

Consolidated Financial Statements of

BENCHMARK ENERGY CORP.

Years ended June 30, 2007 and 2006



MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The accompanying financial statements are the responsibility of management and were prepared by management in accordance with Canadian generally accepted accounting principles.

Management is responsible for the integrity and objectivity of the financial statements. Where necessary, the financial statements include estimates, which are based on management's informed judgments. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, comprised entirely of non-management directors. The Audit Committee meets periodically with management and the external auditors to satisfy itself that responsibilities are properly discharged and to review financial reporting matters.

KPMG has audited the financial statements in accordance with generally accepted auditing standards to enable them to express an opinion on the fairness of the financial statements.

"David Robinson"

David Robinson
President and Chief Executive Officer

"Chris Cooper"

Chris Cooper
Chief Financial Officer



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Benchmark Energy Corp. as at June 30, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“KPMG_{LLP}”

Chartered Accountants

Calgary, Canada
October 24, 2007

BENCHMARK ENERGY CORP.

Consolidated Balance Sheets

As at June 30, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 441,844	\$ 1,652,621
Cash held in escrow (note 4)	10,729,108	—
Accounts receivable	51,651	18,395
Deposits and prepaid expenses (note 4)	10,585	222,475
	<u>11,233,188</u>	<u>1,893,491</u>
Loan receivable (note 5)	659,456	—
Property and equipment (note 6)	471,885	453,064
	<u>\$12,364,529</u>	<u>\$ 2,346,555</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 473,152	\$ 210,684
Loan payable (note 4)	9,665,208	—
	<u>10,138,360</u>	<u>210,684</u>
Shareholders' equity:		
Common shares and warrants (note 7)	6,461,025	3,566,316
Contributed surplus (note 8(c))	955,235	200,505
Deficit	(5,190,091)	(1,630,950)
	<u>2,226,169</u>	<u>2,135,871</u>
Going concern (note 2)		
Subsequent events (note 14)		
Commitments (note 12)		
	<u>\$12,364,529</u>	<u>\$ 2,346,555</u>

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"David Robinson"

David Robinson

Director

"Chris Cooper"

Chris Cooper

Director

BENCHMARK ENERGY CORP.

Consolidated Statements of Operations and Deficit

Years ended June 30, 2007, with comparative figures for 2006

	2007	2006
Expenses (income)		
General and administrative (note 8(b))	\$ 3,029,675	\$ 908,504
Interest and bank charges (note 7(b))	560,562	1,282
Depreciation	4,378	1,444
Interest income	(35,474)	(11,510)
Net loss for the year	(3,559,141)	(899,720)
Deficit, beginning of year	(1,630,950)	(731,230)
Deficit, end of year	\$(5,190,091)	\$(1,630,950)
Loss per share - basic and diluted	\$ (0.19)	\$ (0.08)
Weighted average number of shares outstanding - basic and diluted	19,224,176	10,983,475

See accompanying notes to consolidated financial statements.

BENCHMARK ENERGY CORP.

Consolidated Statements of Cash Flows

Years ended June 30, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used in):		
Operating activities:		
Net loss	\$(3,559,141)	\$ (899,720)
Items not involving cash:		
Stock-based compensation	766,526	209,961
Depreciation	4,378	1,444
Loan fee paid in shares	483,255	—
Write-off of deposit (note 4)	222,475	—
Changes in non-cash working capital (note 13)	33,569	4,223
	<u>(2,048,938)</u>	<u>(684,092)</u>
Investing activities:		
Additions to property and equipment	(23,199)	(404,412)
Loan advanced	(659,456)	—
Cash held in escrow	(10,729,108)	—
Changes in non-cash working capital (note 13)	185,058	(99,825)
	<u>(11,226,705)</u>	<u>(504,237)</u>
Financing activities:		
Loan payable	9,665,208	—
Issuance of shares, net of issue costs	2,399,658	2,214,323
	<u>12,064,866</u>	<u>2,214,323</u>
Increase (decrease) in cash and cash equivalents	(1,210,777)	1,025,994
Cash and cash equivalents, beginning of year	1,652,621	626,627
Cash and cash equivalents, end of year	<u>\$ 441,844</u>	<u>\$ 1,652,621</u>

See accompanying notes to consolidated financial statements.

BENCHMARK ENERGY CORP.

Notes to Consolidated Financial Statements

Years ended June 30, 2007 and 2006

1. Nature of operations and basis of presentation:

Benchmark Energy Corp. (the "Company") is incorporated under the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. The Company has three wholly owned subsidiaries, Benchmark Energy (Colombia) Inc., Benchmark Holdings (BVI) Limited and Benchmark Energy (BVI) Corp. Currently, only the parent company is in operation while the three subsidiaries are dormant. The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas interests.

2. Going concern:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable for a going concern, which presumes that the Company will continue realizing its assets and discharging its liabilities in the normal course of business. During the year ended June 30, 2007, the Company incurred a net loss of \$3,559,141 (2006 - \$899,720). At June 30, 2007, the Company had a deficit of \$5,190,091 (2006 - \$1,630,950) and working capital of \$1,094,828 (2006 - \$1,682,807). The Company's ability to continue as a going concern is dependant on its ability to acquire, explore, develop and produce its existing and new petroleum and natural gas interests and raise sufficient funds to do so. There is no certainty that the Company will continue beyond June 30, 2008.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying amounts of assets and liabilities, the reported revenue and expenses, and the balance sheet classifications used.

3. Significant accounting policies:

The preparation of financial statements in conformity with Canadian GAAP 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 of revenue and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

(a) Joint operations:

Substantially all of the Company's exploration, development and production activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

(b) Cash and cash equivalents

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

3. Significant accounting policies (continued):

(c) Property and equipment

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs associated with the acquisition of, exploration for and the development of petroleum and natural gas interests are accumulated within cost centres on a country-by-country basis. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing interests, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

Proceeds from the disposal of petroleum and natural gas interests are applied against capitalized costs unless that disposal would result in a change to the rate of depletion and depreciation of 20 percent or greater in which case a gain or loss is recorded.

Capitalized costs, net of salvage costs, accumulated within each cost centre together with estimated future capital and retirement costs associated with proved reserves, are depleted and depreciated using the unit-of-production method based on estimated gross (before deduction of royalties) proved petroleum and natural gas reserves as determined by independent engineers. For the purposes of this calculation, proved reserves and production are converted to equivalent units of petroleum based on relative energy content of six thousand cubic feet of natural gas to one barrel of petroleum.

Costs of acquiring and evaluating unproved petroleum and natural gas interests are excluded from costs subject to depletion and depreciation until it is determined that proved reserves are attributable to such interest or until impairment occurs.

The Company performs a detailed impairment calculation for each cost centre annually or when events or circumstances indicate a potential impairment of the carrying amount of petroleum and natural gas interests may have occurred. An impairment loss is recognized if the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying amount is assessed to be recoverable when the sum of undiscounted cash flows expected from proved reserves plus the cost of unproved interests, net of impairments, exceeds the carrying amount of the cost centre. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments, of the cost centre. The cash flows are estimated using expected future commodity prices and costs and discounted using a risk-free interest rate.

Office furniture and equipment is depreciated on a straight line basis over the useful life of the assets.

3. Significant accounting policies (continued):

(d) Asset retirement obligations:

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and /or normal use of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated. Subsequent to the initial measurement of the asset retirement obligations, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

(e) Incomes taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expect to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(f) Foreign currency translation:

Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in earnings (loss).

(g) Stock-based compensation:

The Company has a stock-based compensation plan, which is described in note 8. The Company accounts for all stock-based payments granted using the fair value based method.

Under the fair value based method, compensation cost attributable to stock options granted to employees is measured at the grant-date fair value and recognized over the vesting period with a corresponding increase to contributed surplus. Compensation costs attributed to stock options granted to non-employees is also measured at the grant date fair value and re-measured each period until counterparty performance is complete (typically the vesting period), and recognized over the performance period with a corresponding increase to contributed surplus. On exercise of vest stock options, the proceeds received plus recognized stock-based compensation is credited to share capital.

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest, rather, the Company accounts for actual forfeitures as they occur.

3. Significant accounting policies (continued):

(h) Per share amounts:

Basic earnings (loss) per common share is calculated by dividing net earnings (loss) by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per common share is calculated similar to basic per share amounts except that the weighted average number of common shares outstanding is increased to include additional common shares assumed from the exercise of options, warrants and other instruments, if dilutive. The number of additional shares is calculated by assuming that the outstanding stock options and warrants are exercised and that the proceeds and unamortized stock-based compensation costs from such exercises were used to acquire common shares at an average market price during the reporting period. For the years ended June 30, 2007 and 2006, the Company incurred net losses and, accordingly, all outstanding stock options have an anti-dilutive impact on net loss per share.

4. Termination of proposed transactions:

On June 22, 2007, Benchmark Holdings (BVI) Limited, a subsidiary of the Company, entered into a definitive share purchase agreement to acquire 100% of the shares of an oil and gas exploration and production company incorporated in Colombia for cash consideration of US \$29,000,000. As at June 30, 2007, the Company had deposited cash of US \$10,000,000 (\$10,729,108) into an escrow account subject to the terms of an escrow agreement. The funds deposited into escrow were partially financed with a US \$9,000,000 bridge loan facility bearing interest at 12.68% per annum, due August 1, 2007 and secured by substantially all of the assets of the Company, including the escrow funds.

Subsequent to year end, in August 2007, the Company terminated this acquisition, the escrow funds were released and the bridge loan facility was repaid.

During the year ended June 30, 2006, the Company advanced \$222,475 (US \$200,000) to a third party for due diligence services to identify petroleum and natural gas interests in Indonesia which the Company may acquire. During the year ended June 30, 2007 no assets were acquired under this arrangement and accordingly, the advances have been charged to general and administrative expenses.

5. Loan receivable:

During the year ended June 30, 2007, the Company entered into a co-operation agreement with privately held Dominion Oil USA Corp. (DOMOIL) of Spring, Texas. The Company has advanced DOMOIL US \$585,000 (\$659,456) to fund the manufacture of their radial drilling service unit.

The Company will receive a preferential right to use the equipment and the advances, plus interest, will be repaid by way of credit on invoices rendered by DOMOIL. If the Company elects not to use the equipment, advances, plus interest, will be repaid over a two-year period. The advances bear interest at the US bank prime rate plus one percent and are secured by the related equipment.

6. Property and equipment:

	2007	2006
Petroleum and natural gas interests	\$ 458,926	\$ 441,795
Office furniture and equipment	18,782	12,713
	477,708	454,508
Accumulated depreciation	(5,823)	(1,144)
	\$ 471,885	\$ 453,064

At June 30, 2007, the Company had a single petroleum and natural gas interest in the Cosmos Concession located in Tunisia which was considered to be in the preproduction stage and the cumulative costs, net of revenue, of \$458,926 (2006 - \$441,795) were capitalized in property and equipment and excluded from costs subject to depletion and depreciation. Major uncertainties affecting the recoverability of these costs include the Company's ability to obtain financing and the ability to successfully develop and achieve commercial production from the concession.

7. Share capital and warrants:

(a) Authorized:

Unlimited number of common shares without par value

Unlimited number of 10% cumulative redeemable convertible non-voting Class A preferred shares without par value

Unlimited number of non-voting Class B preferred shares without par value

7. Share capital and warrants (continued):

(b) Issued and outstanding:

	2007		2006	
	Units	Amounts	Units	Amount
Common shares:				
Balance, beginning of year	17,201,431	\$ 3,382,334	6,847,831	\$ 610,688
Private placement for cash, net of issue costs	2,856,000	811,859	10,272,000	–
Exercise of options	81,767	28,619	81,600	46,512
Transfer from contributed surplus	–	17,825	–	–
Exercise of warrants	2,090,199	1,737,133	–	–
Issued for lending fee	400,725	483,255	–	–
Balance, end of year	22,630,122	\$ 6,461,025	17,201,431	\$ 3,382,334
Warrants				
Balance, beginning of year	2,136,000	\$ 183,982	–	\$ –
Issued for cash	1,428,000	–	2,136,000	183,982
Exercised	(2,066,000)	(177,953)	–	–
Expired	(70,000)	(6,029)	–	–
Balance, end of year	1,428,000	\$ –	2,136,000	\$ 183,982
Total, end of year		6,461,025		3,566,316

Share capital transactions during the year ended June 30, 2007:

- (i) On March 2, 2007, the Company completed a private placement of 2,856,000 units at a price of \$0.30 per unit for gross proceeds of \$856,800. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.40 per common share at any time prior to March 1, 2008. Share issue costs of \$44,941 were paid in connection with the private placement.
- (ii) In March and May of 2007, 2,066,000 warrants were exercised at a price of \$0.75 per common share acquired for total proceeds of \$1,549,500. An amount of \$177,953 was transferred from warrants to common shares. In the fourth quarter of 2007, 24,199 warrants were exercised at a price of \$0.40 per common share for total proceeds of \$9,680.
- (iii) In the fourth quarter of 2007, 81,767 stock options were exercised at a price of \$0.35 per common share acquired for total proceeds of \$28,619.
- (iv) On June 12, 2007, 400,725 shares were issued in connection with the bridge loan facility described in note 4.

7. Share capital and warrants (continued):

(b) Issued and outstanding (continued):

Share capital transactions during the year ended June 30, 2006:

- (i) In March 2006, the Company completed a private placement of 3,179,000 units at a price of \$0.50 per unit for gross proceeds of \$1,589,500. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.75 per common share expiring March 28, 2007. The gross proceeds were first allocated to the fair value of the warrants of \$136,910 with the remainder being allocated to common shares issued of \$1,452,590. Share issue costs of \$105,550 were paid in connection with the private placement.
- (ii) In May 2006, the Company completed a private placement of 1,093,000 units at a price of \$0.50 per unit for gross proceeds of \$546,500. Each unit will consist of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at an exercise price of \$0.75 per common share expiring May 11, 2007. The gross proceeds were first allocated to the fair value of the warrants of \$47,072 with the remainder being allocated to common shares issued of \$499,428. Share issue costs of \$21,334 were paid in connection with the private placement.

8. Stock option plan:

(a) Stock option plan:

In 2005, the Company implemented a stock option plan that enables the Company to grant options to acquire up to 10% of its outstanding common shares to its directors, officers and employees and other service providers. Options granted under the plan have a term of 5 years to expiry and vest equally over an eighteen month period starting six months from the grant date. The exercise price of the options equals the market price of the Company's common shares on the grant date.

8. Stock option plan (continued):

(a) Stock option plan (continued):

The following schedule details the stock option activity of the Company:

	Number of options	Weighted average exercise price
Balance, June 30, 2005	580,000	\$ 0.27
Granted	1,204,000	\$ 0.50
Exercised	(81,600)	\$ 0.27
Forfeited	(30,900)	\$ 0.27
Balance, June 30, 2006	1,671,500	\$ 0.44
Granted	242,000	\$ 0.48
Granted	448,000	\$ 1.00
Exercised	(81,767)	\$ 0.35
Forfeited	(283,333)	\$ 0.71
Balance, June 30, 2007	1,996,400	\$ 0.55

At June 30, 2007, the following options were outstanding and exercisable:

Exercise	Number outstanding	Number exercisable	Weighted average remaining term (years)
\$0.27	467,500	467,500	2.90
\$0.35	559,900	373,267	3.55
\$0.50	29,000	19,333	3.55
\$0.71	250,000	166,667	3.90
\$0.48	242,000	—	4.61
\$1.00	448,000	—	4.72
Balance	1,996,400	1,026,767	

8. Stock option plan (continued):

(b) Stock-based compensation costs:

For the year ended June 30, 2007, the Company recognized stock-based compensation costs of \$766,526 (2006 – \$209,961). The fair value of stock options granted during the year has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions and resulting fair value:

Year ended June 30	2007	2006
Risk free interest rate (percent)	4.50	3.75
Expected life (years)	5	5
Expected volatility (percent)	73	73

(c) Contributed surplus:

	Amount
Balance, June 30, 2005	\$ 15,024
Stock-based compensation	209,961
Exercise of stock options	(24,480)
Balance, June 30, 2006	200,505
Stock-based compensation	766,526
Exercise of stock options	(17,825)
Warrants expired	6,029
Balance, June 30, 2007	\$ 955,235

9. Related party transactions:

For the year ended June 30, 2007, the Company incurred management service fees of \$386,212 (2006 - \$180,071) payable to directors, companies controlled by directors and former directors of the Company.

A director working in relation to the Cosmos Concession in Tunisia provided the Company with management services and was paid fees of \$40,562 (2006 - \$38,781) during the year ended June 30, 2007. The contract with this director expired in January 2007 and has not been renewed.

Another director working in relation to the Cosmos Concession in Tunisia provided the Company with management services and was paid fees of \$63,417 (2006 - \$nil) during the year ended June 30, 2007. The director resigned in April 2007.

A director working in relation to prospects in Latin America provided the Company with management services. The director was paid fees of \$45,289 (2006 - \$nil) during the year ended June 30, 2007.

At June 30, 2007, accounts payable and accrued liabilities included \$23,249 (2006 - \$18,467) of amounts due to related parties.

10. Financial instruments

(a) Fair value of financial assets and liabilities:

At June 30, 2007, the fair values of financial assets and liabilities are approximately equal to their carrying amounts.

(b) Foreign exchange risk:

The Company is exposed to foreign exchange fluctuations as it holds working capital in US dollars. In addition, a portion of the general and administrative expenses are incurred in US dollars. There are no exchange rate contracts in place at, or subsequent to, June 30, 2007.

11. Income taxes:

The Company is subject to income taxes in Canada. The Company's only operating activities in 2007 and 2006 were in Tunisia where the statutory tax rate is nil, since the Company's asset in Tunisia is subject to a production sharing agreement.

The Company has Canadian income tax losses of approximately \$4.6 million (2006 - \$2.0 million), which expire from 2008 to 2027 and tax deductions of approximately \$0.8 million (2006 - \$0.5 million). A valuation allowance has been applied to fully offset the future benefit of the income tax losses and deductions.

12. Commitments:

During the quarter ended September 30, 2006, the Company signed an agreement with a third party to use proprietary radial drilling technology in Indonesia and Malaysia. Under the terms of the agreement, the Company is required to pre-pay services to be provided in a sufficient amount to fund the manufacturing and delivery of a radial drilling unit for priority use by the Company in Indonesia and Malaysia. 75% of the cost of the work on the wells will be credited towards the pre-payment and the remaining 25% will be paid out of production generated. The third party will hold a 12.5% back-in right, subject to giving notice within 60 days of commercial operations and paying a proportionate share of costs and expenses, on any projects in Indonesia and Malaysia the radial drilling technology is applied by the Company. No funds have been advanced under this arrangement as of June 30, 2007.

The Company is committed to annual office lease payments of \$66,696 until May 31, 2010.

13. Supplemental disclosure of cash flow information:

Changes in non-cash working capital:

	2007	2006
Accounts receivable	\$ (33,256)	\$ (18,395)
Deposits and prepaid expenses	(10,585)	(222,475)
Accounts payable and accrued liabilities	262,468	145,268
	<u>\$ 218,627</u>	<u>\$ (95,602)</u>
Relating to investing activities	185,058	\$ (99,825)
Relating to operating activities	\$ 33,569	\$ 4,223

For the years ended June 30, 2007 and 2006, the Company did not pay income taxes. For the years ended June 30, 2007 and 2006 the Company did not pay any interest costs.

14. Subsequent events:

As described in note 4, the Company announced that it has formally terminated its previously announced agreement to acquire a Colombian oil and gas company. The related US \$9 million bridge loan was cancelled and repaid on July 31, 2007 with the related escrow funds.

On August 14, 2007, the Company agreed to acquire interests in the Azar Block in the Putumayo Basin of Colombia. Pursuant to the terms of the agreement, Benchmark has agreed to pay US \$2 million plus US \$1 million worth of Benchmark shares, in exchange for a 20% interest in the portion of the block containing the Palmera and Florida structures, and a 15% interest in the remainder of the block. This acquisition is subject to the satisfactory completion of due diligence by Benchmark, and to the completion of formal documentation.