

BENCHMARK ENERGY CORP.
(Formerly Hedong Energy Inc.)

Financial Statements
June 30, 2005 and 2004

Tony M. Ricci Inc.

Chartered Accountant

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AUDITOR'S REPORT

TO THE SHAREHOLDERS OF BENCHMARK ENERGY CORP. (FORMERLY HEDONG ENERGY INC.)

I have audited the balance sheet of Benchmark Energy Corp. (formerly Hedong Energy Inc.) as at June 30, 2005 and June 30, 2004 and the statement of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2005 and June 30, 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Tony M. Ricci Inc."

Chartered Accountant

Vancouver, British Columbia

September 20, 2005

BENCHMARK ENERGY CORP.
(Formerly Hedong Energy Inc.)

Balance Sheets
June 30

	2005	2004
Assets		
Current		
Cash	\$ 626,627	\$ 53,011
GST receivable	-	4,658
	<u>626,627</u>	<u>57,669</u>
Property and equipment (note 5)	50,096	-
	<u>\$ 676,723</u>	<u>\$ 57,669</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 65,416	\$ 40,091
Due to related parties	-	45,976
Share subscriptions (note 6)	716,825	-
	<u>782,241</u>	<u>86,067</u>
Shareholders' Equity (Deficit)		
Capital Stock (note 7)	610,906	395,281
Contributed surplus (note 7)	14,806	-
Deficit	<u>(731,230)</u>	<u>(423,679)</u>
	<u>(105,518)</u>	<u>(28,398)</u>
	<u>\$ 676,723</u>	<u>\$ 57,669</u>

Going concern (note 2)
Commitment (notes 4 and 10)
Subsequent events (notes 1 and 5)

Approved on behalf of the Board:

"Chris Cooper"
..... Director
Chris Cooper

"Jean-Claude Boubee"
..... Director
Jean-Claude Boubee

See notes to financial statements.

BENCHMARK ENERGY CORP.
(Formerly Hedong Energy Inc.)

Statements of Operations and Deficit
Years ended June 30

	2005	2004
Expenses		
Travel and promotion	\$ 67,738	\$ 956
Rent	63,701	62,800
Consulting fees	57,800	7,391
Management fees	51,115	31,400
Transfer agent and filing fees	21,503	13,486
Professional fees	19,846	25,893
Stock based compensation	14,806	-
Office	11,162	8,946
Interest and bank charges	908	11,322
	308,579	162,194
Other items		
Interest income	(1,028)	(96)
Write-off of interest in resource property (note 4)	-	20,000
Loss for the year	(307,551)	(182,098)
Deficit, beginning of year	(423,679)	(241,581)
Deficit, end of year	\$ (731,230)	\$ (423,679)
Loss per share – basic and diluted	\$ (0.05)	\$ (0.05)
Weighted Average Number of Shares Outstanding		
– basic and diluted	5,850,966	3,677,147

See notes to financial statements.

BENCHMARK ENERGY CORP.
(Formerly Hedong Energy Inc.)

Statements of Cash Flows
Years ended June 30

	2005	2004
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (307,551)	\$ (182,098)
Items not involving cash:		
Stock based compensation	14,806	–
Bonus shares issued on loan	–	8,000
Write-off of interest in resource property	–	20,000
Changes in non-cash working capital items:		
GST receivable	4,658	(4,658)
Accounts payable and accrued liabilities	25,325	(19,998)
	(262,762)	(178,754)
Financing activities:		
Due to related parties	(45,976)	(88,164)
Shares issued for cash, net of issue costs	215,625	337,600
Share subscriptions	716,825	–
	886,474	249,436
Investing activities:		
Acquisition of interest in resource property	–	(20,000)
Property and equipment	(50,096)	–
	(50,096)	(20,000)
Increase in cash	573,616	50,682
Cash, beginning of year	53,011	2,329
Cash, end of year	\$ 626,627	\$ 53,011
Supplemental cash flow information:		
Common shares issued as loan bonus (note 7(b))	\$ –	\$ 8,000

See notes to financial statements.

BENCHMARK ENERGY CORP.

(Formerly Hedong Energy Inc.)

Notes to Financial Statements

For the years ended June 30, 2005 and 2004

1. NATURE OF OPERATIONS

Benchmark Energy Corp. (the "Company") was incorporated under the laws of British Columbia and is listed on the NEX Board of the TSX Venture Exchange ("Exchange"). Listed companies on the NEX board are limited to, amongst other items, management fees of \$2,500 per month, raising a maximum of \$350,000 in aggregate through the issuance of shares in any twelve month period, and issuing maximum stock options equal to 10% of the issued and outstanding shares during any twelve month period.

The Company is engaged in the acquisition, exploration and development of resource properties. During the year, the Company expanded its business to include the acquisition, exploration and development of petroleum and natural gas properties.

In February 2004, the Company consolidated of its issued share capital on a three old for one new basis and changed its name from Hedong Energy Inc. to Benchmark Energy Corp. All share and per share information contained in these financial statements reflects the post-consolidated share numbers.

Subsequent to the year end, the Company applied for Tier 2 status on the Exchange.

2. GOING CONCERN

These financial statements are prepared on a going-concern basis, which implies that the Company will continue realizing its assets and discharging its liabilities in the normal course of business and will be able to establish new business opportunities and be able to raise sufficient funds to develop the new business. As at June 30, 2005, the Company has an accumulated deficit of \$731,230 (2004 – \$423,679) and working capital deficit of \$155,614 (2004 – \$28,398). Accordingly, these financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern, establish a new business or obtain sufficient financing to fund development of the new business.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial instruments

Except as otherwise disclosed in the financial statements, the fair values of cash, GST receivable, accounts payable and accrued liabilities, due to related parties and share subscriptions approximate their carrying values due to the short term nature of these items. The Company does not use any derivative financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks.

(b) Foreign currency translation

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

- (i) Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date;**

BENCHMARK ENERGY CORP.

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Notes to Financial Statements

For the years ended June 30, 2005 and 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency translation (continued)

- (ii) Non-monetary assets and liabilities are translated at the rate of exchange in effect at the date of the transaction; and,
- (iii) Revenues and expenses, at the average rate of exchange for the year.

Gains and losses arising from the translation of foreign currencies are included in the statement of operations for the year.

(c) Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year and does not include outstanding options and warrants.

(d) 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 of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact future results of operations and cash flows.

(e) Resource property

Acquisition and exploration costs relating to resource properties are deferred until the properties are brought into production, at which time the deferred costs are to be amortized on a unit of production basis, or until the properties are abandoned or sold, at which time the deferred costs are written off.

The Company periodically reviews the value of its mineral claims through review of various engineering reports and enquiry of its consultants. Once the decision is made to cease further exploration and a ready market is not available for sale, the acquisition costs and related deferred exploration costs are written off.

The amounts shown as mineral properties and deferred exploration represent unamortized costs to date and do not necessarily reflect present or future values.

BENCHMARK ENERGY CORP.

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Notes to Financial Statements **For the years ended June 30, 2005 and 2004**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property and equipment

The Company accounts for crude oil and natural gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry. Under this method, all costs associated with the acquisition of, exploration for and the development of, natural gas and crude oil reserves, including asset retirement costs, are capitalized.

Costs accumulated within each cost centre are depleted and amortized using the unit-of-production method based on estimated gross (before deduction of royalties) proved reserves. Capitalized costs subject to depletion are net of equipment salvage values and include estimated future costs to be incurred in developing proved reserves. Proceeds from the disposal of properties are normally deducted from the full cost pool without recognition of gain or loss unless that deduction would result in a change to the rate of depreciation, depletion and amortization of 20 percent or greater in which case a gain or loss is recorded.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The carrying amount of the cost centre is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. If the sum of cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of: the fair value of proved and probable reserves and the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves. Expenditures that improve the productive capacity or extend the life of an asset are capitalized. Maintenance and repairs are charged against income.

(g) Asset retirement obligations

The Canadian Institute of Chartered Accountants ("CICA") recently issued a new section in the CICA Handbook, section 3110, Asset retirement obligations, which was effective July 1, 2004. The standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time.

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Notes to Financial Statements **For the years ended June 30, 2005 and 2004**

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Stock-based compensation

Effective July 1, 2003, the Company adopted the CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments". The Company uses the fair value method whereby the Company recognizes compensation costs for the granting of all stock options and direct awards of stock using the Black-Scholes option pricing model. Any consideration paid on the exercise of stock options is credited to capital stock.

During the year, stock options were granted to directors, officers and consultants of the Company as described in note 7. There were no options granted in the two previous years.

(i) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

4. RESOURCE PROPERTY

During the year ended June 30, 2003, the Company signed a Memorandum of Understanding ("Memorandum") with Consolidated JABA Inc. ("JABA") to secure an option to earn up to an 80% interest in the Providence Claims of the Providence Gold Project in Clarke County, Nevada.

Under the terms of the Memorandum, the Company was to complete work programs totalling US \$900,000 on the property over four years and make property payments totalling US \$400,000 over eight years. The Company was to also issue 150,000 shares in the capital stock of the Company each year under the Memorandum commencing on TSX approval, until a bankable feasibility study was completed. The Company would have earned a 70% interest in the claims after completing the work program and an additional 10% totalling 80% by completing a bankable feasibility study.

During the year ended June 30, 2003, the Company paid US\$25,000 for the first year property payment in accordance with this agreement. During the year ended June 30, 2004, the Company terminated this option agreement. As a result of the termination, the Company paid \$20,000 and is to issue 50,000 common shares of the Company to JABA. These common shares have yet to be issued.

5. PROPERTY AND EQUIPMENT

In June 2005, the Company entered into a sale and purchase agreement with Canam Offshore Limited ("Canam") with respect to the acquisition of a 33.33% interest in the Cosmos Concession located in Tunisia and all geological data pertaining to the Cosmos Concession held by Canam.

As consideration, the Company will pay US\$100,000, of which, US\$40,000 was paid during the year and the remaining US\$60,000 was paid subsequent to the year end.

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5. PROPERTY AND EQUIPMENT (continued)

In addition, the Company will pay all outstanding license fees and other obligations relative to the one third interest incurred since January 1, 1999 of approximately US\$100,000.

The transfer of these interests in the Cosmos Concession has been approved by the Tunisian government but is still subject to Exchange approval.

Since this property is considered unevaluated and has yet to have had reserves assigned to it, no depletion has been taken for the year.

6. SHARE SUBSCRIPTIONS

During the year ended June 30, 2005, the Company proposed to undertake, subject to regulatory approval, a non-brokered private placement of up to 6,000,000 common shares at a price of \$0.15 per share for gross proceeds of \$900,000. Finder's fees may be payable on a portion of the private placement. At June 30, 2005, the Company received subscriptions of \$716,825 in connection with the proposed private placement with the balance to be received upon Exchange approval of the transaction.

7. CAPITAL STOCK

(a) Authorized

- (i) Unlimited number of common shares without par value
- (ii) Unlimited number of 10% cumulative redeemable convertible non-voting Class A preferred shares without par value
- (iii) Unlimited number of non-voting Class B preferred shares without par value

(b) Issued and outstanding

Share capital consists of common shares issued as follows:

	2005		2004	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	5,769,706	\$ 395,281	10,609,475	\$ 49,681
Shares issued on exercise of warrants	1,078,125	215,625	–	–
Stock consolidation	–	–	(7,072,983)	–
Bonus shares issued (note 7(b)(i))	–	–	45,714	8,000
Private Placement (note 7(b)(ii))	–	–	2,187,500	350,000
Share issue costs related to private placement (note 7(b)(ii))	–	–	–	(12,400)
Balance, end of year	6,847,831	\$ 610,906	5,769,706	\$ 395,281

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Notes to Financial Statements

For the years ended June 30, 2005 and 2004

7. CAPITAL STOCK (continued)

(b) Issued and outstanding (continued)

(i) Bonus Shares

During the year ended June 30, 2004, the Company issued 45,714 bonus shares at a deemed price of approximately \$0.18 per share to a shareholder of the Company in exchange for a non-interest bearing loan of \$40,000. The loan was repaid during the year ended June 30, 2004.

(ii) Private Placement

During the year ended June 30, 2004, the Company completed a brokered private placement of 2,187,500 units in the capital stock of the Company at a price of \$0.16 per unit for total gross proceeds of \$350,000. Each unit consists of one common share of the Company and one half of one share purchase warrant, each whole warrant exercisable into one common share at a price of \$0.20 for twelve months from the date of Closing. Finder's fees of \$12,400 were paid in connection with portions of the private placement.

(c) Stock options

During the year, the Company implemented a rolling stock option plan that enables it to grant options up to 10% of its common shares to its directors, officers and employees and other service providers. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options.

The continuity of options is as follows:

	Number of common shares	Weighted average exercise price
Balance, June 30, 2004	—	\$ —
Granted	580,000	\$0.27
Balance, June 30, 2005	580,000	\$0.27

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Notes to Financial Statements
For the years ended June 30, 2005 and 2004

7. CAPITAL STOCK (continued)

(c) Stock options (continued)

As at June 30, 2005, the following options were outstanding and exercisable:

Exercise Price	Number outstanding	Expiry date	Number exercisable	Weighted average remaining term (years)
\$0.27	580,000	May 24, 2010	73,221	5

During the year ended June 30, 2005, under the fair-value-based method, \$14,806 (2004 – \$nil) in compensation expense was recorded in the statements of operations and deficit and credited to contributed surplus for options granted to directors, officers, employees and consultants.

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Years ended June 30,	2005	2004
Risk free interest rate	3.34%	–%
Expected dividend yield	0%	–%
Stock price volatility	98%	–%
Expected life of options	5 years	– years

(d) Warrants

The continuity of warrants is as follows:

	Number of common shares	Weighted average exercise price
Balance, June 30, 2004	1,093,750	\$ 0.20
Exercised	(1,078,125)	\$ 0.20
Expired	(15,625)	\$ 0.20
Balance, June 30, 2005	–	\$ –

BENCHMARK ENERGY CORP.

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Notes to Financial Statements For the years ended June 30, 2005 and 2004

7. CAPITAL STOCK (continued)

(e) Shares held in escrow

As at June 30, 2005, 2,778 (2004 – 2,778) common shares of the Company were the subject of an escrow agreement under which the shares may not be transferred, assigned or otherwise dealt with without the consent of the relevant regulatory body having jurisdiction thereon.

8. RELATED PARTY TRANSACTIONS

During the year, the Company paid or accrued the following amounts to companies controlled by directors of the Company:

	2005	2004
Management fees	\$ 51,115	\$ 31,400

9. INCOME TAXES

The Company has available 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:

Available to	Amount
2006	\$ 195,000
2007	238,000
2008	212,000
2009	197,000
2010	214,000
2014	162,000
2015	281,000
	\$ 1,499,000

The Company has taken a full valuation allowance in respect of these carry forwards, accordingly, no future tax asset has been recognized in these financial statements.

10. COMMITMENT

The Company is committed to pay US\$5,000 per month until January 1, 2006 for consulting services related to the oil and gas sector in Africa.