

**UGL Enterprises Ltd.**  
Consolidated Financial Statements  
March 31, 2006  
**(Unaudited, See Advisory to Reader)**

# **UGL Enterprises Ltd.**

#2080 - 777 Hornby Street, Vancouver, BC, V6H 1S4  
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## **Advisory to Reader**

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

"D. Frederiksen, CA"

**UGL Enterprises Ltd.**  
**Consolidated Balance Sheet**  
**(Unaudited, See Advisory to Reader)**

	<b>March 31,</b> <b>2006</b>	<b>December 31,</b> <b>2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 4,054,848	\$ 2,578,895
Accounts receivable and accrued interest	9,518	9,828
Prepaid expenses and deposits	9,602	3,791
Secured loan (note 6(k))	-	349,410
	<u>4,073,968</u>	<u>2,941,924</u>
<b>Capital assets, net (Note 5)</b>	<b>98,943</b>	<b>82,214</b>
<b>Marketable securities (Note 3)</b>	<b>170,500</b>	<b>170,500</b>
<b>Mineral properties (Note 4 and 6)</b>	<u><b>1,955,811</b></u>	<u><b>1,062,390</b></u>
	<u><b>\$ 6,299,222</b></u>	<u><b>\$ 4,257,028</b></u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	<u><b>\$ 15,000</b></u>	<u><b>\$ 36,843</b></u>
	<b>15,000</b>	<b>36,843</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	17,640,138	15,334,193
Contributed Surplus (Note 2 and 7)	1,354,337	1,053,337
Share subscriptions	-	32,649
Deficit	<u>(12,710,253)</u>	<u>(12,199,994)</u>
	<u><b>6,284,222</b></u>	<u><b>4,220,185</b></u>
	<u><b>\$ 6,299,222</b></u>	<u><b>\$ 4,257,028</b></u>

**Approved by the Board:**

" G. Arnold Armstrong "  
 Director

" Paul McKenzie "  
 Director

See notes to consolidated financial statements.

**UGL Enterprises Ltd.**  
**Consolidated Statement of Income and Deficit**  
**(Unaudited, See Advisory to Reader)**

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	Three months ended March 31	
	<u>2006</u>	<u>2005</u>
<b>Revenue</b>		
Interest	\$ <u>19,578</u>	\$ <u>1,831</u>
<b>General and Administrative Expenses</b>		
Amortization	5,432	1,458
Consulting fees	32,339	49,279
Professional fees	5,320	12,065
Stock exchange and shareholder services	13,582	35,746
Advertising and promotion	50,130	38,368
Office and administration	39,954	22,161
Travel	35,854	15,417
Foreign exchange loss (gain)	4,431	(31)
Bank charges and interest	1,358	358
Stock-based compensation	301,000	320,000
Salary and benefits	<u>40,437</u>	<u>12,848</u>
	<u>529,837</u>	<u>507,669</u>
<b>Net income (loss)</b>	(510,259)	(505,838)
<b>Deficit - beginning of period</b>	<u>(12,199,994)</u>	<u>(8,465,262)</u>
<b>Deficit - end of period</b>	<u>\$(12,710,253)</u>	<u>\$(8,971,100)</u>
<b>Earnings (Loss) Per Share</b>	<u>\$(0.02)</u>	<u>\$(0.03)</u>
<b>Weighted Average Number of Shares</b>		
Outstanding	<u>28,207,580</u>	<u>19,100,705</u>

See notes to consolidated financial statements.

**UGL Enterprises Ltd.**  
**Consolidated Statement of Cash Flows**  
**(Unaudited, See Advisory to Reader)**

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	Three months ended	
	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (510,259)	\$ (505,838)
Adjustments non-cash items:		
Stock based compensation	301,000	320,000
Amortization	<u>5,432</u>	<u>1,458</u>
	<u>(203,827)</u>	<u>(184,380)</u>
<b>Changes in non-cash working capital</b>		
Accounts receivable	310	(616)
Prepaid expenses and deposits	(5,811)	(2,249)
Accounts payable and accrued liabilities	<u>(21,843)</u>	<u>(161,338)</u>
	<u>(231,171)</u>	<u>(348,583)</u>
<b>Cash flows from investing activities</b>		
Purchase of capital assets	(22,451)	(57,553)
Expenditures on mineral properties	<u>(543,721)</u>	<u>(191,930)</u>
	<u>(566,172)</u>	<u>(249,483)</u>
<b>Cash flows from financing activities</b>		
Shares issued	2,273,296	1,650,626
Prepaid share subscription	<u>-</u>	<u>410,001</u>
	<u>2,273,296</u>	<u>2,060,627</u>
<b>Net increase (decrease) in cash</b>	<b>1,475,953</b>	<b>1,462,561</b>
<b>Cash - beginning of period</b>	<u><b>2,578,895</b></u>	<u><b>260,514</b></u>
<b>Cash - end of period</b>	<u><b>\$ 4,054,848</b></u>	<u><b>\$ 1,723,075</b></u>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ -	\$ -
Income tax paid	\$ -	\$ -

See notes to consolidated financial statements.

**UGL Enterprises Ltd.**  
**Notes to the Consolidated Financial Statements**  
**(Unaudited, See Advisory to Reader)**

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**For the period ended March 31,**

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**1. Nature of Operations**

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

**2. Significant Accounting Policies**

(a) Interim financial statements

The interim financial statements follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2005. However, they do not include all the information and disclosures required by the annual financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results for the entire year. The information contained in the interim financial statements should be read in conjunction with the Company's latest annual financial statements and notes thereto.

(b) Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned British Virgin Islands subsidiary, Canrim Minerals Limited, and its wholly owned Mongolian subsidiary, UGL Enterprises LLC. All inter-company balances and transactions have been eliminated.

(c) Investment in and expenditures on resource properties

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

**UGL Enterprises Ltd.**  
**Notes to the Consolidated Financial Statements**  
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**For the period ended March 31,**

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**2. Significant Accounting Policies (continued)**

- (d) Financial instruments  
The Company's financial instruments consist of cash, accounts receivable, deposits, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximate their carrying values, unless otherwise noted.
- (e) Foreign currency translation  
Amounts recorded in foreign currency are translated into Canadian dollars as follows:  
(i) Monetary assets and liabilities at the rate of exchange in effect as at the balance sheet date;  
(ii) Non-monetary assets and liabilities at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and  
(iii) Revenues and expenses at the average rate of exchange for the year.  
Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.
- (f) Loss per share  
Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share has not been presented separately as the outstanding stock options are anti-dilutive.
- (g) Use of estimates  
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts for revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.
- (h) Income taxes  
Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the period that the temporary differences are expected to reverse. A valuation allowance is provided to reduce the asset to the net amount management estimates to be reasonable to carry as a future income tax asset.

**UGL Enterprises Ltd.**  
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**For the period ended March 31,**

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**2. Significant Accounting Policies (continued)**

(i) Asset retirement obligations

Effective January 1, 2004, the Company adopted the new Canadian accounting requirements for asset retirement obligations. The new standard requires liability recognition for retirement obligations associated with long-lived assets at fair value. The asset retirement cost equal to the fair value of the retirement obligation is capitalized as part of the cost of the related asset. These capitalized costs are depreciated using a straight-line method on the estimated life of the asset. Amounts are recorded once they become known or can be readily estimated.

(j) Stock-based compensation plans

Effective January 1, 2004, the Company adopted the new requirements of the Canadian Institute of Chartered Accountants Standard 3870 which requires an expense to be recognized in the financial statements for all forms of 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. Options granted are accounted for using the fair value method where compensation expense is calculated using the Black-Scholes options pricing model.

(k) Amortization of furniture and equipment is calculated on a declining-balance basis at an annual rate of 20%. Amortization of computer equipment is calculated on a declining-balance basis at an annual rate of 30%. Amortization of the vehicle is calculated on a declining-balance basis at an annual rate of 30%.

**3. Marketable Securities**

The Company own's 50,000 shares in Mega Uranium Ltd. The market value of the shares at March 31, 2005 is \$472,500.

**4. Realization of Assets**

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

**UGL Enterprises Ltd.**  
**Notes to the Consolidated Financial Statements**  
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**For the period ended March 31,** **2006** 2005

**5. Capital Assets**

	<u>2006</u>		<u>2005</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Furniture and Equipment	\$ 72,651	\$ 9,517	\$ 63,134	\$ 57,752
Vehicle <b>34,456</b>	<b>5,821</b>	<b>28,635</b>	21,742	
Computer Equipment	<u>8,292</u>	<u>1,118</u>	<u>7,174</u>	<u>2,720</u>
	<u>\$ 115,399</u>	<u>\$ 16,456</u>	<u>\$ 98,943</u>	<u>\$ 82,214</u>

**6. Investment in and Expenditures on Resource Properties**

	<u>2006</u>	<u>2005</u>
<b>Banbury Property</b> (note 4(a))		
Cost	\$ <u>1</u>	\$ <u>1</u>
<b>Huren Tolgoi Property</b> (note 4(b))		
Cost	-	146,107
Exploration expenditures	-	<u>1,132,286</u>
	-	1,278,393
Write-off of property	-	<u>(1,278,393)</u>
	-	-
<b>Gold Ram Property</b> (note 4 (c))		
Cost	<b>11,857</b>	11,857
Exploration expenditures	<u>24,492</u>	<u>24,492</u>
	<u>36,349</u>	<u>36,349</u>
<b>Khondloy Property</b> (note 4(d))		
Cost	<b>33,402</b>	33,402
Exploration expenditures	<u>75,420</u>	<u>75,420</u>
	<u>108,822</u>	<u>108,822</u>
<b>Naranbulag Property</b> (note 4(e))		
Cost	<b>186,396</b>	186,396
Exploration expenditures	<u>14,348</u>	<u>14,348</u>
	<u>200,744</u>	<u>200,744</u>
<b>Chandgana Property</b> (note 4(f))		
Cost	<b>58,617</b>	-
Exploration expenditures	-	-
	<u>58,617</u>	-

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<b>For the period ended March 31,</b>	<b>2006</b>	<b>2005</b>
<b>6. Investment in and Expenditures on Resource Properties (continued)</b>		
<b>South Valley Property (note 4(g))</b>		
Cost	-	131,825
Exploration expenditures	-	970,079
	-	1,101,904
Write-off of property	-	(1,101,904)
	-	-
<b>Bayan Undur Property (note 4(h))</b>		
Cost	20,778	20,778
Exploration expenditures	78,756	78,676
	99,534	99,454
<b>Shavar Uul Property (note 4(i))</b>		
Cost	13,852	13,852
Exploration expenditures	29,531	29,531
	43,383	43,383
<b>Argalant Property (note 4(j))</b>		
Cost	119,485	119,485
Exploration expenditures	178,345	171,751
	297,830	291,236
<b>Ulan Ovoo Property (note 4(k))</b>		
Cost	1,156,998	232,940
Exploration expenditures	180,323	14,449
	1,337,321	247,389
<b>Uranium Properties (note 4(l))</b>		
Cost	300,943	300,943
Exploration expenditures (pre option agreement)	106,859	106,859
Write-off of property	(187,026)	(187,026)
Option agreement receipt (shares deemed value)	(170,500)	(170,500)
Option agreement exploration funding (net)	(277,066)	(15,264)
	(226,790)	35,012
<b>Total Mineral Properties</b>	<b>\$ 1,955,811</b>	<b>\$ 1,062,390</b>

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**For the period ended March 31,**

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**6. Investment in and Expenditures on Resource Properties (continued)**

- (a) **Banbury Property**  
The Company owns a 100% undivided interest in six patented mineral claims near Hedley, B.C. described as the Banbury Property. The interest is recorded at a nominal value of \$1.
- (b) **Huren Tolgoi Property**  
The Company through Canrim Minerals Limited ("Canrim") entered into Joint Venture Option Agreement with the license holders of the Huren Tolgoi Gold/Copper Porphyry project. The Huren Tolgoi project is (2,632 hectares) located in north Jinst, a sub-province of Bayanhonger province, south Mongolia. The Huren Tolgoi project is 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 Returns Royalty. During the period ended December 31, 2005, the Company terminated the option agreement and wrote off its investment in the Huren Tolgoi property.
- (c) **Gold Ram Property**  
The Company through Canrim Minerals Limited ("Canrim") acquired a 100% interest in the Gold Ram in South Gobi, Mongolia. The Gold Ram project (15,533 hectares) is located in the western Gobi region of Mongolia, 190 km's southwest 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.
- (d) **Khondloy Property**  
The Company purchased a 100% interest in the Khondloy Property (9,078 hectares) located in Bayanhonger Province, Mongolia for US\$25,000.
- (e) **Naranbulag Property**  
The Company purchased a 100% interest in the Naranbulag Property (1,428 hectares) located in Zavkhan Province, about 700km west of Mongolia's capital Ulaan Bataar. The Company agreed to purchase the license from the vendor for US\$26,000 and CDN\$152,000 payable through the issuance of 200,000 shares at a deemed price of \$0.76 per share.

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**Notes to the Consolidated Financial Statements**  
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**For the period ended March 31,**

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**6. Investment in and Expenditures on Resource Properties (continued)**

(f) Chandgana Property

The Company has entered into an agreement to acquire a 100% interest in a Coal exploration property known as Chandgana. The Chandgana property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 km east of Ulaan Bataar. Under the terms of the agreement, the Company 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.

(g) South Valley Property

The Company entered into an Option Agreement to acquire up to 60% of a Copper/Gold exploration property known as South Valley. 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, totaling US\$1,000,000 over two years. Upon completion of the exploration, the Company would have been required to pay the license holder US\$1,000,000. The 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 have acquire a 60% interest in the property. After the Company had earned the 60% interest in the property, the project would 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.

During the period ended December 31, 2005, the Company terminated the option agreement and wrote off its investment in the South Valley property.

(h) Bayan Undur Property

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 centre and 56 km from Yarant Mongolia-Chinese border station.

(i) Shavar Uul Property

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 centre Altai.

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**Notes to the Consolidated Financial Statements**  
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**For the period ended March 31,**

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**6. Investment in and Expenditures on Resource Properties (continued)**

(j) Argalant Property

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

Under the terms of the agreement UGL paid Planet US\$100,000 and will incur an aggregate of US\$1,500,000 of exploration expenditures on Argalant within three years. A minimum of US\$500,000 shall be spent in the first year with a minimum of US\$500,000 to be spent within each of the subsequent two years. UGL 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 UGL is entitled to, at its discretion, pay Planet US\$1,000,000 for an additional 20% interest in the property. If UGL does not exercise its second option the two companies will then proceed forward on a 60/40% basis. If UGL does exercise its second option the two companies will proceed forward on an 80/20% basis.

(k) Ulan Ovoo Property

On November 15, 2005, the Company entered into a letter of intent with Ochir LLC that sets out the terms to acquire a 100% interest in the property known as Ulan Ovoo coal project. The Ulan Ovoo property is located in Selenge province, Mongolia. It is held by the vendor under a transferable, 55 year mining licence with a 45 year option for extension granted by the Government of Mongolia. The purchase price for the 100% interest, together with all equipment, buildings and other facilities, assembled and constructed at the property is US\$9,600,000. The 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.

(l) 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 UGL's current uranium ground holdings in Mongolia, totaling approximately 339,000 hectares, which are comprised of 18 granted exploration licenses, and an

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**6. Investment in and Expenditures on Resource Properties (continued)**

(l) Mongolia Uranium Option Agreement (continued)

option to earn 100% of two exploration licenses in the Nergui Project. In addition, Mega and UGL will cooperate during the term of the agreement in the generation and acquisition of other uranium exploration targets in Mongolia. UGL's extensive gold/copper property holdings are not included in this agreement.

Upon completion of a due diligence review by Mega, a definitive formal option agreement was executed. The formal option agreement granted Mega the exclusive option to earn a 50% interest in UGL's uranium properties through the expenditure of US\$1.5 million over three years, with a minimum of US\$350,000 expended within the first year. Mega was required to issue UGL 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 UGL the equivalent of CDN\$75,000 in its common share capital (which shall be determined using the ten day average closing price) within 10 business days of the later of the date upon which UGL 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.

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.

The uranium properties include the:

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.

Maikhan Property

The Company acquired a 100% interest in a property known as Maikhan. 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.

Baganaran Property

The Company acquired a 100% interest in a property known as Baganaran. The Baganaran property (13,446 hectares) is a Uranium project located in the Darnogovi province of Mongolia. The purchase price for the Baganaran 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.

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**6. Investment in and Expenditures on Resource Properties (continued)**

Nergui Property

The Company acquired 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 is US\$136,500 and 250,000 shares of the Company at a deemed price of \$0.60 per share. 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 shares were not issued.

**7. Share Capital**

(a) Authorized  
 Unlimited Common shares without par value.

(b) Issued

	<u>Number of Shares</u>	<u>Amount</u>
Balance, year ended December 31, 2004	<b>16,250,105</b>	<b>\$ 10,808,126</b>
Private placement	<b>4,000,000</b>	<b>1,600,000</b>
Private placement	<b>5,290,910</b>	<b>2,910,001</b>
Financing fees	<b>157,150</b>	<b>(18,858)</b>
Financing fees	<b>37,272</b>	<b>(38,200)</b>
Exercise of warrants	<b>3,527,500</b>	<b>73,124</b>
Balance, year ended December 31, 2005	<b>26,062,937</b>	<b>\$ 15,334,193</b>
Exercise of warrants	<b>4,931,935</b>	<b>2,283,444</b>
Exercise of stock options	<b>50,000</b>	<b>22,500</b>
Balance, period ended December 31, 2005	<b><u>31,044,872</u></b>	<b><u>\$ 17,640,137</u></b>

(b)(i) On February 7, 2005, the Company closed a \$1,600,000 private placement. Under the placement the Company issued 4,000,000 Units, each unit 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 \$0.60 per share. All of the securities issued under the placement are subject to a hold period expiring on June 5, 2005. A finder's fee of 5% of the proceeds placed payable in Units was paid on portions of the placement.

(b)(ii) On April 11, 2005, the Company closed a \$2,910,001 private placement. Under the placement, the Company issued 5,290,910 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 \$0.75 per share. 1,366,667 units issued under the placement are subject to a hold period expiring on August 1, 2005, with the remaining 3,924,243 units subject to a hold period expiring on August 9, 2005. a finder's fee of 5% on the proceeds placed payable in cash or units will be paid on portions of the placement.

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**7. Share Capital (continued)**  
(c) Share purchase options

Details of the status of the Company's stock option plans as at December 31, 2005 and March 31, 2006 and changes during the respective year are as follows:

	Number	Weighted Average	
	of Shares	Exercise	Expiry Date
		Price	
Outstanding, December 31, 2003	390,000	\$ 0.48	November 24, 2008
Granted June 10, 2004	<u>900,000</u>	<u>0.50</u>	June 10, 2009
Outstanding, December 31, 2004	1,290,000	0.50	
Granted January 21, 2005	200,000	0.40	January 21, 2007
Options cancelled	(200,000)	0.50	June 10, 2009
Granted February 10, 2005	50,000	0.45	February 10, 2007
Granted March 1, 2005	<u>500,000</u>	<u>0.60</u>	March 1, 2010
	1,840,000	0.50	
Granted January 31, 2006	650,000	0.45	January 31, 2011
Granted February 9, 2006	100,000	0.65	February 9, 2011
Options exercised	(50,000)	0.45	
Granted March 15, 2006	<u>50,000</u>	<u>1.20</u>	March 15, 2011
	<u>2,590,000.00</u>	<u>\$ 0.52</u>	

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

During the period ended December 31, 2005, the Company granted 200,000 incentive options to directors and consultants at \$0.40 per share for a five year period, 50,000 incentive options to directors and consultants at \$0.45 per share for a five year period, and 500,000 incentive options to directors and consultants at \$0.60 per share for a five year period. As a result, additional compensation expense of \$402,738 was recognized as stock-based compensation expense.

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

Expected life (years)	4
Interest rate	4%
Volatility	143%
Dividend yield	0%

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**7. Share Capital (continued)**

During the period ended March 31, 2006, the Company granted 650,000 incentive options to directors and consultants at \$0.45 per share for a five year period, 100,000 incentive options to directors and consultants at \$0.65 per share for a five year period, and 50,000 incentive options to directors and consultants at \$1.20 per share for a five year period. As a result, additional compensation expense of \$301,000 was recognized as stock-based compensation expense.

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

Expected life (years)	5
Interest rate	4%
Volatility	150%
Dividend yield	0%

(d) Warrants outstanding

The following warrants are outstanding at December 31, 2005, and March 31, 2006.

Expiry Date	Number of Warrants		Exercise Price
	<u>2006</u>	<u>2005</u>	
January 28, 2006	-	1,325,000	\$0.20
January 28, 2006	-	1,072,500	\$0.25
February 4, 2007	<b>1,669,080</b>	2,067,700	\$0.60
March 8, 2007	<b>4,665</b>	10,875	\$0.60
March 31, 2007	<b>639,584</b>	700,417	\$0.75
April 8, 2007	<b>58,144</b>	1,963,674	\$0.75
	<u><b>2,371,473</b></u>	<u>7,061,591</u>	

The Company applies the fair value method using the Black-Scholes options pricing model to account for warrants granted to non-employees. During the period ended December 31, 2005, the Company granted 97,211 share purchase warrants to non-employees and as a result, additional compensation expense of \$27,058, was recognized in the books of the Company as financing fees. The Black-Scholes model was calculated based on the following assumptions:

Expected life (years)	2
Interest rate	4%
Volatility	150%
Dividend yield	0%

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**8. Related Party Transactions**

- (a) The Company has paid accounting fees of \$3,000 (2005 - \$3,000) and rent of \$4,500 (2005 - \$4,500) to a company controlled by a common director.
- (b) The Company has paid legal fees of \$230 (2005 - \$7,126) to a law firm in which a director is the principal.
- (c) The Company entered into a letter of intent with a company that has a common director (See note 6(j)).

**9. Income Tax Losses**

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

2007	57,000
2008	90,000
2009	56,000
2010	194,000
2014	395,000
2015	<u>688,000</u>
	<u>\$ 1,480,000</u>

The components of future income tax assets are as follows:

	<u>2006</u>	<u>2005</u>
Future Income Tax Assets		
Non-capital loss carry-forwards	\$ 1,480,000	\$ 1,480,000
Tax value over book value of capital assets	126,905	126,905
Earned depletion base	1,091,700	1,091,700
Unused cumulative Canadian exploration expenditures	3,311,000	3,311,000
Unused cumulative Canadian development expenditures	64,300	64,300
Foreign cumulative exploration and development expenses	3,540,757	3,540,757
Book value of secured loan	(349,410)	(349,410)
Book value of mineral properties	<u>(1,062,390)</u>	<u>(1,062,390)</u>
	<b>8,202,862</b>	8,202,862
Appropriate tax rate	34.12%	34.12%
	<b>2,798,800</b>	2,798,800
Less: Valuation allowance	<u>(2,798,800)</u>	<u>(2,798,800)</u>
	<u>\$ -</u>	<u>\$ -</u>

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

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**10. Contractual Obligations**

(a) Letter Agreement with Mega Uranium Ltd.

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 UGL's current uranium ground holdings in Mongolia, totaling approximately 3700 sq. km, which are comprised of 13 granted exploration licenses, six exploration license applications and an option to earn 100% of two exploration licenses in the Nergui Project. In addition, Mega and UGL will cooperate during the term of the agreement in the generation and acquisition of other uranium exploration targets in Mongolia. UGL'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 will be executed. The formal option agreement will grant Mega the exclusive option to earn a 50% interest in UGL's uranium properties through the expenditure of US\$1.5 million over three years, with a minimum of US\$350,000 expended within the first year. Mega is required to issue UGL 50,000 common shares in its capital within 3 business days of the date that the executed formal agreement is accepted and approved by the TSX Venture Exchange. In addition, Mega is required to issue to UGL the equivalent of CDN\$75,000 in its common share capital (which shall be determined using the ten day average closing price) within 10 business days of the later of the date upon which UGL 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.

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.

(b) Letter Agreement with Planet Exploration Ltd.

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

Under the terms of the agreement UGL paid Planet US\$100,000 and will incur an aggregate of US\$1,500,000 of exploration expenditures on Argalant within three years. A minimum of US\$500,000 shall be spent in the first year with a minimum of US\$500,000 to be spent within each of the subsequent two years. UGL 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 UGL is entitled to at its discretion pay Planet US\$1,000,000 for an additional 20% interest in the property. If UGL does not exercise its second option the two companies will then proceed forward on a 60/40% basis. If UGL does exercise its second option the two companies will proceed forward on an 80/20% basis.

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**10. Contractual Obligations (continued)**

(c) Letter Agreement with Orchir LLC.

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.

(d) Letter Agreement with Coal Khentiy Ltd.

On March 29, 2006, the Company has entered into an agreement to acquire a 100% interest in a Coal exploration property known as Chandgana. The Chandgana property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 km east of Ulaan Bataar. Under the terms of the agreement, the Company 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.

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**11. Subsequent Events**

During April 2006, 1,008,183 warrants at \$0.60 per share were exercised.

During April 2006, 6,818 warrants at \$0.75 per share were exercised.

During April 2006, 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, and 50,000 stock options at \$0.45 per share expiring February 10, 2007, were exercised.

During April 2006, 75,000 shares were issued as payment of a finders fee for the Ulan Ovoo project.

During May 2006, 50,000 shares were issued as payment of a finders fee for the Chandgana project.

During May 2006, 250,000 shares were issued to the vendor of the Ulan Ovoo property as per the letter agreement.

During April 2006, 130,000 stock options exercisable at \$1.10 per share expiring April 3, 2011, were granted to directors and consultants.