

**Red Hill Energy Inc.**

**(formerly UGL Enterprises Ltd.)**

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Management Discussion and Analysis of Financial  
Condition and Results of Operations  
For the period ended December 31, 2006  
Form 51-102F1

**Red Hill Energy Inc. (formerly UGL Enterprises Ltd.)**  
**Period Ended December 31, 2006**  
**Management Discussion and Analysis**

The following discussion and analysis, prepared as of April 16, 2007, should be read together with the audited consolidated financial statements for the year ended December 31, 2006 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, 2005 and 2004, 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](http://www.sedar.com) and the Company web site at [www.redhillenergy.com](http://www.redhillenergy.com)

**Description of Business**

At the Annual General Meeting held 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 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 strategic alliance 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. Red Hill Director Mr. Garry Clark, P. Geo is Red Hill's Qualified Person for work in Mongolia and assists in overseeing all operations.

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**Change of Accounting Policy**

Commencing January 1, 2004, the Company adopted the requirements of the Canadian Institute of Chartered Accountants with respect to accounting for stock based compensation. The new accounting standard requires an expense to be recognized in the financial statements for all forms of employee stock-based compensation, including stock options. Previously, the Company did not record any compensation cost on the granting of stock options to employees and directors as the exercise price was equal to or greater than the market price at the date of the grants.

**Selected Annual Information**

<b>Year Ended December 31</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Total Revenues</b>	\$372,284	\$61,730	\$23,145
<b>Loss before discontinued operations and extraordinary items</b>	1,478,971	3,734,732	738,076
<b>Loss per share before discontinued and extraordinary items</b>	0.05	0.15	0.05
<b>Net Loss</b>	1,478,971	3,734,732	738,076
<b>Loss per share</b>	0.05	0.15	0.05
<b>Total Assets</b>	9,058,048	4,257,028	3,151,960
<b>Cash dividends declared per share</b>	\$0.00	\$0.00	\$0.00

**Summary of Quarterly Results**

<b>Quarter Ended</b>	<b>2006</b>				<b>2005</b>			
	<b>31-Dec</b>	<b>30-Sep</b>	<b>30-Jun</b>	<b>31-Mar</b>	<b>31-Dec</b>	<b>30-Sep</b>	<b>30-Jun</b>	<b>31-Mar</b>
<b>Total Revenues</b>	\$2,680	\$32,547	\$321,787	\$19,578	\$20,439	\$22,122	\$19,557	\$1,831
<b>Net Loss</b>	280,850	284,700	403,162	510,259	485,376	1,273,698	1,469,820	505,838
<b>Loss per share</b>	0.01	0.01	0.01	0.02	0.02	0.04	0.04	0.05

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**Performance Summary for the year ended December 31, 2006**

The Company has earned interest revenue from cash and investments held in banks. The Company earned \$74,988 in interest revenue during the year ended as compared to \$63,949 in 2005. The increase in interest is due to the increase in cash invested during the year compared to 2005.

The Company has earned a capital gain from the sale of marketable securities of \$301,604 during year ended December 31, 2006. The Company sold 50,000 shares of Mega Uranium Ltd.

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 year ended December 31, 2006, of \$1,478,971 as compared to \$3,734,732 in 2005. The Company realized a loss per share of \$0.05 as compared to a loss per share of \$0.15 in 2005.

Using the Black-Scholes options pricing model, the calculated stock-based compensation expense was \$525,606 for the year as compared to \$402,738 in 2005.

Consulting expenses for the year were \$428,388 as compared to \$391,221 in 2005. 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. The Company has engaged the services of Sean McGay, based in Mongolia to assist with the exploration activities in Mongolia.

Professional fees for the year were \$70,346 as compared to \$81,524 in 2005. The professional fees consist of auditing, legal and accounting services. The decrease in professional fees compared to the prior year is due to the decrease in legal fees relating to securities and stock exchange matters and the mineral property acquisition activities during the period.

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Stock exchange and shareholder services expenses for the year were \$55,159 as compared to \$60,877 in 2005. The decrease in stock exchange fees and shareholder services expenses is due to the private placement financing that occurred during the period last year, and the property acquisitions and the distribution of information to the shareholders of the Company.

Advertising and promotion expenses for the period were \$303,803 as compared to \$163,672 in 2005. The Company entered into an investor relation service agreement with Fuller Fletcher & Associates Ltd of London England. In consideration for its services, Fuller Fletcher & Associates will receive CDN\$6,000 per month and was granted 200,000 stock options vesting on an equal quarterly basis at \$0.40 per share. Other advertising and promotion expenses consist of the Company advertising in industry related publications, attending various industry trade shows and events and updating the Company web site. The Company also sponsors a children's charity in Mongolia.

Office and administration expenses for the year were \$184,916 as compared to \$100,923 in 2005. The office administration expenses include rent and telephone expenses. The increase in office and administrative expenses is due to the increase in rented office space in Mongolia and related administrative activity in Mongolia.

Travel expenses for the period were \$168,359 as compared to \$115,925 in 2005. The Company experienced an increase in travel during the period compared to 2005 by reason of the increased activities in Mongolia related to the exploration of the Ulan Ovoo property, and the Uranium properties. Travel expenses include flights, accommodation, and auto expenses.

Salary and benefits expenses for the period were \$230,507 as compared to \$102,854 in 2005. 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.

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**Performance Summary for the three months ended December 31, 2006**

The Company earned \$2,680 in interest revenue during the three months period ended as compared to \$20,439 in 2005.

Consulting expenses for the period were \$26,023 as compared to \$43,228 in 2005. During the period the Company engaged the consulting services of Armada Investments Ltd. a Company controlled by a Director of Red Hill at a rate of \$2,500 per month.

Professional fees for the period were \$28,068 as compared to \$27,817 in 2005. The increase in legal fees during the period is due to normal fluctuations in the use of legal services over the fiscal year.

Stock exchange and shareholder services expense for the period were \$17,428 as compared to \$5,931 in 2005. The decrease in stock exchange fees and shareholder services expenses is due to the decrease in filing fees that occurred during the period compared to last year.

Advertising and promotion expenses for the period were \$31,062 as compared to \$60,985 in 2005. The decrease in advertising and promotion during the period is due to the decrease in promotional activities during the period as compared to the prior year.

Office and administration expenses for the period were \$75,180 as compared to \$34,706 in 2005. The office administration expenses include rent and telephone expenses. The increase in office and administrative expenses is due to the increase in rented office space in Mongolia and related administrative activity in Mongolia.

Travel expenses for the period were \$16,776 as compared to \$25,815 in 2005. The Company experienced a decrease in travel during the period compared to 2005 by reason of a decrease in flights to and from in Mongolia. Travel expenses include flights, accommodation, and auto expenses.

Salary and benefits expenses for the period were \$48,577 as compared to \$24,053 in 2005. 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.

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**Mineral Properties**  
**Copper/Gold Projects:**

Huren Tolgoi

The Company through its wholly owned subsidiary Canrim, entered into a Joint Venture Option Agreement with the license holders of the Huren Tolgoi Gold/Copper Porphyry project and acquired a 100% interest in the Gold Ram project in South Gobi, Mongolia.

The Huren Tolgoi project is (2,632 hectares) located in north Jinst, a sub-province of Bayanhonger province, south Mongolia. The Huren Tolgoi project was held by Canrim under an option agreement with Monresources Co. Ltd. (the "Optionor"). Under the terms of the option agreement UGL, through Canrim, had a first option to acquire an 80% interest in the Huren project by: incurring US\$250,000 in exploration expenditures on the property by May 15, 2004 and a further US\$500,000 in exploration expenditures by May 15, 2005; paying the Optionor US\$35,000 by August 15, 2003 and a further US\$250,000 by May 15, 2005.

Upon completion of the first option requirements, UGL had a second option to purchase the remaining 20% interest in the Huren project by paying the Optionor US\$1,000,000 on or before November 15, 2005, and granting the Optionor a 2% Net Smelter Return Royalty.

After careful review, management decided against making the US\$250,000 due May 15, 2005. Under the terms of the option agreement the Company does not retain an interest in the project. The capitalized costs of \$1,278,393 on the Huren Tolgoi property were written-off on May 10, 2005.

Gold Ram

The Gold Ram project (15,533 hectares) is located in the western Gobi region of Mongolia, 190 km's S/W of the south Gobi's capital city, Dalanzadgad. Canrim holds a 100% interest in the Gold Ram property, subject only to annual Government license fees.

Khondloy

The Company acquired a 100% interest in the Khondloy Property consisting of 3 contiguous licenses covering 22,360 hectares located in Bayanhonger Province, Mongolia.

Naranbulag

The Company purchased a 100% interest in the Naranbulag Property covering 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.

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South Valley

The Company entered into an Option Agreement to acquire up to 60% of a Copper/Gold exploration property known as South Valley. The South Valley property (1,464 hectares) is located near Choilbasen in Mongolia's Dornod Province. Under the terms of the agreement the Company paid the license holder US\$100,000 upon execution of the agreement on January 15, 2004. The Company had the right to incur US\$500,000 in exploration expenditures on the property within one year of the agreement date, and US\$500,000 in the second year, totalling US\$1,000,000 over two years. Upon completion of the exploration, the Company was required to pay the license holder US\$1,000,000. This payment was to be made within 60 days of receiving the final report on the two years of exploration work. Upon completion of the cash payment and exploration expenditures, the Company would acquire a 60% interest in the property. After the Company earned the 60% interest in the property, the project was to continue as a joint-venture with each party responsible for their share of ongoing costs. The Company had a first right of purchase of the license holders 40% interest.

After careful review, management decided against making the US\$1,000,000 due under the agreement. Under the terms of the option agreement the Company does not retain an interest in the project. The capitalized costs of \$1,101,903 on the South Valley property were written-off on September 30, 2005.

Bayan Undur

The Company acquired a 100% interest in a property known as Bayan Undur. The Bayan Undur property (28,830 hectares) is situated in Bulgan sum of Khovd province which is 1800 km west of Ulaanbaatar, 350 km south from Khovd provincial center and 56 km from Yarant Mongolia-Chinese border station.

During the period ended September 30, 2006, the Company wrote off its investment in the Bayan Undur property.

Shavar Uul

The Company acquired a 100% interest in a property known as Shavar uul. The Shavar uul property (2,933 hectares) is situated in the northwest side of Edren and Suman Khad Mountains located in the area of Erdene sum of Gobi altai province. The property is located 1250 km west of Ulaanbaatar and 250 km south from the provincial center Altai.

During the period ended September 30, 2006, the Company wrote off its investment in the Shavar Uul property.

Argalant

On October 6, 2005, the Company entered into a letter of intent with Planet Exploration Ltd. ("Planet") which gives Red Hill an option to earn a 60% interest, and a second option to earn an additional 20% interest, in Planet's 100% owned Argalant property.

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Under the terms of the agreement Red Hill paid US\$100,000 and will incur an aggregate of US\$1,500,000 of exploration expenditures on Argalant within three years. Red Hill has the option to complete the expenditures within a shorter time period if desired. 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.

Banbury

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.

**Coal Projects:**

Ulan 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 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 purchase price will be paid as follows, subject to regulatory approval:

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 is payable to a third party by the Company in respect of the Ulan Ovoo purchase, subject to regulatory approval.

On May 8, 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

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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 Licences. 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, 2006, the Company had made payments totalling US\$3,250,000 and 75,000 shares were issued as a finder's fee to a third party.

Chandgana Project

On March 29, 2006, the Company entered into a letter agreement with Coal Khentiy Ltd. that sets out the terms to acquire a 100% interest in the property known as Chandgana coal project. The Chandgana property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 km east of Ulan Bataar. Under the terms of the agreement, the Company will pay a total of US\$400,000, plus 250,000 common shares of UGL. A finder's fee of 50,000 common shares is payable to a third party by UGL. The transaction is subject to regulatory approval. The purchase price will be paid as follows, subject to regulatory approval:

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

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. A finder's fee of 50,000 shares were issued as a finder's fee to a third party.

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**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 covers Red Hill's current uranium ground holdings in Mongolia, totaling approximately 339,000 hectares, which are 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 extensive 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. The equivalent of CDN\$75,000 shares of Mega are not required to be issued if Red Hill does not issue the 250,000 common shares for the Nergui property.

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.

Included in Red Hill's uranium ground holdings in Mongolia are the following projects:

Naidal Property

The Company acquired a 100% interest in a property known as Naidal Uranium project located in the province Tuv in northeast Mongolia. The Naidal project (39,810 hectares) acquisition cost US\$5,000 and 100,000 shares at a deemed price of \$0.40 per share. The shares issued were subject to a four-month hold period expiring on April 22, 2005

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Baganuran Property

The Company acquired a 100% interest in a property known as Baganaran. The Baganuran property (13,446 hectares) is a Uranium project located in the Darnogovi province of Mongolia. The purchase price for the Baganuran property is US\$30,000 of which US\$15,000 has been paid, and US\$15,000 to be paid within 14 days of the title of the license being transferred to the Company.

Maikhan Property

The Company acquired a 100% interest in a property known as Maikhan (referred to as the Ovoot Khuh property on the December 23, 2004 press release). The Maikhan property (2,500 hectares) is a Uranium project and is located in the Khentii and Dornod provinces of Mongolia. The Maikhan property was acquired by payment of US\$40,000.

Nergui Property

The Company entered into an agreement to acquire a 100% interest in a property known as Nergui. The Nergui property (123,562 hectares) is a Uranium project located in the Bulgan province of Mongolia. The purchase price for the Nergui property was US\$136,500 and 250,000 shares of the Company at a deemed price of \$0.60 per share. After careful review, management decided against issuing the 250,000 shares due under the agreement. Under the terms of the agreement the Company does not retain an interest in the project. The capitalized costs of \$187,026 on the Nergui property were written-off during the period December 31, 2005.

**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		\$1
Gold Ram	36,349	5,597		41,946
Khondloy	108,822	12,537		121,359
Shavar Uul	43,383	0	(43,383)	0
Naranbulag	200,744	8,543		209,287
Chandgana	0	828,196		828,196
Bayan Undur	99,454	0	(99,454)	0
Argalant	291,236	31,581		322,817
Ulan Ovoo	247,389	5,118,700		5,366,089
Uranium Option Agreement	35,012	156,671		191,683
Total	\$1,062,390	\$6,161,825	(142,837)	\$7,081,378

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(b) Schedule of exploration and development expenses:

Acquisition costs:

	Acquisition costs, beginning	Incurred during period	Properties abandoned	Acquisition, end of period
Banbury	\$1			\$1
Gold Ram	\$11,857			\$11,857
Khondloy	\$33,402			\$33,402
Shavar Uul	\$13,852		\$(13,852)	\$0
Naranbulag	\$186,396			\$186,396
Chandgana	\$0	814,334		\$814,334
Bayan Undur	\$20,778		\$(20,778)	\$0
Argalant	\$119,485			\$119,485
Ulan Ovoo	\$232,940	3,977,563		\$4,210,503
Uranium Properties	\$(36,608)			\$(36,608)
<b>Total</b>	<b>\$582,103</b>	<b>\$4,791,897</b>	<b>\$(34,630)</b>	<b>\$5,339,370</b>

(b) Exploration expenses:

	Gold Ram	Khondloy	Shavar Uul	Naranbulag	Chandgana	Bayan Undur	Argalant	Ulan Ovoo	Uranium Properties	Total
Exploration, Beginning of period	\$24,492	\$75,420	\$29,531	\$14,348	\$0	\$78,676	\$171,751	\$14,449	\$71,620	\$480,287
Drilling								550,163	462,940	1,013,103
Licences and tax	5,597	12,537		8,543	1,464			39,460	3,896	71,497
Transport, Shipping, Other								57,843	33,695	91,538
Assaying							8,861	30,307	6,147	45,315
Geological Consulting								429,263	81,180	510,443
I/P Resistivity Survey							19,605		210,412	230,017
Other Field Work					12,398		3,115	34,101	133,767	183,381
Option Exploration funding									(775,366)	(775,366)
Exploration expenses written off			(29,531)			(78,676)				(108,207)
<b>Exploration, End of period</b>	<b>\$30,089</b>	<b>\$87,957</b>	<b>\$0</b>	<b>\$22,891</b>	<b>\$13,862</b>	<b>\$0</b>	<b>\$203,332</b>	<b>\$1,155,586</b>	<b>\$228,291</b>	<b>\$1,742,008</b>

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**Exploration Results**

All Red Hill work programs are supervised by Mr. Glenn Griesbach, P.Geo., Director Mel Klohn, L.P.Geo, and, Director Mr. Garry Clark, P.Geo who is Red Hill's Qualified Person for work in Mongolia and assists in overseeing all operations. Mongolian logistical support is provided by MineInfo, a leading Mongolian consulting and exploration group based in Mongolia's capital Ulanbaatar.

**Copper/Gold Projects:**

Huren Tolgoi Property

On May 9, 2005, after careful review, management decided not to proceed further with the Huren Tolgoi copper/gold property due to excessive future carrying costs on the property's 100% option. Under the terms of the option agreement the Company does not retain an interest in the project.

Gold Ram Property

Combined results from a previous Mongolian geological survey and a 2003 Red Hill exploration program on the company's Gold Ram property include prospective high-grade gold occurrences of up to 17 g/t within a system of mesothermal quartz carbonate veins in a sheared intrusive, within Nomhon formation sediments. Red Hill is encouraged by the results of the 2003 exploration program and plans to evaluate the results and determine if a further program will be completed in 2007.

Khondloy Property

Red Hill completed a limited sampling program on the Khondloy property in 2003. This program was comprised of sampling the known occurrences and the discovery of the Darhan Suuj gold occurrence.

The Contact Fault Zone had been previously explored by the Chinese and more recently drilled (11 holes) by the Russians. The zone has been traced for over three kilometers, and sampling by the Company's field crew have returned values up to 0.74 g/t gold, 14.0% copper, 5.28% zinc, and 21 g/t silver. In total 35 rock chip grab samples were taken from outcrop locations and from the ancient workings, with 11 samples returning greater than 0.80% Cu, 12 samples returning greater than 0.10 g/t Au, and nine samples returning greater than 1.0% zinc.

The Intrusive is located to the south of the Fault Contact occurrence. Nine rock chip grab samples were taken and returned copper values up to 0.8%, and gold values up to 0.19 g/t. Copper values ranged from trace to 0.76%, zinc values from trace - 0.01%, lead

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values from trace - 0.40%, silver values from nil- 62.0 g/t, and gold values from nil - 0.07 g/t.

The Darhan Suuj occurrence is located in the eastern portion of the property. The occurrence comprises quartz and quartz-sulphide veins and veinlets in a diorite intrusive. Results of nine rock chip samples returned copper values ranging from 0.01 - 2.21%, zinc values ranging from trace - 0.02%, lead values ranging from trace - 0.25%, and gold values ranging from nil - 0.15 g/t.

In June and July 2005, detailed mapping was conducted at a scale of 1:2000 along the 1 km strike length of the more-prospective part of the Khondloi copper-gold occurrence, as reported previously. The 2005 work has enabled Red Hill to determine that the mineralization is concentrated in the vicinity of a large-scale open fold axis and at or near the base of marbleized limestone units overlying schistose metasediments and subvolcanics.

Detailed prospecting was performed over the Darkhan Suuj copper-gold occurrence, located several km northeast of the Khondloi occurrence, where it has now been determined that high-grade copper and gold samples taken in 2003 were obtained from small rare blebs of chalcopyrite within quartz veins with almost no possibility of ore potential. Rock exposure is generally excellent. Diorite containing hundreds of isolated quartz veins, pods, lenses, and veinlets is present over an area of several square kilometers surrounding the occurrence. The quartz is obviously of metasomatic origin and, with very rare exception, contains no visible mineralization. The quartz bodies rarely exceed several square metres in over all surface dimensions and the same probably holds true for the vertical dimension.

Of the 73 rock chip grab and channel samples that were taken in June from all areas of the property, only 13 returned copper values greater than 0.3% Cu, with the greatest being 0.95% Cu. Sixty-three of the rock samples returned less than 0.1 ppm Au, nine returned less than 0.3 ppm Au and one returned a value of 1.34 ppm Au. All the higher-grade copper and gold samples were taken from existing pits at the most-prospective part of the Khondloi occurrence. Red Hill believes that the copper and gold assay values are, overall, less than those obtained in 2003 due to larger sample sizes taken in 2005.

No new copper or gold occurrences were found anywhere else on the property.

Red Hill is currently evaluating the results of the fieldwork and their impact on the exploration potential of the property.

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Naranbulag Property

The Naranbulag property covers numerous ancient copper workings and quarries hosted in granites and silicified volcanics. The property has had 3,208 meters of diamond drilling (33 holes) and trenching by Russians (1977 to 1979). Based on this program 9 mineralized zones are indicated with reported grades of 0.20 to 0.50% copper. The width of mineralization varies from 6m to 35m. Red Hill in 2005 completed a sampling and mapping program of the property to assess the copper mineralization and the geological setting. A total of 49 samples were taken with copper values up to 7.02% and gold values up to 0.08 grams per ton.

Shavar Uul

During the period ended December 31, 2005, after careful review, management decided not to proceed further with the South Valley copper/gold property due to excessive future carrying costs on the property's 60% option. Under the terms of the option agreement the Company does not retain an interest in the project.

Bayan Undur

During the period ended September 30, 2006, after careful review, management decided not to proceed further with the Bayan Undur copper/gold property and wrote off its investment in the property.

Shavar Uul

During the period ended September 30, 2006, after careful review, management decided not to proceed further with the Shavar Uul copper/gold property and wrote off its investment in the property.

Argalant Property

Argalant covers 2,090 hectares approximately 900 km due west of Mongolia's capital Ulaanbaatar in the Mongolian province of Zavkhan. From late April to June of 2004 Planet conducted exploration programs on Argalant comprising geological mapping, grab and soil samples, and geophysics (Induced Polarization and ground magnetics). This program was preceded by a smaller Planet reconnaissance program conducted in 2003 where 54 grab samples were taken. The programs were successful in outlining two important high-grade perpendicular striking prospects on Argalant: the Ovoot and the Gozgor.

Ovoot consists of multiple high grade copper/gold prospects consisting of fractures with malachite-azurite staining in andesite, skarnised gabbro and quartz sulphide veins with significant values of copper and gold. Numerous historical pits are present partially tracing the mineralization. Assay results from surface samples on Ovoot have ranged

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from 0.77 to 11.0 grams gold per ton and 1.81% to 10.32% copper (Planet Press Release February 12, 2004).

The Gozgor prospect is located about 1000 metres to the northwest of the Ovoot prospect. The Gozgor prospect consists of several structurally controlled, northeast trending, gold and copper-mineralized quartz veins that have been identified in several outcrops over a strike length of at least 1,800 meters. The quartz veins, locally up to 1.5 meters wide, are observed within a number of granite outcrops that are separated by wide swathes of sandy overburden.

A number of grab samples of sulphide-bearing quartz have been collected from the Gozgor quartz veins and have been analyzed for gold. The results of the grab sampling along a 720 metre section returned values of 5.0 to 191.0 grams gold per ton. (Planet Press Release July, 22 2004) These samples are all grab samples and may not accurately reflect the average grade of the quartz vein system.

On November 8, 2005, the Company announced that drilling had commenced on its 2,090 hectare optioned Argalant property. The program was to consist of several diamond drill holes, totaling no less than 1200 metres and was designed to test the property's high-grade Ovoot and Gozgor prospects.

Red Hill's drilling program was to test the down dip extensions of the known high-grade copper and gold showings (up to 10% copper and 191 grams per ton gold) and also test several geochemical and geophysical (mag and IP) anomalies. The first diamond drill hole was collared on November 3 (Hole ARDH-2005-1) to test the area of Chinese pits on the Ovoot copper zone.

Red Hill conducted a 3-hole drilling program at Argalant. More holes had been planned, however difficulties with the drill caused the program to be unexpectedly extended into late October and early November when unusually cold weather forced cessation of the drilling. However, good results were obtained from the limited drilling program. The drilling program targeted the Gozgor high-grade gold quartz vein with one hole and the Ovoot copper zone with two holes. Three holes totaling 1,200 metres were completed before winter conditions froze all the water sources. Diamond drill holes ARDH-2005-01 and 03 targeted the Ovoot copper-rich zone. Hole 2005-01 intersected 0.696 gram gold per tonne and 1.75% copper from 87.70 to 90.40 metres (2.7 metres) and 0.70 gram gold per ton and 0.844% copper from 183.0 to 186.0 metres (3.0 metres). Hole 2005-03 intersected 0.477% copper from 23.7 to 76.7 metres (53 metres), with 2.259% copper from 51.0 to 55.0 metres. Hole 2005-03 was stopped at 76.7 metres due to freezing of the

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water sources and ended in anomalous copper mineralization. Hole ARDH-2005-02 targeted the high-grade Gozgor gold showing. The assay results of the drilling included 0.778 gram gold per ton over 1.95 metres.

The geological model for the Argalant mineralization remains somewhat subjective at this stage; however it contains skarn mineralization related to possible porphyry intrusive, with peripheral (tourmaline-bearing) highly auriferous quartz-carbonate veining and stockworks.

Argalant is bordered on all sides by QGX Gold's 5,500 square kilometer licensed area covering most of the geological belt. The geological setting of this area has been interpreted as being analogous to Canada's Abitibi greenstone belt (QGX press release Sept. 7, 2005). QGX's (TSX-V QGX) Golden Hills 3.3 million ounces gold equivalent discovery (see QGX Gold March 8, 2007 press release or [www.qgxgold.com](http://www.qgxgold.com) for further information) is located approximately 45 kilometers northwest of the Argalant property.

Red Hill drill targets were selected based on geological mapping, rock grab samples (275 samples) and soil (534 samples) sample results, and geophysics (Induced Polarization and ground magnetics). The program was intended to be the first phase of a larger program that may include additional induced Polarization surveys and diamond drilling.

A third prospect is the Tsohiot gossan zone discovered in the extreme southwest part of the property during the last few days of the 2004 program conducted by Planet Exploration. The Tsohiot prospect is about 2000 meters south of the Gozgor Prospect. An IP survey was conducted over the Tsohiot prospect in 2004 but it has not been covered by geochemistry. Red Hill geologists are currently examining this area more closely and Red Hill may decide to drill hole the target during the next phase of drilling.

Banbury

The Company has no plans for exploration on the Banbury property in 2006.

**Uranium Projects:**

On July 15, 2005, Mega (formerly Maple) provided Red Hill \$127,490 (US\$105,455) for the purpose of funding exploration on Red Hill uranium properties. As of December 31, 2005, Red Hill had expended \$112,226 of the option funds in exploration on uranium properties.

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On March 17, 2006 Mega provided Red Hill \$287,986 (US\$250,000), on August 22, 2006 Mega provided an additional \$387,380 (US\$350,000), and on November 16, 2006 Mega provided an additional \$100,000 (US\$87,565) for a cumulative total of \$902,856 (US\$793,020) for the purpose of funding exploration on Red Hill uranium properties. As of December 31, 2006, Red Hill had expended a cumulative total of \$1,044,263 in exploration on the uranium properties.

Canadian 43-101 qualified geologist Mr. Glenn S. Griesbach has been appointed Uranium Exploration Program Manager for all Red Hill Mongolian uranium properties.

On December 12, 2005, Red Hill announced the completion of five Russian language reports commissioned by Red Hill on 8 of Red Hill's Mongolian uranium properties, which have been joint ventured with Mega Uranium Ltd. The five reports cover the Jargalan, Elgen, Naidal, Maikhan, Modot Del, Adag Usnii, Shorvog Gol, and Khashaat properties. A sixth report on Baganurat has since been completed. The reports were prepared under the direction of senior Russian uranium geologists, some of whom participated in joint Soviet-Mongolian uranium exploration in Mongolia in the 1980s and 1990s. The reports are extensive and include Russian information pertaining to geography, known uranium occurrences, historical drilling and trenching. The reports also recommend potential drill targets and provide general recommendations for areas for exploration expansion.

Naidal Property

Previous Russian work on the project includes prospecting, mapping, drilling and a radiometric survey. The structural zone controlling the development of the uranium mineralization has been tested over a 1600-meter strike length, with surface trenches on eight cross-sections varying in length from 100-300 meters.

The property consists of 2 areas, northern and southern. In the northern target area the previous Russian work has identified a mineralized area that is 300 metres (m) in length, with an average thickness of 4.5 m, returning an average grade of 0.073% uranium. Previous work on the southern part of the field has identified a mineralized area that is 600 m in length and between 0.5 and 5.0 m in thickness with grades from anomalies, up to as high as 0.063% uranium. Both the northern and southern mineralized areas are at a maximum depth of 10m.

The Company intends to continue to review the data on this project with the plan to begin further exploration on the property.

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Maikhan Property

Uranium was discovered on Maikhan during Russian work programs conducted in the spring/summer of 1976. In addition to sampling and mapping programs, the previous Russian programs on Maikhan included 11,700m of trenching. The programs report the identification of a 5km long uranium zone trending northwest and southeast. The thickness of the zone is believed to be 50-70m, dipping northwest at 70 degrees. Values up to .65% uranium (U) have been reported from within this zone.

Results from the Russian trenching program were reported as follows:

Six trenches were dug in this area, four in the southeast section of the above-mentioned zone (trenches 3-6), and two in the western section (trenches 1 and 2), which were dug to the northwest for 650m.

The element distribution in the ore as described in the Russian Maikhan reports is very similar to the Gurvanbulag and Dornod uranium deposits.

Trench 1 intersected a mineralized zone with values of 0.22% uranium (U) over 2m.

Trench 2 intersected a mineralized zone with values of 0.481% uranium (U) over 2m and a grade of 0.65% uranium (U) over 1m. Secondary mineralization (uranophane) was recorded in this trench.

Trench 3 crosses two mineralized zones. The first intersection has values of 0.184% uranium (U) over 2m and 0.321% uranium (U) over 1m. The second intersection recorded values of 0.182% uranium (U) over 2m. The mineralized zones have been described as "vein-like", with coffinite, pitchblende and colloform present. Molybdenum, pyrite, galena, chalcopyrite and sphalerite have also been recorded in the trench.

Trench 4 encountered .063% U over 1m while trench 5 and 6 had values of molybdenum, lead, zinc, arsenic, silver and beryllium.

The host rock is a quartz-feldspar porphyry of Jurassic age, with associated hematite, kaolinite, and argillic alteration. Uranium mineralization in the license is largely controlled by the northwest fault system, occurring in small fractures along the porphyry. Mineralization is generated from hydrothermal processes. Minerals associated with uranium mineralization within the property include: disseminated uranophane; pitchblende; coffinite; kasolite and; pyrite. Other elements occurring include: Mo (up to 0.05%); Pb (up to 0.15%); Zn (up to 0.04%); As (up to 0.08%); Be (up to 0.02%) and; Ag (up to 0.001%). Uranium grades range from 0.063% to 0.65%.

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In early 2005 Red Hill conducted a short reconnaissance program on the Maikhan property, consisting predominantly of ground spectrometer coverage. No trenching or drilling was conducted.

On June 6, 2006, exploration work recommenced on Red Hill's Maikhan property. The program of work was designed to follow up on the favourable results of last year's program. Newly developed technologies are being used that have already improved Red Hill's understanding of the property. It is known that uranium mineralization at Maikhan is associated with at least two prominent fault zones. Early survey indications are that a third such zone lies under a valley which is covered by deep unconsolidated sediments. In 1976 this zone was drilled in one location, however our Russian geologists believe that the 49 meter depth of the deepest hole was not deep enough to test the prospective target zone.

On June 19, 2006, the Company announced a 4,500 metre drill program for the Baganaran and Maikhan properties. On November 24, 2006, the Company announced the results of the 1,499 metre diamond drilling program on the Maikhan property. 7 angled holes of 65-73 metres depth were drilled. The downhole gamma logging delineated only narrow intervals of low equivalent uranium grades (maximum 0.04% U<sub>3</sub>O<sub>8</sub>) associated with fracturing, argillic alteration, and local disseminations and stringers of molybdenite and chalcopyrite. Geochemical assay results are awaited for other zones of molybdenite and chalcopyrite mineralization.

Baganaran Property

Uranium was first discovered on the Baganaran property during Russian exploration programs in 1982, which led to additional Russian work programs being conducted on Baganaran in 1987. The exploration programs included geological mapping, sampling and 1,878 metres of trenching.

Conclusion reports from the Russian exploration programs resulted in a calculated uranium reserve being reported in pounds. This estimated reserve, though significant, is currently lacking enough supporting data for Red Hill management to confirm its size or grade. The Russian reports indicate a zone of uranium mineralization located on the Baganaran property approximately 3.5km long and lying 2-3 meters deep. Indicated uranium values were reported highest in the upper Cretaceous-Neogenic sediments.

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On June 19, 2006, The Company announced that promising results had been obtained from a six week field work program on the Baganaran property. Three areas on the property were explored in detail. The program included mapping, gamma-spectrometer surveys, and resistivity surveys using the vertical electric soundings (VES) method. A reconnaissance magnetic survey was also conducted on Block 3. Results are promising with a number of partly to completely overlapping uranium and thorium anomalies identified. These include one strong, resistivity-defined, structural lineament with a series of three perfectly coincident, elongated uranium anomalies oriented parallel to the lineament. The anomalies along this particular lineament on Block 1 were the prime targets of the planned 4,500 meter rotary air blast (RAB) drilling program that was conducted. Approximately 100 holes were drilled to depths ranging from about 30m to 60m. Most of the holes were drilled at intervals along fence lines that cross a number of structures and roughly coincident uranium-thorium anomalies. Additional drilling was conducted on several other Block 1 uranium anomalies that are proximal to strong structural lineaments. A small amount of RAB drilling, totaling about 1,000 meters, was also planned for Block 3. Three holes were planned to be drilled on each of 3 north-south lines located in the west, center, and east part of the block. The holes were to test for uranium mineralization within Lower Jurassic-Upper Cretaceous sedimentary rocks immediately overlying Paleozoic granites.

On November 24, 2006, the Company announced the results of the 3,001 metres aircore/RC drilling program conducted over the three prospect areas.

On Block 1, shallow vertical drill holes, at 50-200 metre intervals on lines 400-800 metres apart, intersected shallow dipping siltstone horizons with low grade uranium mineralization over 0.13-2.3 metre widths at 5-7 metre depths. Based on downhole gamma logging results, the grade of these mineralized intervals ranges from 0.01% to 0.03% equivalent U<sub>3</sub>O<sub>8</sub>. In Block 2, which is contiguous to the west of Block 1, three lines of vertical drill holes to 36 metres depth (total 820 metres) intersected thin intervals (0.23-2.24 metres) of low grade uranium mineralization within argillaceous sediments at 7-12.5 metre depth. Downhole gamma logging results indicated average grades in the range 0.016-0.032% equivalent U<sub>3</sub>O<sub>8</sub>. In Block 3, located in the northern part of the Baganaran property, eight deeper holes of 44-120 metre lengths failed to intersect anything of significance within sediments and volcanics of Upper Jurassic- Upper Cretaceous age.

While based at Baganaran, the exploration team conducted a 2 day reconnaissance gamma-spectrometer survey of the Khashaat property located in Dundgovi Province, about 100km west of Baganaran. The work indicated that the previously reported "Ore Body #4" is probably not the only significant uranium mineralized occurrence in the Khashaat property. Ore Body #4 is a fault-related U-P-Mo deposit located at the NE-SW trending fault contact between Cretaceous sandstones and Proterozoic marbles, granites

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and gneisses. This fault, which extends for about 500 meters within the property, has been previously investigated by trenching but remains untested by drilling. Visual observations made by one of Red Hill's Russian uranium geologists suggest that significant hydrogene, sandstone-hosted, uranium mineralization similar to that found in the Baganaran property, as well as hydrothermal (Olov type) uranium mineralization, are present in the Khashaat property.

The results of field work conducted in 2006 have provided Red Hill with a number of targets for advanced exploration in 2007. Prospecting and mapping of the Jargalan licence areas in 2006 provided new insights into the potential of the property. Two paleovalleys viewed as highly prospective for uranium deposits will be drilled later this year. An initial 1,150 metres of drilling has been planned. If results are good, the drill program will be expanded.

All of Red Hill's uranium properties received at least several days of field reconnaissance in 2006. In addition to Jargalan, the following 6 properties have been selected for work in 2007: Ganga (Dornogovi Province), Khashaat (Dundgovi Province), Naidal (Tuv Province), Emeelt (Dornogovi Province), Elgen (Tuv Province), and Ulziit (Dornod Province). The Ulziit property is a new acquisition, having been granted to Red Hill on December 20, 2006. This 5,849 hectare license in far eastern Mongolia was selected based upon information found in archives together with a verification reconnaissance trip. Several licenses deemed unfavorable for economic concentrations of uranium mineralization will be allowed to lapse in 2007. In addition to Ulziit, applications for other licenses have been submitted and negotiations are underway to purchase additional properties.

Historical information and supporting field observations made in 2006 indicate that there are drill-ready targets on the Ganga, Khashaat and Naidal properties. An initial 2,500 combined meters of drilling is budgeted for these properties.

Red Hill has selected 3 areas for exploration on its large Ganga (72000 Ha.) property and plans to drill at least 1000 meters in 2007. In 1976 previous workers discovered a roll front type uranium occurrence at 200-300 metres depth about 2 to 5 km south of the property. Red Hill geologists will search for evidence of a shallower roll front deposit within the property.

On and adjacent to Red Hill's Khashaat Property are a number of uraniferous phosphorite occurrences that have historically been known as Ore Bodies #1, #2, #3 and #4. The principal Bodies, held by International Uranium Corp, are located to the NE of the Khashaat license area. Fault-controlled Ore Body #4 is on Red Hill's property. Red Hill geologists briefly prospected Khashaat in May 2006 and found anomalous radiometric

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readings within the northwest part of the license area. Red Hill plans to drill an 800 metres long target on Orebody #4 this year. Red Hill has also identified uranium targets in the vicinity of Orebody #4 and in the south central part of the property.

Red Hill has not fully assessed the Naidal property through field work. However, in 2007 it intends to investigate a number of untested uranium anomalies to the north and west of the area that was the focus of previous exploration.

A brief examination of the Emeelt Property was made in June 2006. Red Hill found signs that significant uranium mineralization may be present. These include anomalous uranium in volcanic rocks showing epithermal alteration. The northwest corner of the Emeelt property will be explored in 2007. It is underlain by Jurassic-Cretaceous rhyolite, tuffs and basalts which have been intensely metasomatized. These rocks lie within the northeast trending Ulaan Nur volcano-tectonic structure that is a known uranium host. The Ulaan Nur Uranium deposit is located within this structure about 20 km to the northeast of the property.

The Elgen (Tuv Province) Property will receive first-pass attention in 2007.

In 2006, Red Hill's Canadian, Russian and Mongolian geologists also made a number of weeks-long prospecting forays to 8 areas in 6 provinces in central, southern and eastern Mongolia in order to evaluate prospective open ground for acquisition. These trips were based on information obtained from historic database files stored outside Mongolia and through discussions with highly informed semi-retired Russian geologists who participated in 1970's exploration in Mongolia. Results of these reconnaissance forays are extremely promising and as a result, certain areas were applied for in late 2006, and other applications will be made in 2007. Our Russian uranium experts have pointed out that a number of highly prospective areas, blanket-staked by numerous under- and non-financed individuals and companies in the rush of 2004 and 2005, will be coming open in 2007.

Nergui Property

During the period ended December 31, 2005, the Company decided not to complete the acquisition and wrote off its investment in the Nergui property. The 250,000 shares required to complete the purchase were not issued.

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**Coal Projects:**

Ulaan Ovoo Property

The Ulaan Ovoo project is in the large Jurassic-age Zelter coal basin in northern Mongolia, very close to the Russian border. Detailed work on the Ulaan Ovoo project, performed in 1975 by the Mongolian Ministry of Geology and Energy and in 1993-1997 by Erdenet, a Mongolian state-owned mining and processing company, defined a substantial area of hard coal together with a significant area of additional potential.

The historical data from this work suggested that Ulaan Ovoo had a potentially large coal deposit, with historical estimates of 78 million tonnes inferred coal for the north part of the project area. The south part of the project area, which remains incompletely explored, is speculated to have an exploration target of comparable potential size. The historical resource estimates for the north area are based on a series of core holes drilled at 40m to 500m spacing to depths of 250m or more across an area of several square km.

The historical work on Ulaan Ovoo includes a total of 66 drill holes, nearly 500 analyzed coal samples, detailed mapping and several engineering and preliminary scoping analyses. The project area is underlain by two main coal seams – with total net coal thickness up to 70m – and five minor layers, all of which are gently folded across the axis of a large syncline. The area is bisected and slightly offset by an east-west fault. Previous exploration work focused on a 3-square km area north of the fault, whereas the coal-bearing strata south of the fault remain poorly explored.

Ulaan Ovoo occurs in an area of moderately subdued topography with a sharply continental climate consisting of hot summers and cold winters. Although rainfall is sparse, historical studies indicate there is sufficient surface and ground water available to support a significant sized mining operation. The nearest railhead is only 120 km away at Shaamar and is accessible year round by unpaved road. The project is 8km by unpaved road to the Russian border.

Mr. Mel Klohn has been engaged by Red Hill to provide consulting services regarding the evaluation and advancement of Ulaan Ovoo and to act as the project's Qualified Person as defined by NI 43-101. Mr. Klohn is a Washington State Licensed Geologist, a member of the Society of Economic Geologists, the Society for Mining, Metallurgy and Exploration and the Canadian Institute of Mining, Metallurgy and Petroleum. Mr. Klohn was appointed to the board of directors on January 31, 2006. Mr. Klohn's experience includes 10 years as an Exploration Vice President or Project Manager for Yamana Gold and 25 years with Exxon. At Exxon, he worked in a variety of positions including Senior Research Specialist, Senior Staff Geologist and Senior Exploration Geologist. His activities at Exxon were directed toward a variety of commodities including coal,

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petroleum, uranium, gold and polymetallic minerals, and he was responsible for Exxon's last successful coal exploration venture prior to the divestiture of its coal interests in the late-1980s to early-1990s.

On January 17, 2006, Red Hill reported that the final agreement to purchase the Ulaan Ovoo coal project had been signed and that Red Hill has contracted Behre Dolbear & Company (USA), Inc. to complete assessment and modeling of the historical inferred 78 million tonne bituminous coal resource and surrounding area of interest, and include completion of a NI 43-101 compliant Technical Report and the interpretation, collation and digitization of the project's historical drilling (66 holes) and sampling data.

A Behre Dolbear representative visited the site and prepared a resource evaluation consistent with JORC standards and the CIM Definition Standards (adopted on November 23, 2004). Red Hill was forwarded the newly revised Reportable Coal Resource in advance of the completed Behre Dolbear NI 43-101 compliant technical report on February 27, 2006.

On February 27, 2006, Red Hill announced that it has received confirmation and a significant upgrade to the historical coal resource estimate for its Ulaan Ovoo Coal Project in northern Mongolia. Red Hill announced the completion of the NI 43-101 compliant report on March 20, 2006.

The new estimate in a NI 43-101 compliant report, independently prepared by Behre Dolbear (USA) of Denver, Colorado, upgraded the previously announced historical inferred resource estimate of 78 million tonnes by 75% to a Reportable Coal Resource (measured plus indicated) totaling approximately 136.4 million tonnes. Of the 136.4 million tonne resource estimate, 77 million tonnes represents measured resource and 59.4 million tonnes is indicated. It has an average heating value of 6,990 kcal/kg (12,600 BTU), low ash content and low sulfur content. Coking potential will be evaluated in the coal quality analysis phase of the exploration program. Previous studies have shown that it has potential to be feedstock for synthetic fuel oil production.

On March 20, 2006, Red Hill announced that it had contracted Behre Dolbear to prepare a Technical Feasibility Study to determine reasonable mining rates, mining methods and other operational details as a prelude to developing an economic year-around mining operation.

A 10-hole drill program (2,500m) commenced in April, 2006 with 5 holes planned to confirm and upgrade the indicated Resources in the north block and 5 holes planned to define additional possible resources in the incompletely explored south block. The two-phase exploration program was conducted by Behre Dolbear & Company (USA).

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On May 9, 2006, the Company announced that it had successfully completed its 5-hole Phase 1 core drilling program designed to confirm the Ulaan Ovoo coal deposit. Results of the program to date indicate that the thick, relatively flat-lying coal seams, first identified by a 1970's drilling program, are in some instances substantially thicker than reported in the historical drilling.

The five holes have been completed for 1,110 total meters to confirm the presence of thick, relatively flat-lying coal seams which cross the property. A sixth hole was abandoned and relocated due to recovery problems. Four of these holes were drilled as twins to historical drill holes, and all four holes confirm or increase the thicknesses of coal reported in previous drilling. A fifth hole was drilled in the southeast part of the block where no previous drilling had been done.

Two major coal sequences exist at Ulaan Ovoo, with the upper seam being the thickest and most continuous. Current drilling shows that the upper seam in the area north of a central fault, which bisects the deposit, ranges in thickness from 35.8 to 77.1 meters and averages 57 meters. The drilling additionally shows that the thickness of the lower seam, ranging from 5.1 to 20.6 meters, has been under-reported in the previous drilling. As a consequence, it is possible the northern block coal resources could be larger than the Behre Dolbear estimate, which was based solely on historical drilling.

Results of Red Hill's Phase 1 drilling are summarized as follows:

UGL hole #	Twinned hole #	New interpreted coal thickness (meters)	Old reported coal thickness (meters)	Comments
<b>06-001</b>	40	<b>62.8</b>	27.6	merged seams
<i>06-002</i>	<i>24k</i>	<i>Abandoned &amp; relocated as 06-003</i>		
<b>06-003</b>	33	<b>42.4</b>	19.3	4 benches
<b>06-004</b>	34	<b>60.6</b>	51.2	2 benches
<b>06-005</b>	11	<b>77.1</b>	75.4	merged seams
<b>06-006</b>	none	<b>56.4</b>	none	2 benches, new location

Core recoveries in the current program have been excellent, averaging 98 percent. Cores are being shipped to the SGS laboratories in Denver for coal-quality analyses. Results of this testing are pending.

Phase 2 of the program, which provides for 5 step-out exploration holes south of the central fault, started in mid-May. This Phase 2 program was designed to significantly increase the understanding of the geology of this coal basin to the south, which has been

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tested by only a single previous drill hole. This hole reported considerable thicknesses of coal in both the upper and lower coal seams. Behre Dolbear reported that there was excellent potential to increase the current resource by additional drilling in the south block.

On June 27, 2006, the Company announced that its recently completed exploration drilling program at its Ulaan Ovoo Coal Deposit in northern Mongolia has increased Measured Coal Resources in the Northern Block of the deposit by 33 percent (17.9 million tonnes) and overall total coal resources by 13 percent.

The new coal resource estimate as announced on June 27, 2006, for the Northern Block which incorporates the results of this new drilling are shown below. The revised estimate is contrasted with the previously reported 43-101 estimate:

		Previous estimate (million tonnes)	Revised estimate (million tonnes)
Measured Coal Resource	Northern Block	53.6	71.5
	Southern Block	23.4	23.4
	<b>Total Measured Resource</b>	<b>77.0</b>	<b>94.9</b>
Indicated Coal Resource	Southern Block	59.4	59.4
	<b>Total Coal Resource</b>	<b>136.4</b>	<b>154.3</b>

On September 6, 2006, the Company announced the final results from the two-phase 2006 drill program, including the southern block drilling. The results have increased the coal resource estimate announced June 27, 2006, by a further 51.6 million tonnes, to a revised total coal resource of 206.2 million tonnes.

<b>Revised Tonnage Estimate Incorporating All 2006 Drilling As Well As Pre-Existing Information</b>	
<b>Total Measured Coal Resource</b>	<b>174.8 million tonnes</b>
<b>Indicated Coal Resource</b>	<b>31.4 million tonnes</b>
<b>Total Coal resource</b>	<b>206.2 million tonnes</b>

The assessment of the new drilling results and new resource estimations were done by Behre Dolbear & Company (USA), who also planned and supervised the drilling program. In March, 2006, Behre Dolbear completed a NI 43-101 Technical Report on the Ulaan Ovoo Coal Deposit and recommended a two-phase exploration drilling to confirm and upgrade the known coal resources in the northern half of the coal basin (Phase I), to define additional coal resources in the scarcely explored southern half of the coal basin (Phase II) and to collect samples for new stringent coal quality analyses.

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Existing data and analyses from core hole drill samples collected in the 1970s and 1990s indicate that Ulaan Ovoo is a high quality, hard bituminous coal deposit, high in volatiles, low in sulfur and ash, with an average heating value of 6,990 kcal/kg (12,600 BTU). New samples from Red Hill's Phase I and Phase II drilling program, in which recoveries averaged an excellent 98 percent, have been transmitted to SGS Laboratories in Denver, Colorado (USA) for stringent analyses to confirm the quality of the Ulaan Ovoo coal. In addition to proximate and ultimate analysis of the coal core, other analyses of special interest will be to assess the coal's coking/semi-coking qualities that had been indicated in previous studies of Ulaan Ovoo coal.

The Ulaan Ovoo Coal Deposit appears attractive for potential mine development because it consists mainly of a massive, very thick, high-quality, essentially flat-lying complex coal seam. One of the recommendations of the Behre Dolbear 43-101 Technical Report on Ulaan Ovoo was for a detailed Scoping Study to determine the economic viability of this exceptional deposit.

On November 9, 2006, the Company announced the results of the Scoping Study prepared by Behre Dolbear, and determined that a sufficient coal resource exists to warrant economic development of the project from open-pit coal production.

The initial data source (N1 43-101 qualified Technical Report) for this study was the coal resource model that Behre Dolbear prepared for Red Hill Energy in February 2006. This information has been augmented with results from the 2006 exploration program. All figures are estimates and are quoted in **US dollars**.

**Highlights:**

<b>Production Per Year at full Capacity</b>	<b>6 million tonnes</b>
<b>Mine Life for the purpose of this study</b>	<b>20 years</b>
<b>Coal Deposit for purpose of this study</b>	<b>111 million tonnes</b>
<b>Economically Recoverable Demonstrated Coal Resources</b>	<b>208.8 million tonnes</b>
<b>Mine Life with additional resources</b>	<b>34-40 years</b>
<b>Average point stripping ratio of 3.74 bcm/tn (waste to coal ratio)</b>	
<b>Run of Mine Heat Value</b>	<b>10,000 BTU per pound (5,550 Kilocalories/kilogram (kcal/kg))</b>

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**Financial Analysis 111 million tonnes:**

<b>Avg. Capital Investment (20 year mine plan)</b>	<b>\$2.52 per tonne</b>
<b>Direct Operating Costs per tonne</b>	<b>\$7.41</b>
<b>Net Present Value at base case (5% discount rate)</b>	<b>\$225,500,000</b>

The current coal resource estimate of 208.8 M tonnes would provide sufficient coal to allow for a 34-year mine life at the production rates estimated for this study. It is anticipated by Behre Dolbear that the coal resources may be extended to the south sufficiently enough to expand the mine life to 40-years. Adjacent coal basins may well extend the production capacity and tonnage beyond 40 years.

**Markets for Ulaan Ovoo Coal:**

There are five broad opportunities where significant quantities of Ulaan-Ovoo coal may be sold.

- 1) Mongolia;
- 2) Siberia;
- 3) China;
- 4) Korea, Japan, coast of China and Philippines, Taiwan; and
- 5) Mine mouth power plant with transmission to Mongolia, Siberia and/or China

There are three modes of transporting coal from the proposed Ulaan Ovoo mine site to these markets: railroad, truck and on-site power generation & transmission.

For the purpose of the scoping study a mine mouth power plant that would allow for direct electricity sales to both China and Mongolia was elected by Behre Dolbear as the best way to demonstrate potential economic value of the Ulaan Ovoo deposit. The mine mouth power plant option is a relatively low risk scenario that generates solid profits. The coal price received by Red Hill Energy under this scenario would be up to 60% lower than projected sales prices to Japan, Korea, Taiwan, China, Russia and industrial sales within Mongolia but transportation costs would be virtually eliminated. Behre Dolbear anticipated that these other marketing strategies may have substantially greater profit margins and may prove to be superior avenues to pursue. Further in depth marketing and transportation investigations beyond those outlined in the scoping study are being conducted.

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**Profitability Estimates (mine mouth power plants)**

It is estimated that 6 M tonnes of coal per year with a heating value of 10,000 BTU using standard technology will support the generation of 1,200 megawatts of power. It was assumed that an initial 600 mega watt (MW) generating unit would be brought on line in Year 1 of production and a second 600 MW unit would come on line at the beginning of Year 4.

A 20-year plan as mined strip ratio is estimated to be 3.6 bcm/tn of waste per tonne of coal (3:6:1). The maximum depth of the open pit is 290 meters (m) below the surface.

The assumed coal sales price of \$17.50 per tonne at the mine site would result in the following:

<b>Net Cash Flow</b>	Per tonne \$7.72	Annual \$46,320,000 -
<b>After Tax Positive Net Income **</b>	Per tonne \$5.82	Annual \$34,920,000

\*\*The after tax positive net income figures take into account the recently enacted Mongolian tax law specific to coal including federal income taxes (\$1.86) local taxes (\$0.08), and estimated royalties (\$0.44) as well as depreciation (\$1.90) totaling \$4.27 per tonne.

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The \$17.50 per tonne coal price at mine site is a Base Case Estimate, The following table shows how changes in the actual sale price would impact the mine's economics:

<b>Table 19.4</b>					
<b>Base Case Economics and Sensitivities</b>					
<b>Sensitivities</b>		<b>ROR (%\$)</b>	<b>NPV @ 5% Discount Rate (\$M)</b>	<b>NPV @10% Discount Rate (\$M)</b>	<b>Net Income After Tax (\$/tonne)</b>
	<b>Price (\$)</b>				
25%	\$21.88	23.9%	\$449.6	\$218.3	\$9.02
15%	\$20.13	21.4%	\$372.1	\$172.1	\$7.74
10%	\$19.25	20.1%	\$333.3	\$148.8	\$7.10
Base Case	\$17.50	17.4%	\$255.5	\$102.3	\$5.82
	<b>Operating Cost (\$/tonne)</b>				
25%	\$9.26	14.1%	\$172.7	\$52.9	\$4.43
15%	\$8.52	15.4%	\$205.7	\$72.6	\$4.98
10%	\$8.15	16.1%	\$222.3	\$82.5	\$5.26
Base Case	\$7.41	17.4%	\$255.5	\$102.3	\$5.82
	<b>Capital Cost (\$M)</b>				
25%	\$344.8	14.0%	\$211.3	\$63.7	\$5.45
15%	\$318.8	15.2%	\$228.9	\$79.1	\$5.59
10%	\$305.8	15.9%	\$237.7	\$86.8	\$5.67
Base Case	\$279.8	17.4%	\$255.5	\$102.3	\$5.82
	<b>Fuel Cost (\$/liter)</b>				
100%	\$1.20	12.8%	\$138.6	\$34.3	\$3.81
50%	\$0.90	15.2%	\$197.0	\$68.2	\$4.31
25%	\$0.75	16.3%	\$226.1	\$85.2	\$4.81
Base Case	\$0.60	17.4%	\$255.5	\$102.3	\$5.82

Prior to commissioning a Bankable Feasibility Study, Behre Dolbear recommends taking the following three steps:

- 1) **Further define the most suitable market(s)**
- 2) **Expand resources by initiating exploratory drilling in the adjacent coal basins**
- 3) **Update the mine plan and mine schedule after evaluating new drill results**

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Red Hill is in preliminary marketing discussions with potential coal buyers in several countries. Successful marketing negotiations could lead to early production.

The independent Qualified Person responsible for summarizing the technical material presented in this release, and who will also serve as Project Manager for the Study in progress is Mr. Gardar G. Dahl, Jr., P. Geo, a Senior Associate of Behre Dolbear. Mr. Dahl is an established coal consultant with more than 35 years experience in coal exploration, mining and sales, both in surface and underground operations. Behre Dolbear is one of the oldest, continually operating minerals industry consulting firms in the world, offering fully integrated management consulting and technical advisory services specializing exclusively in the minerals industries from offices around the world. Behre Dolbear has performed numerous coal assignments globally for major and junior mining companies alike.

On November 15, 2006, the Company announced that it had entered into an agreement with private a Mongolian corporation, to purchase 100% title and interest in 5 mineral licenses including licenses that are contiguous and entirely surrounding the Ulaan Ovoo project. The aggregate purchase price for the licenses was US\$400,000, and a finders fee of 58,500 shares of Red Hill was paid on the acquisition. Under the terms of the agreement the Vendor retains a 2% Net Smelter Return on the 5 newly acquired licenses.

There are five known structural basins in the vicinity of the Ulaan Ovoo coal property, three of which are considered highly prospective for further discoveries of economic coal. Red Hill has planned 2007 exploration programs that include extensive drilling in the structural basins that surround the coal-bearing Ulaan Ovoo basin. 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. Drilling of the most promising surrounding basins is expected to start in the first quarter of this year.

Chandgana Project

On March 29, 2006, the Company entered into a letter agreement with Coal Khentiy Ltd. that sets out the terms to acquire a 100% interest in the property known as Chandgana coal project. The Chandgana property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 km east of Ulan Bataar. The project is reasonably close to good infrastructure – towns, roads, power lines – and contains a substantial quantity of historically-defined shallow, thick, good quality sub-bituminous coal which Red Hill believes might be amenable to a large-scale, low cost bulk mining operation.

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Chandgana Tal coal was first discovered by Russian surface reconnaissance in 1941 and subsequently explored in detail in 1962-1963. Exploration during this period consisted of digging 116 shafts and drilling 24 holes spaced on a 300-400 metre (m) x 150-400m grid to depths of 29 to 109m. In 1967, a small mine was opened to supply heating coal for local consumption and the mine has operated more-or-less continuously since, producing up to 20,000 tonnes of coal per year. The 1962-1963 Russian detailed exploration campaign defined coal resources, registered with the Mongolian States Reserve Council, using resource categories different from those currently accepted under Canadian National Instrument 43-101 (NI 43-101), but incorporating resource parameters – minimum coal thicknesses and maximum included parting thicknesses – generally consistent with those used today.

Using the Russian resource terminology, the area covered by Red Hill's two licenses contains a historical estimated coal resource of 31.0 million tonnes classified as categories "A" and "B," 59.6 million tonnes classified as category "C1," and 42.7 million tonnes classified as category "C2." According to recent published articles, such as that by S. Henley in the April 20, 2004, issue of the Mining Journal, the Russian resource categories "A and B" can generally be considered roughly equivalent to the "measured" resource category recognized by JORC (and accepted under NI 43-101), category "C1" is roughly equivalent to "indicated" resources and "C2" to "inferred" resources. **Red Hill emphasizes that these resource estimates are reported for historical purposes only and cautions that the veracity of this historical data has not yet been checked in detail and the compliance of the historical resource estimates with current NI 43-101 resource standards and acceptable categories has not yet been verified. Therefore, the historical coal resource estimate cannot be relied upon.**

The Chandgana Tal coal seams are Early Cretaceous in age and occur in an oval-shaped synclinal sub-basin, approximately 5 km x 7 km in size. Much of this coal-bearing sub-basin has not been explored in detail. It is apparently underlain by at least 5 known coal seams, with most of the coal resource carried by a single shallow thick seam. This seam is from 30 to 50m thick, is essentially flat-lying, and is overlain by no more than 34 m of overburden, a favorable situation for a potential future large-scale open-pit operation having a very low stripping ratio.

Results on core samples (411 total) collected by the Russians suggest that the Chandgana coal is a high volatile subbituminous A or B coal of good quality. The heating values range from 5,277 kcal/kg (9,499 BTU/pound) to 6,182 kcal/kg (11,129 BTU/pound) with an average volatile matter yield of 51.38%. The coal is desirably low in ash (average 11.67%), low in moisture (9.77% to 14.33%) and relatively low in sulphur (average 0.92%).

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The Russian drilling was too limited to define the full lateral extent of the Chandgana coal seams and was also too shallow to fully test the 3 coal seams which are known to lie below the thick seam.

Red Hill is preparing to advance its 100% owned Chandgana Tal Coal Project in the first quarter of 2007. Exploration is planned to define and advance historical Russian resource estimates to NI-43-101 and JORC compliant standards. Exploration is planned to define the shallow seam in detail in order to advance the historical resource estimate to NI-43-101 and JORC compliant standards and to explore three other coal seams known to occur at depth beneath the shallow seam. These three seams appear not to have been included in prior tonnage estimates.

To assist with Red Hill's coal exploration activities in the Ulaan Ovvo region and elsewhere in Mongolia, the Company has hired an experienced coal geologist, Eric Robeck, who is relocating from Utah, USA, to Red Hill's office in Ulaanbataar, Mongolia. Mr. Robeck holds BSc and MSc degrees in geology from Brigham Young University and is a member of the Geological Society of America. Recently he has prepared complete, multi-seam geologic models and databases for three new underground and surface coal mines in Colorado, Utah and Wyoming, USA. Mr. Robeck managed the 2006 drilling program in Ulaan Ovoo and looks forward to returning with Red Hill for another exciting field season.

**Related party transactions**

The Company paid accounting fees of \$12,000, rent of \$18,000, and management fees of \$22,500 to a company controlled by the Chairman of the Company.

The Company paid legal fees of \$19,513 to a law firm in which a director is principal.

The Company entered into the Argalant property letter of intent with a company that has a common director.

**Commitment**

The Company has entered into an investor relations services contract with the Richmond Club Corp effective December 21, 2006. The Richmond Club will receive a monthly fee of \$1,450 and will be granted 45,000 stock options, vesting 25% every three months exercisable at \$0.78 per share, expiring January 29, 2010. The term of the investor relations contract with the Richmond Club is one year.

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**Other MD&A Requirements**

(a) Summary of Securities Issued During the Period:

During the period 163,243 shares were issued for the exercise of warrants exercised on December 27, 2005.

On December 12, 2006, the Company closed a private placement of 3,300,000 units for gross proceeds of \$2,475,000. Each unit consists of one common share and one-half of one share purchase warrant. Each whole 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.

During the period 25,000 stock options at \$0.48 per share expiring November 24, 2008; 50,000 stock options at \$0.50 per share expiring June 10, 2009; 50,000 stock options at \$0.45 per share expiring February 10, 2007, and 50,000 stock options at \$0.45 per share expiring January 31, 2011 were exercised.

During the period Finder's fees of 75,000 shares, 50,000 shares, and 58,500 shares were issued.

During the period 250,000 shares were issued as partial proceeds for a property acquisition.

During the period the following warrants were exercised:

1,325,000 at \$0.20 per share expiring January 28, 2006;

1,072,500 at \$0.25 per share expiring January 28, 2006;

1,402,700 at \$0.60 per share expiring February 4, 2007;

10,313 at \$0.60 per share expiring March 8, 2007;

67,083 at \$0.75 per share expiring March 31, 2007;

1,906,098 at \$0.75 per share expiring April 8, 2007.

(b) Summary of Options Granted During the Period:

January 31, 2006, the Company granted 650,000 stock options at \$0.45 per share for a period of five years to directors and consultants.

On February 9, 2006, the Company granted 100,000 stock options at \$0.65 per share for a period of five years to a consultant.

On March 15, 2006, the Company granted 50,000 stock options at \$1.20 per share for a period of five years to an employee.

On April 3, 2006, the Company granted 130,000 stock options at \$1.10 per share for a period of five years to directors and consultants.

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As at the End of the Period

(a) Share Capital:

- i. Authorized: Unlimited Common Shares without par value.
- ii. Issued and outstanding: 35,918,374 Common Shares.

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

Options – 365,000 exercisable at \$0.48 per share expiring November 24, 2008.

Options – 650,000 exercisable at \$0.50 per share expiring June 10, 2009.

Options – 200,000 vesting on an equal quarterly basis exercisable at \$0.40 per share expiring January 21, 2007.

Options – 500,000 exercisable at \$0.60 per share expiring on March 1, 2010.

Options – 600,000 exercisable at \$0.45 per share expiring on January 31, 2011.

Options – 100,000 exercisable at \$0.65 per share expiring on February 9, 2011.

Options – 50,000 exercisable at \$1.20 per share expiring on March 15, 2011.

Options – 130,000 exercisable at \$1.10 per share expiring on April 3, 2011.

Warrants:

665,000 whole warrants at \$0.60 per share until February 4, 2007.

562 whole warrants at \$0.60 per share until March 8, 2007.

633,334 whole warrants at \$0.75 per share until March 31, 2007

57,576 whole warrants at \$0.75 per share until April 8, 2007

1,650,000 whole warrants \$1.00 per share until December 12, 2007 and \$1.25 per share until December 12, 2008

(c) Shares in Escrow or Subject to Pooling Agreements:

Nil.

(d) List of Directors and Officers:

G. Arnold Armstrong,	Director, Chairman & CEO, Vancouver, B.C.
Ranjeet Sundher,	Director, President, & CFO, Singapore
Carol Brownie,	Director and Secretary, Vancouver, B.C.
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

**Mongolia Windfall Profit Tax Law**

On May 12, 2006, the Government of Mongolia passed the Windfall Profit Tax Law relating to copper and gold revenues. Red Hill is largely unaffected by this law, as its main assets are the Ulan Ovoo and Chandgana Coal projects and a portfolio of Uranium projects.

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**Liquidity and Capital Resources**

The Company ended the period with \$1,804,484 (2005 - \$2,578,895) cash and working capital of \$1,837,870 (2005 - \$2,905,081).

Net cash used in operating activities for the period was \$1,152,776 as compared to net cash used of \$887,277 during the period ended 2005.

Net cash used for investing activities for the current period was \$4,960,705 as compared to net cash used of \$1,380,116 during the period ended 2005.

Net cash provided from financing activities for the current period was \$5,339,070 as compared to net cash provided of \$4,585,774 during the period ended 2005.

**Disclosure Controls and Procedures**

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 December 31, 2006, pursuant to the requirements Multilateral Instrument 52-109.

Management has concluded that, as of December 31, 2006, weaknesses existed.

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.

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.

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 this weakness at this time.

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To help mitigate the impact of these weaknesses and to ensure quality financial reporting, the audit committee is seeking external advisors to submit proposals for developing, and assisting the company in documenting and implementing, appropriate ICFR policies and procedures for key controls and the documentation of their effective operation. No other actions are planned until a decision has been taken on the proposals.

**Subsequent Events**

Subsequent to December 31, 2006:

- (a) 653,062 warrants at \$0.60 per share were exercised, and 15,000 warrants at \$0.75 per share were exercised;
- (b) 200,000 stock options expired unexercised;
- (c) 12,500 share purchase warrants expired; and
- (d) On March 12, 2007, the Company arranged a non-brokered private placement of 5,500,000 units at a price of \$0.80 per unit. Each unit will consist of one common share and one-half of one non-transferable warrant. Each whole warrant entitles the holder to purchase one additional share of the Company at a price of \$1.00 per share for the first year of the warrant term, and \$1.25 during the second year of the warrant term, subject to forced exercise provisions. A finder's fee of 7.5% of the proceeds placed payable in cash or warrants (exercisable at a price of \$0.80 per share) will be paid on a portion of the placement.

**Risk factors**

The business of mineral exploration and extraction involves a high degree of risk. Few properties that are explored are ultimately developed into production. Other risks facing the Company include competition, reliance on third parties and joint venture partners, environmental and insurance risks, political and environmental instability, statutory and regulatory requirements, fluctuations in mineral prices and foreign currency, share price volatility, title risks and uncertainty of additional financing.

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**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](http://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](http://www.sedar.com).

Forward-Looking Statements: Statements in this discussion that are forward-looking statements are subject to various risks and uncertainties concerning the specific factors disclosed under the heading "Risk Factors" and elsewhere in the corporations' periodic filings with Canadian Securities Regulators. Such information contained herein represents management's best judgment as of the date hereof based on information currently available. The companies do not assume the obligation to update any forward-looking statement.