,527,500	

(e) Contributed surplus

	2008	2007
Balance, beginning of year	**$ 2,502,567**	$ 1,505,366
Options exercised	**-**	(183,849)
Stock-based compensation	**23,718**	1,181,050
Balance, end of period	**$ 2,526,285**	$ 2,502,567

7. Related Party Transactions

(a) The Company has paid accounting fees of $3,000 (2007 - $3,000), management consulting fees of $10,500 (2007 - $7,500), and rent of $9,165 (2007 - $4,500) to a company controlled by a common director.

(b) The Company has paid legal fees of $9,111 (2007 - $NIL) to a law firm in which a director and an officer are principals.

(c) The Company entered into a letter of intent on October 26, 2005 with a company that has a common director (See note 5(h)).

8. Income Tax Losses

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

2008	$ 90,000
2009	56,000
2010	194,000
2014	395,000
2015	688,000
2026	615,000
2027	1,873,000
	$ 39,111,000

For the period ended March 31,	**2008**	2007

8. Income Tax Losses (continued)

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

	2007
Future Income Tax Assets	
Non-capital loss carry-forwards	$ 992,740
Tax value over book value of capital assets	44,096
Book value over tax value of share issue costs	107,219
Tax value over book value of mineral properties	1,727,979
	2,872,034
Less: Valuation allowance	(2,872,034)
	$ -

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

9. Commitments

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

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