

HEDONG ENERGY INC.

**Financial Statements
June 30, 2003 and 2002**

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AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HEDONG ENERGY INC.

I have audited the balance sheet of Hedong Energy Inc. as at June 30, 2003 and the statement of operations and deficit and cash flows for the year 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, 2003 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 and for the year ended June 30, 2002 were examined by other auditors who expressed an opinion without reservation on those statements in their report dated October 31, 2002.

"Tony M. Ricci Inc."

Chartered Accountant

Vancouver, British Columbia
October 31, 2003

HEDONG ENERGY INC.**Balance Sheets****June 30**

	2003	2002
Assets		
Current		
Cash	\$2,329	\$77,535
Accounts receivable	-	5,471
	\$2,329	\$83,006
Liabilities		
Current		
Accounts payable and accrued liabilities	\$60,089	\$31,443
Due to related parties	134,140	-
	194,229	31,443
Shareholders' Equity		
Capital Stock (note 5)	49,681	47,681
Retained Earnings	(241,581)	3,882
	(191,900)	51,563
	\$2,329	\$83,006

Going concern (note 2)

Commitment (note 7)

Subsequent events (note 1, 4 and 9)

Approved on behalf of the Board:

"Chris Cooper"..... Director
Chris Cooper*"Barry Lee"*..... Director
Barry Lee

HEDONG ENERGY INC.
Statements of Operations and Deficit
Years Ended June 30

	2003	2002
Revenues		
Interest	\$ 91	\$ 5,652
Gain on sale of investments	-	761
	91	6,413
Expenses		
Rent	60,359	26,260
Travel	57,961	42,956
Management and administrative fees	29,844	34,490
Consulting fees	20,171	30,201
Legal	18,003	10,850
Transfer agent	5,414	8,081
Regulatory	5,379	5,291
Office	4,703	14,290
Interest and bank charges	3,985	870
Audit	3,860	20,725
Foreign exchange loss (gain)	1,377	(14,663)
Directors' fees	-	4,627
	211,056	183,978
Loss before other item	(210,965)	(177,565)
Other item		
Write-off of mineral property (note 4)	34,498	-
Loss for the year	(245,463)	(177,565)
Retained earnings, beginning of year	3,882	181,447
Retained earnings (deficit), end of year	\$(241,581)	\$3,882
Loss per share – basic and diluted	\$ (0.02)	\$ (0.02)
Weighted Average Number of Shares Outstanding		
- basic and diluted	10,596,370	10,592,808

See notes to financial statements.

HEDONG ENERGY INC.
Statements of Cash Flows
Years Ended June 30

	2003	2002
Operating Activities		
Loss for the year	\$(245,463)	\$(177,565)
Items not involving cash		
Bonus shares issued on loan	2,000	-
Write-off of mineral property	34,498	
Gain on sale of investments	-	(761)
Operating Cash Flow	(208,965)	(178,326)
Changes in Operating Assets and Liabilities	34,117	16,423
Cash Used in Operating Activities	(174,848)	(161,903)
Financing Activity		
Due to related parties	134,140	-
Investing Activity		
Investment in mineral property	(34,498)	-
Net proceeds from sale of investments	-	3,555
Decrease in cash	(75,206)	(158,348)
Cash, beginning of year	77,535	235,883
Cash, end of year	\$2,329	\$77,535
Supplemental Cash Flow Information		
Common shares issued as loan bonus (note 5(a))	\$ 2,000	\$ -

HEDONG ENERGY INC.
Notes to Financial Statements
Years Ended June 30, 2003 and 2002

1. ORGANIZATION AND NATURE OF OPERATIONS

Hedong Energy Inc. (the "Company") is listed on the TSX Venture Exchange ("TSX") and has its offices in Vancouver, Canada.

The Company has no operations. The Company is seeking other investment opportunities.

Subsequent to year end, after previously being designated inactive, the Company had its Exchange listing transferred to the NEX board for inactive users. 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 12 month period, and issuing maximum stock options equal to 10% of the issued and outstanding shares during any 12 month period.

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. The Company has incurred losses and has a deficit of \$241,581 at June 30, 2003, and has a working capital deficiency of \$191,900 at June 30, 2003. 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 and 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, accounts receivable, accounts payable and accrued liabilities and due to related parties approximate their carrying values. 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

During the year, as a result of the Company relocating its administration and operations offices to Canada, the Company changed its reporting currency from Australian to Canadian dollars. As a result, prior year's figures have been translated into the reporting currency. Income statement and cash flow statement items have been translated to the reporting currency using the rates in effect at the date of the transactions, and assets and liabilities are translated using the exchange rate at the end of the year. All resulting exchange differences have been included in the statement of operations and deficit.

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;
- (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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Loss per share

Loss per share is calculated based on the weighted average number of common shares outstanding during the year.

(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) Mineral property

Acquisition and exploration costs relating to mineral 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.

(f) Stock-based compensation

Effective July 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation and other stock-based payments. The new recommendations are applied prospectively.

The Company accounts for all stock-based payments to non-employees and employee awards that are direct awards of stock, granted on or after July 1, 2002, using the fair value method. Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterpart performance is complete and any change therein recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

In respect of stock options granted to directors and employees, the standard requires pro forma disclosure of the net loss or income figures as if these grants were accounted for using the fair value method for options granted after January 1, 2002. The Company accounts for options granted to employees under the settlement method whereby no compensation cost is

HEDONG ENERGY INC.
Notes to Financial Statements
Year Ended June 30, 2003 and 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Stock-based compensation (Continued)

recorded for options granted to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital.

Since there were no stock options granted during the year and the Company has omitted the effect of employee stock options granted before July 1, 2002 in determining pro forma disclosures, no pro forma disclosures have been provided.

(g) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation. In addition, prior year figures have been translated from Australian to Canadian dollars as the Company has adopted the Canadian dollar as its reporting currency.

4. MINERAL PROPERTY

During the year, 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 must complete a work program on the property over the next four years., expending US\$150,000 in year one, US\$200,000 in year two, US\$250,000 in year three and US\$300,000 in year four. In addition, property payments of US\$25,000 per year from year one to year four, US\$50,000 per year for years five and six, and US\$100,000 per year in years seven and eight. The Company will also pay 150,000 shares in the capital stock of the Company each year under the Memorandum commencing on TSX approval, until a bankable feasibility study is completed. The Company will 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, the Company paid US\$25,000 for the first year property payment in accordance with this agreement.

Subsequent to year end, the Company terminated this option agreement. As a result of the termination, the Company will pay \$20,000 and issue 150,000 pre-consolidated common shares of the Company to JABA.

HEDONG ENERGY INC.
Notes to Financial Statements
Year Ended June 30, 2003 and 2002

5. CAPITAL STOCK

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

Issued

Share capital consists of common shares issued as follows:

	2003		2002	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	10,592,808	\$47,681	10,592,808	\$47,681
Issuance of bonus shares (note 5(a))	16,667	2,000	-	-
Balance, end of Year	10,609,475	\$49,681	10,592,808	\$47,681

- (a) During the year ended June 30, 2003, the Company issued 16,667 bonus shares at a deemed price of \$0.12 per share to a shareholder of the Company in exchange for a non-interest bearing loan of \$10,000.
- (b) The Company has no options outstanding at June 30, 2003 and 2002.
- (c) The Company has no warrants outstanding at June 30, 2003 and 2002.
- (d) The Company has 8,333 (2002 - 8,333) common shares held in escrow.

HEDONG ENERGY INC.
Notes to Financial Statements
Year Ended June 30, 2003 and 2002

6. RELATED PARTY TRANSACTIONS

During the year, the Company paid or accrued the following amounts to companies controlled by directors of the Company, to a former director of the Company and to a company controlled by a former director of the Company:

	2003	2002
Director's fees	\$ -	\$ 4,627
Consulting services	3,000	16,867
Management and administrative services	27,500	34,490
Rent	60,359	26,260

These services were carried out by related parties on normal commercial terms at economically competitive amounts for the services they provided.

7. COMMITMENT

The Company has agreed to pay a company controlled by a former director monthly rent of \$5,000. The agreement will expire January 31, 2004.

8. INCOME TAX

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
2004	\$148,000
2005	92,000
2006	195,000
2007	238,000
2008	212,000
2009	197,000
2010	211,000
	\$1,293,000

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8. INCOME TAX (Continued)

The components of the future income tax assets are as follows:

	2003	2002
Future income tax assets		
Non-capital loss carry-forwards	\$1,293,000	\$1,194,000
Approximate tax rate	40%	40%
Less: Valuation allowance	517,200 (517,200)	477,600 (477,600)
	\$0	\$0

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

The Company also has approximately \$15,600,000 of allowable capital losses which may be carried forward indefinitely to apply against future years' capital gains.

9. SUBSEQUENT EVENT

Subsequent to year end, the Company announced plans to consolidate its share capital on a three old for one new basis, and change its name to Benchmark Energy Ltd. This consolidation and change of name are subject to shareholder and regulatory approval.