RED HILL ENERGY INC.

Consolidated Financial Statements
December 31, 2008 and 2007

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

The consolidated financial statements for the years ended December 31, 2008 and 2007 have been audited by Smythe Ratcliffe LLP, Chartered Accountants, and their report outlines the scope of their examination and gives their opinion on the consolidated financial statements.

"G.A. Armstrong" (signed)	*"Ranjeet Sundher" (signed)*
G.A. Armstrong	Ranjeet Sundher
CEO	CFO

Vancouver, British Columbia
March 9, 2009

SmytheRatcliffe
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

TO THE SHAREHOLDERS OF RED HILL ENERGY INC.

We have audited the consolidated balance sheets of Red Hill Energy Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
March 9, 2009

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Canada V6C 2G8

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RED HILL ENERGY INC.
Consolidated Balance Sheets (note 1)
December 31

		2008		2007
Assets				
Current				
Cash and cash equivalents	$	1,389,333	$	993,474
Accounts receivable		20,016		5,336
Deposits		5,462		1,388
		1,414,811		1,000,198
Reclamation Deposit		2,000		2,000
Property and Equipment (note 5)		82,922		107,746
Mineral Property Interests (note 6)		15,118,140		15,033,375
	$	16,617,873	$	16,143,319
Liabilities				
Current				
Accounts payable and accrued liabilities	$	85,517	$	154,308
Joint venture funding obligation (note 6(e))		0		46,154
		85,517		200,462
Shareholders' Equity				
Capital Stock (note 7)		33,002,987		30,416,950
Contributed Surplus (note 7(e))		2,905,947		2,502,567
Deficit		(19,376,578)		(16,976,660)
		16,532,356		15,942,857
	$	16,617,873	$	16,143,319

Commitments (note 10)
Subsequent Events (note 11)

Approved on behalf of the Board:

"G.A. Armstrong" (signed)
.... Director
G.A. Armstrong

"Paul McKenzie" (signed)
.... Director
Paul McKenzie

RED HILL ENERGY INC.
Consolidated Statements of Operations and Deficit
Years Ended December 31

		2008		2007
Expenses				
Consulting fees (note 7(c))	$	362,471	$	667,654
Directors' fees (note 7(c))		292,274		468,578
Travel		263,901		243,584
Salaries and benefits (note 7(c))		242,071		260,448
Advertising and promotion (note 7(c))		207,285		480,184
Office		153,187		254,375
Professional fees		92,843		98,174
Stock exchange and shareholder services		46,455		35,566
Insurance		21,137		15,900
Foreign exchange loss		7,712		835,562
Amortization		28,993		33,863
Loss Before Other Items		(1,718,329)		(3,393,888)
Other Items				
Interest, net		26,761		218,688
Gain on sale of property and equipment		0		6,789
Write-off of mineral property interests (note 6)		(708,350)		(129,284)
Net Loss and Comprehensive Loss for Year		(2,399,918)		(3,297,695)
Deficit, Beginning of Year		(16,976,660)		(13,678,965)
Deficit, End of Year	$	(19,376,578)	$	(16,976,660)
Basic and Diluted Loss Per Share	$	(0.05)	$	(0.08)
Weighted Average Number of Common Shares Outstanding		49,451,668		43,310,373

See notes to consolidated financial statements.

RED HILL ENERGY INC.
Consolidated Statements of Cash Flows
Years Ended December 31

	2008	2007
Operating Activities		
Net loss	$ (2,399,918)	$ (3,297,695)
Items not involving cash		
Stock-based compensation	403,380	1,181,050
Gain on sale of property and equipment	0	(6,789)
Unrealized foreign exchange gain (loss)	(12,089)	11,108
Amortization	28,993	33,863
Write-off of mineral property interests	708,350	129,284
	(1,271,284)	(1,949,179)
Changes in non-cash working capital		
Accounts receivable	(14,680)	55,220
Deposits	(4,074)	1,659
Accounts payable and accrued liabilities	22,489	19,327
	3,735	76,206
Cash Used in Operating Activities	(1,267,549)	(1,872,973)
Investing Activities		
Proceeds on sale of property and equipment	0	29,025
Proceeds on disposition of mineral property	40,744	0
Purchase of property and equipment	(4,169)	(57,262)
Expenditures on mineral property interests	(971,293)	(7,932,363)
Cash Used in Investing Activities	(934,718)	(7,960,600)
Financing Activities		
Proceeds from issuance of common shares	2,632,596	9,510,702
Share issuance costs	(46,559)	(477,031)
Cash Provided by Financing Activities	2,586,037	9,033,671
Foreign Exchange Effect on Cash	12,089	(11,108)
Inflow (Outflow) of Cash and Cash Equivalents	395,859	(811,010)
Cash and Cash Equivalents, Beginning of Year	993,474	1,804,484
Cash and Cash Equivalents, End of Year	$ 1,389,333	$ 993,474
Supplemental Cash Flow Information		
Interest paid	$ 0	$ 0
Income taxes paid	$ 0	$ 0
Mineral property expenditures included in accounts payable and joint venture funding obligation	$ 20,934	$ 158,368

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is an exploration stage public company, incorporated in British Columbia (“BC”). The principal business activity of the Company is the acquisition and exploration of mineral property interests, 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 mineral property interests 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 December 31, 2008, the Company had working capital of $1,329,294 (2007 - $799,736) and an accumulated deficit of $19,376,578 (2007 - $16,976,660). The Company will require additional financing or outside participation to meet its planned corporate and administrative expenses for the coming year and to undertake further exploration and subsequent development of its mineral property interests. The Company’s ability to continue as a going-concern is dependent on continued financial support from its shareholders, the ability of the Company to raise equity financing, and the attainment of profitable operations, external financings and further share issuances to meet the Company’s liabilities as they become payable.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Cash and cash equivalents

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

(c) Amortization

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

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

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

(d) Mineral property interests

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include acquisition costs and exploration expenditures, net of any recoveries received. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse. All capitalized costs are reviewed quarterly, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of an interest exceeds its net recoverable amount (as estimated by quantifiable evidence of an economic geological resource or reserve or by reference to option or joint venture expenditure commitments) or when, in the Company's assessment, it will be unable to sell the interest for an amount greater than the deferred costs, the interest is written down for the impairment in value.

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

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

(e) Revenue recognition

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

2. **SIGNIFICANT ACCOUNTING POLICIES** (Continued)

(f) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral properties, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(g) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(h) Foreign currency translation

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Use of estimates

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

(j) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

(k) Asset retirement obligations (“ARO”)

The Company recognizes an estimate of the liability associated with an 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 operations 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.

(l) Warrants

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities classified as held-for-trading are measured at fair value with gains and losses recognized in operations. Financial assets classified as held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Financial instruments classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. When a decline in the fair value of an available-for-sale financial asset has been recognized in comprehensive income, and there is objective evidence that the impairment is other than temporary, the cumulative loss that had been previously recognized in accumulated other comprehensive income is removed from accumulated other comprehensive income and recognized in operations even though the financial asset has not been de-recognized.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders that are excluded from net income (loss) calculated in accordance with Canadian generally accepted accounting principles.

(n) Adoption of new accounting policies

Effective January 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

(i) Capital Disclosures (Section 1535)

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and procedures 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.

As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy has been included in note 4.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Adoption of new accounting policies (Continued)

(ii) Financial Instruments - Disclosures and Presentation

Sections 3862 and 3863 replace Handbook Section 3861, “Financial Instruments – Disclosures and Presentation”, revising its disclosure requirements, and carrying forward 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.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity’s financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosure on the risks of certain financial instruments have been included in note 3.

(o) Future accounting change

International Financial Reporting Standards ("IFRS")

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

3. FINANCIAL INSTRUMENTS

The Company has classified its cash and cash equivalents as held-for-trading; accounts receivable as loans and receivables; reclamation deposit as held-to-maturity; and accounts payable and accrued liabilities, and joint venture funding obligation as other financial liabilities.

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

3. **FINANCIAL INSTRUMENTS** (Continued)

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

The Company manages credit risk, in respect of cash and cash equivalents, by purchasing highly liquid, short-term investment grade securities held at a major Canadian financial institution in accordance with the Company's investment policy. Concentration of credit risk exists with respect to the Company's cash and cash equivalents as amounts are held with a single major Canadian financial institution and with a major Mongolian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

		2008		2007
Bank - Canada	$	366,869	$	455,926
Bank - Mongolia		29,844		40,943
Bankers acceptance with average interest rate of 3.05% (2007 – 4.3%) maturing January 12, 2009		992,620		496,605
	$	1,389,333	$	993,474

The credit risk associated with cash and cash equivalents held in Canada is minimized substantially by ensuring that these financial assets are placed with major financial institutions with strong investment grade ratings by a primary ratings agency.

The Company has no asset backed securities.

(b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they are due. As at December 31, 2008, the Company had a cash and cash equivalents balance of $1,389,333 (2007 - $993,474) to settle current liabilities of $85,517 (2007 - $200,462). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(c) 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:

(i) Interest rate risk

The Company's cash and cash equivalents consists of cash held in bank accounts and bankers acceptance with fixed interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of December 31, 2008. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

3. FINANCIAL INSTRUMENTS (Continued)

(c) Market risk (Continued)

(ii) Foreign currency risk

The Company's investments in mineral properties require it to make expenditures in Mongolian tugrug (TG) and US dollars in relation to its exploration activities in Mongolia. The Company does not utilize derivatives or other techniques to manage foreign currency risks. The Company translates the results of Mongolian tugrug and US dollar transactions into Canadian dollars using rates approximating the average exchange rate by quarter. The exchange rate may vary from time to time. Management believes that the currency risk is minimal for Mongolian expenditures as the risk is mitigated by the fact that the majority of the Mongolian transactions are completed in US dollars.

(iii) Other price risk

Other price risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company is exposed to changes in the market prices of coal and other natural resources, which have experienced wide fluctuations in recent years.

A decline in the market price of these commodities may have a material adverse effect on the Company's value. As of December 31, 2008, 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, which may affect the Company's liquidity and its ability to meet ongoing obligations.

4. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of capital stock, 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 and exploration 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 year ended December 31, 2008. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

5. PROPERTY AND EQUIPMENT

	2008		
	Cost	Accumulated Amortization	Net
Furniture and equipment	$ 91,460	$ 44,927	$ 46,533
Vehicle	46,262	18,735	27,527
Computer equipment	24,245	15,383	8,862
	$ 161,967	$ 79,045	$ 82,922

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

6. MINERAL PROPERTY INTERESTS

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

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

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

	Ulaan Ovoo	Chandgana Tal	Chandgana Khavtgai	Argalant	Uranium *	Naranbulag	Khondloy	Gold Ram	Other	Total
	(note 6(a))	(note 6(b))	(note 6(c))	(note 6(d))	(note 6(e))	(note 6(f))	(note 6(g))	(note 6(h))	(note 6(i))	
Balance, December 31, 2007	$ 11,956,736	$1,270,919	$1,055,317	$ 325,891	$ 13,650	$ 210,968	$ 149,822	$ 50,071	$ 1	$ 15,033,375
Deferred Exploration Costs										
Geological consulting	437,728	0	33,658	0	0	0	0	0	0	471,386
Licenses and tax	69,616	8,181	14,856	3,264	33,651	201	459	216	0	130,444
Other fieldwork	126,723	0	37,970	0	35,745	0	0	0	0	200,438
Transportation and shipping	28,325	237	3,029	0	0	0	0	0	0	31,591
	662,392	8,418	89,513	3,264	69,396	201	459	216	0	833,859
Disposition of property	0	0	0	0	0	0	(40,744)	0	0	(40,744)
Write-offs	0	0	0	(329,155)	(8,202)	(211,169)	(109,537)	(50,287)	0	(708,350)
Balance, December 31, 2008	$ 12,619,128	$ 1,279,337	$ 1,144,830	$ 0	$ 74,844	$ 0	$ 0	$ 0	$ 1	$ 15,118,140

6. MINERAL PROPERTY INTERESTS (Continued)

(a) Ulaan Ovoo Property

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

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

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

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

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

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

6. MINERAL PROPERTY INTERESTS (Continued)

(a) Ulaan Ovoo Property (Continued)

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

- On signing the amendment, US $750,000 (paid) shall be paid and Ochir shall transfer to the Company its 51% interest in the JVC. A payment of US $750,000 (paid) shall be due on or before April 1, 2007. The final payment of US $5,600,000 (paid) 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 (the "Vendor") to purchase a 100% title and interest in five mineral licenses including licenses that are contiguous and entirely surrounding the Ulaan Ovoo Property. The aggregate purchase price for the licenses is US $400,000, with US $50,000 being payable within 10 days of signing the agreement and the balance of the payment due upon transfer of ownership title to the Company (paid). Under the terms of the agreement the Vendor will retain a 2% net smelter return royalty on the five newly acquired licenses. A finder's fee of 58,500 shares was issued to a third party on the acquisition. The Vendor owes the Company US $50,000, which amount has been included in the cost of the properties as it became uncollectible.

(b) Chandgana Tal Property, Mongolia

The Company entered into an agreement on March 29, 2006, to acquire a 100% interest in a coal exploration property known as Chandgana. The property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 kilometres east of Ulaan Bataar. Under the terms of the agreement, during the year ended December 31, 2006, the Company paid a total of US $400,000, plus issued 250,000 common shares of the Company at a deemed price of $1.20 per share. The Company paid a finder's fee of 50,000 common shares at a deemed price of $1.20 per share to a third party.

(c) Chandgana Khavtgai Property, Mongolia

The Company entered into an agreement to acquire a 100% interest in a coal exploration property known as Chandgana Khavtgai. The property consists of one license, and is located in the northeast part of the Nyalga coal basin, approximately 290 kilometres east of Ulaan Bataar. During the year ended December 31, 2007, payments totalling US $570,000 were made to acquire the property.

6. MINERAL PROPERTY INTERESTS (Continued)

(d) Argalant Property

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

During the year ended December 31, 2008, the Company wrote-off its investment in the Argalant Property.

(e) Mongolia Uranium Option Agreement

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

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

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

6. MINERAL PROPERTY INTERESTS (Continued)

(e) Mongolia Uranium Option Agreement (Continued)

The Company's proportionate share of the assets and liabilities of the joint venture as at December 31, 2008 and 2007 are as follows:

		2008		2007
Assets				
Current				
Cash and cash equivalents	$	11,311	$	0
Accounts receivable		6,077		0
Deposits		612		0
		18,000		0
Property and Equipment		571		0
Mineral Property Interests		74,844		0
		93,415		0
Liabilities				
Current				
Accounts payable and accrued liabilities		3,048		0
Net Assets	$	90,367	$	0

6. MINERAL PROPERTY INTERESTS (Continued)

(e) Mongolia Uranium Option Agreement (Continued)

The Company's proportionate share of expenses, net loss and cash flows for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Write-off of mineral properties	$ (8,202)	$ 0
General and administrative expenses	(56,136)	0
Interest income	63	0
Net loss	(64,275)	0
Cash flows provided by operating activities	$ 76,253	$ 0
Cash flows used in investing activities	(69,966)	0
Cash flows provided by financing activities	5,024	0
Net increase in cash	$ 11,311	$ 0

There are no contingencies or commitments in the joint venture as at December 31, 2008.

Naidal Property

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

During the year ended December 31, 2008, the Company wrote-off its investment in the Naidal property.

Maikhan Property

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

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

Baganaran Property

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

6. MINERAL PROPERTY INTERESTS (Continued)

(f) Naranbulag Property, Mongolia

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

During the year ended December 31, 2008, the Company wrote-off its investment in the Naranbulag Property.

(g) Khondloy Property, Mongolia

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

During the year ended December 31, 2008, the Company sold its investment in the Khondloy Property for US $40,000 to realize a write-off of the remaining carrying value of $109,537.

(h) Gold Ram Property, Mongolia

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

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

(i) Banbury Property, BC, Canada

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

On October 30, 2008, the Company granted an exclusive option to 0838331 B.C. Ltd. (the “Optionee”) 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:

(i) 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;
(ii) 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
(iii) 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.

6. MINERAL PROPERTY INTERESTS (Continued)

(j) Realization of assets

The investment in and expenditures on mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal. Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims lapse.

(k) Title to mineral property interests

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

(l) Environmental

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

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

7. CAPITAL STOCK

(a) Authorized
Unlimited common shares without par value

(b) Issued

	2008		2007	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	47,459,846	$ 30,416,950	35,918,374	$ 21,199,430
Issued during year				
Private placement	4,050,000	2,632,500	9,930,000	8,430,000
Share issuance costs	0	(46,559)	0	(477,031)
Shares issued in trust	28	96	0	0
Exercise of stock options	0	0	180,000	83,150
Exercise of warrants	0	0	1,431,472	997,552
Contributed surplus on exercise of stock options	0	0	0	183,849
Balance, end of year	51,509,874	$ 33,002,987	47,459,846	$ 30,416,950

(i) 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. A finder's fee of $46,559, equal to 5% of the proceeds placed, was paid on a portion of the placement.

(ii) 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 for the first year, and $1.25 for the second year. A finder's fee of $390,150, equal to 7.5% of the proceeds placed, was paid on a portion of the placement.

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

7. CAPITAL STOCK (Continued)

(c) Share purchase options

The maximum number of common shares issuable under the terms of the Company's stock option plan shall not exceed 10% of the issued and outstanding shares of the Company at the time the stock options are granted, less the number of shares, if any, subject to prior stock options issued. As at December 31, 2008, the Company has 1,430,987 stock options available for issuance.

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

	2008			2007		
	Number of Options	Weighted Average Exercise Price	Weighted Average Fair Value	Number of Options	Weighted Average Exercise Price	Weighted Average Fair Value
Outstanding, beginning of year	3,730,000	$ 0.73	$ 0.76	2,595,000	$ 0.53	$ 0.57
Granted	550,000	$ 0.88	$ 0.88	1,540,000	$ 0.98	$ 0.98
Exercised	0	$ 0.00	$ 0.00	(180,000)	$ 0.46	$ 0.44
Forfeited	(225,000)	$ 0.78	$ 0.81	(25,000)	$ 0.92	$ 0.92
Expired	(335,000)	$ 0.48	$ 0.40	(200,000)	$ 0.40	$ 0.45
Outstanding, end of year	3,720,000	$ 0.78	$ 0.80	3,730,000	$ 0.73	$ 0.76

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

	2008	2007
Consulting fees	$ 54,868	$ 469,955
Directors' fees	254,973	445,080
Salaries and benefits	45,185	105,950
Advertising and promotion	48,354	160,065
	$ 403,380	$ 1,181,050

7. CAPITAL STOCK (Continued)

(c) Share purchase options (Continued)

As at December 31, 2008 and 2007, the following director, employee and consultant stock options were outstanding:

Expiry Date	Fair Value at Grant Date	Exercise Price	Number of Options 2008	Number of Options 2007	Exercisable Options 2008	Exercisable Options 2007
November 24, 2008	$ 0.40	$ 0.48	0	335,000	0	335,000
June 10, 2009*	$ 0.43	$ 0.50	600,000	600,000	600,000	600,000
January 29, 2010	$ 0.78	$ 0.78	45,000	45,000	45,000	33,750
March 1, 2010*	$ 0.70	$ 0.60	300,000	300,000	300,000	300,000
March 1, 2010*	$ 0.35	$ 0.35	125,000	125,000	125,000	125,000
December 24, 2010*	$ 0.95	$ 0.95	50,000	50,000	50,000	12,500
January 31, 2011*	$ 0.50	$ 0.45	575,000	575,000	575,000	575,000
February 9, 2011	$ 0.68	$ 0.65	0	100,000	0	100,000
March 15, 2011*	$ 1.17	$ 1.20	50,000	50,000	50,000	50,000
April 3, 2011*	$ 1.38	$ 1.10	130,000	130,000	130,000	130,000
April 5, 2012*	$ 0.92	$ 0.92	725,000	850,000	725,000	850,000
July 12, 2012*	$ 1.20	$ 1.20	50,000	50,000	50,000	25,000
October 30, 2012*	$ 1.18	$ 1.18	520,000	520,000	520,000	520,000
July 22, 2013*	$ 0.88	$ 0.88	550,000	0	550,000	0
Balance, end of year			3,720,000	3,730,000	3,720,000	3,656,250
Weighted average outstanding life of options			2.57 years	3.05 years	2.57 years	3.05 years

* Cancelled January 23, 2009 (note 11).

On January 29, 2007, the Company granted 45,000 options to consultants with an average exercise price of $0.78 and an expiry date of January 29, 2010, of which 25% vested immediately, and the remaining vesting 25% each quarter thereafter. During the year ended December 31, 2008, 11,250 (2007 - 33,750) options vested and $5,242 (2007 - $15,728) was charged to stock-based compensation.

On July 12, 2007, the Company granted 50,000 options to consultants with an average exercise price of $1.20 and an expiry date of July 12, 2012, of which 25% vested immediately, and the remaining vesting 25% each quarter thereafter. During the year ended December 31, 2008, 25,000 (2007 - 25,000) options vested and $24,625 (2007 - $24,625) was charged to stock-based compensation.

On December 24, 2007, the Company granted 50,000 options to consultants with an average exercise price of $0.95 and an expiry date of December 24, 2010, of which 25% vested immediately, and the remaining vesting 25% each quarter thereafter. During the year ended December 31, 2008, 37,500 (2007- 12,500) options vested and $18,487 (2007 - $6,163) was charged to stock-based compensation.

7. CAPITAL STOCK (Continued)

(c) Share purchase options (Continued)

During the year ended December 31, 2008, the Company granted a total of 550,000 (2007 - 1,540,000) stock options and, as a result, compensation expense of $355,025 (2007 - $1,181,050) was recognized in the accounts of the Company.

The Company applies the fair value method using the Black-Scholes option pricing model to account for options granted to employees, directors and non-employees. The Black-Scholes option pricing model was calculated based on the weighted average fair value on the following assumptions:

	2008	**2007**
Expected life (years)	5	4.94
Interest rate	3.46%	4.16%
Volatility	94.39%	108.69%
Dividend yield	0%	0%

(d) Warrants outstanding

	2008		**2007**	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	6,527,500	$ 1.11	3,006,472	$ 0.85
Issued	2,025,000	$ 0.90	4,965,000	$ 1.06
Expired	(1,562,500)	$ 1.25	(12,500)	$ 0.60
Exercised	0	$ 0.00	(1,431,472)	$ 0.70
Outstanding and exercisable, end of year	6,990,000	$ 1.15	6,527,500	$ 1.11

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

	Exercise	Number of Warrants	
Expiry Date	Price	**2008**	**2007**
December 12, 2007/2008	$ 1.00/$1.25	0	1,562,500
April 3, 2008/2009 (note 7(b)(ii))	$ 1.00/$1.25	3,750,000	3,750,000
May 31, 2008/2009 (note 7(b)(iii))	$ 1.25	1,215,000	1,215,000
July 4, 2010 (note 7(b)(i))	$ 0.90	2,025,000	0
Balance, end of year		6,990,000	6,527,500
Weighted average life of warrants outstanding		1.65 years	1.21 years

7. CAPITAL STOCK (Continued)

(e) Contributed surplus

	2008	2007
Balance, beginning of year	$ 2,502,567	$ 1,505,366
Options exercised	0	(183,849)
Stock-based compensation (note 7(c))	403,380	1,181,050
Balance, end of year	$ 2,905,947	$ 2,502,567

8. INCOME TAX LOSSES

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

Available to	Amount
2009	$ 56,000
2010	194,000
2014	395,000
2015	688,000
2026	615,000
2027	1,873,000
2028	1,055,000
	$ 4,876,000

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

	2008	2007
Future income tax assets		
Non-capital loss carry-forwards for Canadian tax purposes	$ 1,267,952	$ 992,740
Tax value over book value of property and equipment	48,615	44,096
Tax value over book value of share issue costs	92,942	107,219
Tax value over book value of mineral property interests	1,052,227	1,727,979
	2,461,736	2,872,034
Valuation allowance	(2,461,736)	(2,872,034)
	$ 0	$ 0

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

8. INCOME TAX LOSSES (Continued)

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

	2008	2007
Income tax benefits at statutory rates	$ (743,975)	$ (1,125,200)
Permanent differences		
Stock-based compensation	125,048	403,000
Non-deductible meals expense	2,547	0
Share issue costs	(37,543)	37,926
Temporary differences		
Excess of amortization over capital cost allowance	3,285	3,962
Mineral interest written off	219,589	44,112
Unrecognized losses	475,816	468,200
Tax rate variation	(44,767)	168,000
Income tax expense	$ 0	$ 0

9. RELATED PARTY TRANSACTIONS

The Company has:

(a) paid accounting fees of $12,000 (2007 - $12,000), management consulting fees of $42,000 (2007 - $39,000) and rent of $34,550 (2007 - $18,495) to a company controlled by a common director;
(b) incurred legal fees of $0 (2007 - $552) with a law firm in which a director is a principal;
(c) incurred legal fees of $28,122 (2007 - $29,445) with a law firm in which an officer is a principal; and
(d) paid consulting fees of $31,089 (2007 - $0) to a company controlled by an officer.

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

10. COMMITMENTS

(a) The Company has entered into an investor relations services contract with the Richmond Club Corp. expiring in June 2009, with a monthly fee of $1,450.

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

(c) On June 24, 2008, the Company entered into a contract with Minarco-Mine Consult to prepare a pre-feasibility study for the Ulaan Ovoo coal project for a fixed price of US $420,000. The contract fee will be paid as follows:

(i) US $63,000 at the signing of the contract (paid);
(ii) US $63,000 at the completion of stage 1 (paid);
(iii) US $84,000 at the completion of stage 2 (paid);
(iv) US $168,000 at the completion of the first draft; and
(v) US $42,000 at the completion of the final report.

11. SUBSEQUENT EVENTS

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 $0.50;
- 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 $1.10;
- 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; 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.

On February 3, 2009, the Company granted 100,000 stock options to a consultant with an exercise price of $0.36 per share expiring February 3, 2014.

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.

12. SEGMENTED INFORMATION

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

	2008	2007
Assets		
Canada	$ 1,415,935	$ 1,009,082
Mongolia	15,201,938	15,134,237
	$ 16,617,873	$ 16,143,319