

**BENEM VENTURES INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**



## AUDITORS' REPORT

To the Shareholders of  
Benem Ventures Inc.

We have audited the balance sheets of Benem Ventures Inc. as at June 30, 2007 and 2006, and the statements of operations and deficit, and cash flows for the years 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 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 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, 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.

Vancouver, Canada

October 15, 2007

"Morgan & Company"

Chartered Accountants

# BENEM VENTURES INC.

## BALANCE SHEETS

	JUNE 30	
	2007	2006
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 17,351	\$ 2,201
Short-term investments	150,000	325,000
Accounts receivable	7,076	7,091
Prepaid expense	1,250	5,000
	<u>\$ 175,677</u>	<u>\$ 339,292</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 15,015</u>	<u>\$ 12,836</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 3)	708,867	693,867
Deficit	<u>(548,205)</u>	<u>(367,411)</u>
	<u>160,662</u>	<u>326,456</u>
	<u>\$ 175,677</u>	<u>\$ 339,292</u>

Approved on behalf of the Board of Directors:

\_\_\_\_\_  
"Andrew Parkinson"  
Director

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"Leigh Lyons"  
Director

The accompanying notes are an integral part of these financial statements.

# BENEM VENTURES INC.

## STATEMENTS OF OPERATIONS AND DEFICIT

	YEARS ENDED JUNE 30	
	2007	2006
<b>Administrative Expenses</b>		
Accounting and audit	\$ 11,424	\$ 11,286
Bank charges and interest	237	586
Consulting	7,310	1,571
Filing and transfer agent fees	8,321	18,652
Legal	35,746	38,427
Office and administration	16,903	4,083
Office rent	48,000	35,000
Shareholder communications	169	1,979
Sponsorship fees	45,000	-
Travel and promotion	16,282	23,581
<b>Loss Before Other Items</b>	<b>(189,392)</b>	<b>(135,165)</b>
<b>Interest Income</b>	<b>8,598</b>	<b>10,473</b>
<b>Net Loss For The Year</b>	<b>(180,794)</b>	<b>(124,692)</b>
<b>Deficit, Beginning Of Year</b>	<b>(367,411)</b>	<b>(242,719)</b>
<b>Deficit, End Of Year</b>	<b>\$ (548,205)</b>	<b>\$ (367,411)</b>
<b>Basic And Diluted Loss Per Share</b>	<b>\$ (0.04)</b>	<b>\$ (0.03)</b>
<b>Weighted Average Number Of Shares Outstanding</b>	<b>4,300,000</b>	<b>3,848,356</b>

The accompanying notes are an integral part of these financial statements.

# BENEM VENTURES INC.

## STATEMENTS OF CASH FLOWS

	YEARS ENDED JUNE 30	
	2007	2006
<b>Cash Flows From Operating Activities</b>		
Net loss for the year	\$ (180,794)	\$ (124,692)
Changes in non-cash working capital items:		
Accounts receivable	15	(5,059)
Prepaid expense	3,750	(3,569)
Accounts payable and accrued liabilities	2,179	(45,232)
	<u>(174,850)</u>	<u>(178,552)</u>
<b>Cash Flows From Financing Activities</b>		
Share subscriptions received	15,000	-
Proceeds from issuance of share capital	-	245,000
	<u>15,000</u>	<u>245,000</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of short-term investments	(150,000)	(175,000)
Redemption of short-term investments	325,000	100,000
	<u>175,000</u>	<u>(75,000)</u>
<b>Increase (Decrease) In Cash</b>	<b>15,150</b>	<b>(8,552)</b>
<b>Cash, Beginning Of Year</b>	<b>2,201</b>	<b>10,753</b>
<b>Cash, End Of Year</b>	<b>\$ 17,351</b>	<b>\$ 2,201</b>
<b>Supplemental Disclosure Of Cash Flow Information</b>		
Interest received	\$ 12,312	\$ 7,299
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

# **BENEM VENTURES INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

### **1. NATURE OF OPERATIONS**

#### **a) Incorporation and Commencement of Operations**

The Company was incorporated under the laws of the province of Alberta and is classified as a Capital Pool Company as defined in the TSX Venture Exchange ("TSX") Policy 2.4. The principal business of the Company is to identify and evaluate opportunities for the acquisition of an interest in assets or businesses ("Qualifying Transaction"), and, once identified, to negotiate an acquisition or participation within 18 months of listing on the TSX. The Company may not have sufficient funds to complete the acquisition and may be required to raise additional equity or debt financing.

On October 1, 2001, the Company received final receipt from the securities regulators in British Columbia and Alberta on its prospectus dated September 28, 2001.

The Company was listed on the TSX on March 4, 2002 and the Company was required to complete a Qualifying Transaction by September 2, 2003.

On July 12, 2004, the Company's shares were listed for trading on the NEX board of the TSX.

On May 30, 2006, the Company's trading status was halted pending regulatory review of the proposed Qualifying Transactions as outlined in Note 7.

#### **b) 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. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern, and therefore, be required to realize its assets and discharge its liabilities, obligations and commitments in other than the normal course of business, and at amounts different from those in these financial statements.

The Company's continuing operations as intended are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an investment of an interest in properties, assets or businesses. Such an acquisition will be subject to shareholder and regulatory approval.

# **BENEM VENTURES INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

### **2. SIGNIFICANT ACCOUNTING POLICIES**

a) 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 amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management has made such estimates primarily in the assessment of the accounts payable and accrued liabilities. Actual results could differ from those estimates.

b) Stock Based Compensation Plan

The Company follows the recommendations of CICA Handbook Section 3870 – “Stock Based Compensation and Other Stock Based Payments” to account for stock based transactions with officers, directors, and outside consultants. Accordingly, the fair value of stock options is charged to operations, with an offsetting credit to contributed surplus. The fair value of stock options, which vest immediately, is recorded at the date of grant; the fair value of stock options, which vest in the future, is recognized on a straight-line basis over the vesting period. Any consideration received on exercise of stock options together with the related portion of contributed surplus is credited to share capital.

c) Future 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 the 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 occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation against the excess.

d) Loss Per Share

Basic and diluted loss per share amounts are computed using the weighted average number of common shares outstanding during the year.

# **BENEM VENTURES INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

### **2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### d) Loss Per Share (Continued)

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only instruments with exercise amounts less than market prices impact the diluted calculations. In computing diluted loss per share, no shares were added to the weighted average number of common shares outstanding during the years ended June 30, 2007 and 2006 for the dilutive effect of employee stock options as they were all anti-dilutive. No adjustments were required to reported loss from operations in computing diluted per share amounts.

#### e) Financial Instruments

The carrying value of the Company's financial instruments consisting of cash, accounts receivable, and accounts payable approximate their fair value due to the short term maturity of such instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

#### f) Variable Interest Entities

The Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", to provide accounting guidance related to variable interest entities ("VIE"). A VIE exists when the entity's equity investment is at risk. When a VIE is determined to exist, the guidance requires the VIE to be consolidated by the primary beneficiary. The Company adopted the Guideline effective July 1, 2005 and has determined that it does not have a primary beneficiary interest in VIEs.

#### g) Comparative Figures

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

### **3. SHARE CAPITAL**

#### a) Authorized

Unlimited common shares without par value  
Unlimited preferred shares without par value

# BENEM VENTURES INC.

## NOTES TO FINANCIAL STATEMENTS

**JUNE 30, 2007 AND 2006**

### 3. SHARE CAPITAL (Continued)

b) Issued and Outstanding

	2007		2006	
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT
Balance, beginning of year	4,300,000	\$ 708,867	2,000,000	\$ 448,867
Shares issued pursuant to a private placement	-	-	2,000,000	200,000
Stock options exercised	-	-	300,000	60,000
	<b>4,300,000</b>	<b>708,867</b>	4,300,000	708,867
Less: share subscriptions receivable	-	-	-	(15,000)
Balance, end of year	<b>4,300,000</b>	<b>\$ 708,867</b>	4,300,000	\$ 693,867

- c) On August 26, 2005, the Company issued 2,000,000 common shares at \$0.10 per share for gross proceeds of \$200,000 pursuant to a non-brokered private placement.

During the year ended June 30, 2006, stock options were exercised to purchase 300,000 common shares at \$0.20 per share. The Company received \$15,000 of the proceeds subsequent to June 30, 2006. The amount has been shown above as a reduction of the carrying amount of share capital in 2006.

- d) Stock option transactions are summarized as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, June 30, 2005	300,000	\$ 0.20
Options exercised	(300,000)	0.20
Balance, June 30, 2006 and 2007	-	\$ -

# BENEM VENTURES INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

### 4. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2007, the Company incurred legal expenses of \$35,746 (2006 - \$38,427) with a law firm associated with a former director of the Company and paid \$5,300 (2006 - \$Nil) in consulting fees to a director.

Included in accounts payable is \$6,500 (2006 - \$4,000) for legal fees due to a firm that is associated with a former director of the Company.

These transactions are in the normal course of operations and are measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

### 5. INCOME TAXES

Future income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets as of June 30 are as follows:

	<u>2007</u>	<u>2006</u>
Non-capital losses carry forwards	\$ 193,000	\$ 132,000
Valuation allowance	(193,000)	(132,000)
Future income tax asset	<u>\$ -</u>	<u>\$ -</u>

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	<u>2007</u>	<u>2006</u>
Statutory tax rate	34%	34%
Income tax recovery at statutory rate	\$ (61,700)	\$ (42,500)
Permanent differences	400	-
Effect of change in tax rate	-	3,900
Tax benefits not recognized	61,300	38,600
	<u>\$ -</u>	<u>\$ -</u>

# **BENEM VENTURES INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

### **5. INCOME TAXES (Continued)**

The Company has non-capital losses of approximately \$566,000 (2006 - \$387,000), which expire over the years 2008 to 2027.

### **6. LETTER OF INTENT**

On August 16, 2006, the Company executed an arm's-length Letter of Intent (the "LOI") with First West Petroleum Inc. ("First West") of Calgary pursuant to which it was to purchase all of the issued shares of First West. Upon successful completion by the parties of their due diligence reviews and upon receipt of regulatory approval, the parties were to execute a share exchange agreement pursuant to which the Company would issue, as consideration for the purchase of the First West common shares, three common shares from treasury for each First West common share, for a total of 50,937,384 shares to be issued at a deemed price of \$0.50. Closing was anticipated to occur upon receipt of regulatory approval, with a target closing date of October 30, 2006, and a drop-dead date of November 30, 2006 for receipt of all regulatory approvals. The drop-dead date was extended to May 30, 2007, by mutual agreement of the parties.

The Company made an application to the TSX for an exemption from the sponsorship requirements of exchange policies with respect to the First West acquisition as its Qualifying Transaction. No such exemption was granted. The Company retained Integral Wealth Securities Limited ("Integral") to act as its Sponsor in connection with the First West Acquisition. The Company paid Integral \$45,000 as a sponsorship fee and the amount was expensed in the statements of operations.

Trading in the Company's shares is presently halted pending approval of the First West transaction.

Subsequent to year-end, the LOI with First West was terminated.

# **BENEM VENTURES INC.**

## **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2007 AND 2006**

### **7. SUBSEQUENT EVENTS**

Subsequent to year-end, the Company announced that it had executed an acquisition agreement (the "Acquisition Agreement") with Velocity Resources Canada Ltd. ("Velocity") of Edmonton, Alberta, as its Qualifying Transaction (the "Velocity Acquisition"). Pursuant to the terms of the Acquisition Agreement, the Company will acquire certain mineral claims in the province of British Columbia owned by Velocity in exchange for a cash payment of \$75,000 (\$15,000 payable upon execution and \$60,000 payable upon the closing date) plus 12,000,000 shares in the capital stock of the Company, along with a commitment to raise up to \$2,000,000 in working capital by way of a private placement of shares in the Company. Closing is anticipated to occur 10 business days upon receipt of regulatory, corporate and shareholder approval, with a target closing date of November 30, 2007, and a drop-dead date of March 1, 2008, for receipt of all approvals. The Company will apply to the TSX for an exemption from the sponsorship requirements of Exchange policies with respect to the Velocity Acquisition as its Qualifying Transaction, although there is no certainty that any such exemption will be granted. Trading in the Company's shares remains halted, and is expected to resume upon receipt of the sponsorship exemption or the appointment of a sponsor, along with the issuance of a comprehensive press release following Exchange and sponsor review of the Velocity Acquisition, including title to the properties, applicable agreements and accompanying documentation.