

**Financial Statements of**  
**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**



## MANAGEMENT'S REPORT TO THE SHAREHOLDERS

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

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 been selected as the Company's incoming auditors and as such will be formally appointed by the Company's shareholder at the next Annual and Special Meeting of Shareholders. The auditors have 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 Harrison"

**David W. Harrison**

President and Chief Executive Officer

"Chris Cooper"

**Christopher Cooper, MBA**

Chief Financial Officer



**KPMG LLP**  
**Chartered Accountants**  
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## **AUDITORS' REPORT TO THE SHAREHOLDERS**

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

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

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

The financial statements as at June 30, 2005 and for the year then ended were audited by another firm of chartered accountants who expressed an opinion without reservation on these statements in their audit report dated September 20, 2005.

*KPMG LLP*

Chartered Accountants  
Calgary, Canada  
December 28, 2006

**BENCHMARK ENERGY CORP.****Balance Sheets**

<b>June 30,</b>	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,652,621	\$ 626,627
Accounts receivables	18,395	—
Deposits (note 4)	222,475	—
	<u>1,893,491</u>	<u>626,627</u>
Property and equipment (note 5)	453,064	50,096
	<u>\$ 2,346,555</u>	<u>\$ 676,723</u>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 210,684	\$ 65,416
Share subscription advances (note 6)	—	716,825
	<u>210,684</u>	<u>782,241</u>
<b>Shareholders' Equity (Deficiency)</b>		
Common shares and warrants (note 6(b))	3,566,316	610,688
Contributed surplus (note 7(c))	200,505	15,024
Deficit	(1,630,950)	(731,230)
	<u>2,135,871</u>	<u>(105,518)</u>
Going concern (note 2)		
Subsequent event (note 13)		
	<u>\$ 2,346,555</u>	<u>\$ 676,723</u>

Approved on behalf of the Board:

*"Larry Youell"*

..... Director

Larry Youell

*"David Harrison"*

..... Director

David Harrison

**BENCHMARK ENERGY CORP.**  
**Statements of Operations and Deficit**

<b>Years ended June 30,</b>	<b>2006</b>	<b>2005</b>
<b>Expenses (income)</b>		
General and administrative (notes 6(b) and 7(b))	\$ 908,504	\$ 307,671
Interest and bank charges	1,282	908
Depreciation	1,444	–
Interest income	(11,510)	(1,028)
<b>Net loss</b>	<b>(899,720)</b>	<b>(307,551)</b>
<b>Deficit, beginning of year</b>	<b>(731,230)</b>	<b>(423,679)</b>
<b>Deficit, end of year</b>	<b>\$ (1,630,950)</b>	<b>\$ (731,230)</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.08)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of shares outstanding – basic and diluted</b>	<b>10,983,475</b>	<b>5,850,966</b>

**BENCHMARK ENERGY CORP.**  
**Statements of Cash Flows**

<b>Years ended June 30,</b>	<b>2006</b>	<b>2005</b>
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (899,720)	\$ (307,551)
Items not involving cash:		
Stock based compensation	209,961	14,806
Depreciation	1,444	–
Changes in non-cash working capital (note 12)	4,223	(15,993)
	(684,092)	(308,738)
Financing activities:		
Common shares and warrants issued	2,214,323	215,625
Common share subscriptions advances	–	716,825
	2,214,323	932,450
Investing activities:		
Additions to property and equipment	(404,412)	(50,096)
Changes in non-cash working capital (note 12)	(99,825)	–
	(504,237)	(50,096)
Increase in cash and cash equivalents	1,025,994	573,616
Cash and cash equivalents, beginning of year	626,627	53,011
Cash and cash equivalents, end of year	\$ 1,652,621	\$ 626,627

# **BENCHMARK ENERGY CORP.**

## **Notes to Financial Statements**

**Years ended June 30, 2006 and 2005**

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### **1. ORGANIZATION AND NATURE OF OPERATIONS**

Benchmark Energy Corp. (the "Company") is incorporated under the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. 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. In 2006, the Company incurred a net loss of \$899,720 (2005 - \$307,551). At June 30, 2006, the Company had a deficit of \$1,630,950 and working capital of \$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.

Accordingly, these financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was 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 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.

(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 interest 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.

## BENCHMARK ENERGY CORP.

### Notes to Financial Statements

Years ended June 30, 2006 and 2005

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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 calculation 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 its estimated useful life.

(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) Income 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 expected 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

## **BENCHMARK ENERGY CORP.**

### **Notes to Financial Statements**

**Years ended June 30, 2006 and 2005**

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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 7. 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 remeasured 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 vested 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.

(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, 2006 and 2005, the Company incurred net losses and, accordingly, all outstanding stock options have an anti-dilutive impact on net loss per share.

(i) Comparative figures

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

# BENCHMARK ENERGY CORP.

## Notes to Financial Statements

Years ended June 30, 2006 and 2005

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### 4. DEPOSIT

Pursuant to a Memorandum Agreement dated April 28, 2006, the Company advanced \$222,475 (US\$200,000) to a third party as an advance for due diligence services to identify petroleum and natural gas interests in Indonesia which the Company may acquire.

Upon the successful acquisition of a petroleum and natural gas interests identified by the third party, the Company will pay a success fee of up to US\$300,000, of which the US\$200,000 already advanced will be applied. The success fee will be US\$100,000 per prospect and will be payable in two payments as follows; US\$50,000 payable within 30 days of the execution of the first formal agreement for the acquisition of an identified prospect and US\$50,000 upon the execution of the first binding agreement for the acquisition of an identified prospect. If after a period of 12 months from the date of the Memorandum Agreement no identified prospect have been acquired by the Company or if one or more identified prospects have been acquired, but the aggregate success fees payable in respect thereto are less than US\$300,000, the third party will refund the US\$200,000 advance or the unearned portion thereof, as the case may be, to the Company.

### 5. PROPERTY AND EQUIPMENT

June 30,	2006	2005
Petroleum and natural gas interests	441,795	50,096
Office furniture and equipment	12,713	–
	454,508	50,096
Accumulated depletion and depreciation	(1,444)	–
	453,064	50,096

At June 30, 2006, 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 \$441,795 (2005 - \$50,096) were capitalized in property and equipment and excluded from costs subject to depletion and depreciation. Major uncertainties affecting the recoverability include the Company's ability to obtain financing and the ability to successfully develop and achieve commercial production from the concession.

### 6. SHARE CAPITAL AND WARRANTS

- (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

**BENCHMARK ENERGY CORP.**  
**Notes to Financial Statements**

**Years ended June 30, 2006 and 2005**

(b) Issued and outstanding

Share capital and warrants consists of:

	2006		2005	
	Units	Amount	Units	Amount
<b>Common shares</b>				
Balance, beginning of year	6,847,831	\$610,688	5,769,706	\$380,006
Issued for cash, net of issue costs	10,272,000	2,725,134	-	-
Exercise of options	81,600	46,512	-	-
Exercise of warrants	-	-	1,078,125	230,682
Balance, end of year	17,201,431	\$3,382,334	6,847,831	\$610,688
<b>Warrants</b>				
Balance, beginning of year	-	\$ -	1,093,750	\$ 15,275
Issued for cash	2,136,000	183,982	-	-
Exercised	-	-	(1,078,125)	(15,057)
Expired	-	-	(15,625)	(218)
Balance, end of year	2,136,000	\$ 183,982	-	\$ -
<b>TOTAL BALANCE, end of year</b>		<b>\$3,566,316</b>		<b>\$610,688</b>

In December 2005, the Company closed a private placement of 6,000,000 common shares at a price of \$0.15 per share for gross proceeds of \$900,000. At June 30, 2005, the Company had received share subscription advances of \$716,825.

In March 2006, the Company closed 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.

In May 2006, the Company closed 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.

**BENCHMARK ENERGY CORP.****Notes to Financial Statements****Years ended June 30, 2006 and 2005**

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**7. STOCK OPTION PLAN**

(a) Stock option plan:

In 2005, the Company implemented a stock option plan that enables the Company to grant options 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.

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

	Number of option	Weighted average exercise price
Balance, June 30, 2004	–	\$–
Granted	580,000	\$0.27
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

At June 30, 2006, the following options were outstanding and exercisable:

Exercise Price	Number outstanding	Number exercisable	Weighted average remaining term (years)
\$0.27	467,500	311,667	4.00
\$0.35	675,000	-	4.58
\$0.50	29,000	14,500	4.67
\$0.71	500,000	-	4.92
Balance, June 30, 2006	1,671,500	326,167	

## BENCHMARK ENERGY CORP.

### Notes to Financial Statements

#### Years ended June 30, 2006 and 2005

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(b) Stock-based compensation costs:

For the year ended June 30, 2006, the Company recognized stock-based compensation costs of \$209,961 (2005 – \$14,806). 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,	2006	2005
Risk free interest rate (percent)	3.85	3.34
Expected life (years)	5.00	5.00
Expected volatility (percent)	73	98
Fair value of stock options granted (dollars)	0.31	0.20

(c) Contributed surplus

	<u>Amount</u>
Balance, June 30, 2004	\$ –
Stock based compensation	14,806
Expired warrants	218
Balance, June 30, 2005	\$ 15,024
Stock based compensation	209,961
Exercise of stock options	(24,480)
Balance, June 30, 2006	\$ 200,505

#### 8. RELATED PARTY TRANSACTIONS

For the year ended June 30, 2006, the Company incurred management service fees of \$180,071 (2005 - \$51,115) to companies controlled by directors and former directors of the Company.

The Company paid a success fee of \$194,595 (US\$165,090) and a 5% carried interest to a consultant in connection with the Company's acquisition of its 33.33% interest in the Cosmos Concession located in Tunisia. In addition, the consultant also provides the Company with management services and was paid fees of \$87,472 (2005 - \$38,781) during the year ended June 30, 2006.

At June 30, 2006, accounts payable and accrued liabilities included \$18,467 (2005 - \$nil) of amounts due to related parties.

#### 9. INCOME TAXES

The Company is subject to income taxes in Canada. The Company's only operating activities in 2006 and 2005 were in Tunisia where the statutory tax rate is nil, since the Company's asset in Tunisia is subject to production sharing agreement.

# BENCHMARK ENERGY CORP.

## Notes to Financial Statements

### Years ended June 30, 2006 and 2005

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The Company has tax losses of approximately \$2,006,000 (2005 - \$1,517,000), which expire from 2007 to 2026, tax deductions of approximately \$455,000 (2005 - \$51,000), and capital losses of \$28,000 in 2005 and 2006. A valuation allowance has been applied to fully offset the future benefit of the tax losses and deductions.

#### 10. FINANCIAL INSTRUMENTS

(a) Fair value of financial assets and liabilities:

At June 30, 2006, the fair values of financial assets and liabilities are approximately equal to their carrying amounts due to the short maturities.

(c) Foreign exchange risk:

The Company is exposed to foreign exchange fluctuations as it holds working capital in foreign currencies. In addition, a portion of the operating activities are conducted in US dollars. There are no exchange rate contracts in place at, or subsequent to, June 30, 2006.

#### 11. COMMITMENT

The Company is committed to pay US\$5,000 per month until January 1, 2006 under a management services contract.

#### 12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Changes in non-cash working capital

Year ended June 30,	2006	2005
Accounts receivable	(18,395)	4,658
Deposit	(222,475)	—
Accounts payable and accrued liabilities	145,268	(20,651)
	(95,602)	(15,993)
Relating to investing activities	(99,825)	—
Relating to operating activities	4,223	(15,993)

For the years ended June 30, 2006 and 2005, the Company did not pay interest or income taxes.

#### 13. SUBSEQUENT EVENT

Subsequent to June 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 will 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.