

CONSOLIDATED BEACON RESOURCES LTD.

TSXV:KBC

2007 INTERIM FINANCIAL REPORT

**For the Nine Months Ended
September 30, 2007
(Unaudited – See Notice to Reader)**

Notice to Reader

Unaudited Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the nine months ended September 30, 2007.

The interim financial statements of Consolidated Beacon Resources Ltd, and the accompanying interim balance sheet as at September 30, 2007, and the interim statements of earnings, retained earnings and cash flows for the nine month period then ended are the responsibility of the Company's management.

The interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles.

CONSOLIDATED BEACON RESOURCES LTD.

Balance Sheet

(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current assets		
Cash	\$ 168,648	\$ 273,108
Accounts receivable	22,343	11,835
Subscriptions receivable	-	128,800
Prepaid expenses	34,640	51,642
	225,631	465,385
Deferred financing charges	22,343	29,943
Property, plant and equipment (note 4)	421,454	379,890
Total Assets	\$ 669,428	\$ 875,218
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 163,139	\$ 279,507
Due to former directors	-	346,281
Current liabilities of discontinued operations - Settlement amount (note 5)	-	200,000
	163,139	825,788
Debenture	587,821	587,821
	750,960	1,413,609
Shareholders' Equity		
Share capital (note 7)	6,393,467	5,494,835
Contributed surplus (note 7)	33,314	33,314
Deficit	(6,508,313)	(6,066,540)
	(81,532)	(538,391)
Total liabilities and shareholders' equity	\$ 669,428	\$ 875,218

Base of Presentation (note 2)

Commitments (note 8)

see accompanying Notes to Consolidated Financial Statements

On behalf of the Board:

(Signed) "Richard J. Hawes" President

(Signed) "Norman S. Johnson" Chief Financials

Consolidated Statement of Operations & Deficit

(unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	2007	2006	2007	2006
Revenue				
Interest and other income	930	3,702	\$ 2,117	\$ 34,988
Expense				
General and administrative	38,828	68,251	398,124	449,494
Interest	11,660	1,255	42,773	1,584
Depreciation	997	-	2,993	-
	<u>51,485</u>	<u>69,506</u>	<u>443,890</u>	<u>451,078</u>
Net loss from operations	(50,555)	(65,804)	(441,773)	(416,090)
Deficit - Beginning of period	(6,457,758)	(5,547,538)	(6,066,540)	(5,197,252)
Deficit - End of period	\$ (6,508,313)	\$ (5,613,342)	\$ (6,508,313)	\$ (5,613,342)
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.01)

see accompanying Notes to Consolidated Financial Statements

Consolidated Statement of Cash Flows

(unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	2007	2006	2007	2006
Cash provided by (used for):				
Operating activities				
Net income (loss)	\$ (50,555)	\$ (65,804)	\$ (441,773)	\$ (416,090)
Depreciation	997	-	2,993	-
Stock based compensation	-	30,954	-	30,954
Change in non-cash working capital	(502,628)	82,430	(519,755)	(15,572)
	<u>(552,186)</u>	<u>47,580</u>	<u>(958,535)</u>	<u>(400,708)</u>
Financing Activities				
Issuance of common shares, net of expenses	-	-	-	329,115
Issuance of common shares, settlement of debt	532,351	-	878,632	-
Issuance of common shares, warrants exercised	-	-	20,000	-
Issuance of debentures	-	-	-	600,000
Restricted cash	-	-	-	(40,000)
Bank indebtedness	-	(9,919)	-	12,771
Due to directors and former directors	-	-	-	(35,000)
Note payable to Shareholder	-	-	-	-
	<u>532,351</u>	<u>(9,919)</u>	<u>898,632</u>	<u>866,886</u>
Investing Activities				
Acquisition of property, plant and equipment	183,954	-	(44,557)	(459,560)
Changes in non-cash working capital	-	-	-	-
	<u>183,954</u>	<u>-</u>	<u>(44,557)</u>	<u>(459,560)</u>
Increase (decrease) in cash	164,119	37,661	(104,460)	6,618
Cash, beginning of period	4,529	-	273,108	89
Cash, end of period	<u>\$ 168,648</u>	<u>\$ 37,661</u>	<u>\$ 168,648</u>	<u>\$ 6,707</u>
Supplementary information regarding cash payments:				
Interest received	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,602</u>	<u>\$ 1,584</u>

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS

September 30, 2007 and 2006

1. NATURE OF OPERATIONS

Consolidated Beacon Resources Ltd. (the "Company" or "Beacon") is a Calgary, Alberta based company listed on the TSX Venture Exchange ("TSXV"). The Company was incorporated in 1990 in the Province of Alberta through the amalgamation of Beacon Energy Corporation and Copperwood Exploration Ltd.

2. BASIS OF PRESENTATION

These financial statements have been prepared using Canadian generally accepted accounting principles on a going concern basis, which presumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has working capital of \$62,492 as at September 30, 2007 (December 31, 2006 - \$360,403 deficiency) and a deficit of \$6,508,313 at September 30, 2007 and has continued to incur operating losses in nine months ended September 30, 2007 of \$441,773. In addition, the Company has limited current revenue sources to meet its current obligations. Future equity financings are planned.

The carrying value of resource properties represents costs incurred to date, net of abandonment and write-downs, and do not necessarily reflect present or future values. The ability of the Company to continue as a going concern is uncertain and the recoverability of amounts shown for properties is dependent upon the existence of economically recoverable reserves, and also the ability of the Company to obtain necessary financing to complete their development and upon future profitability. These financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. These financial statements do not include any adjustments that would be necessary should the Company be unable to raise sufficient capital and consequently be unable to continue as a going concern.

These interim Financial Statements should be read in conjunction with the December 30, 2006 audited Financial Statements. The interim Financial Statements are presented in accordance with Canadian generally accepted accounting principles and follow the accounting policies summarized in the notes to the annual Financials Statements, except for changes as described in note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

Effective January 1, 2007, the Company has adopted the following new accounting standards issued by the CICA relating to the accounting for and disclosure of financial instruments:

- a) Section 1530 - "Comprehensive Income" introduces the concept of comprehensive income to Canadian GAAP. Comprehensive income is the change in equity (net assets) of the Company during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

- b) Foreign currency translation adjustment, which is currently a separate component of shareholders' equity, will be recorded as part of accumulated other comprehensive income.
- c) Section 3251 – “Equity” replaces Section 3250 – “Surplus” and establishes standards for the presentation of equity and changes in equity during the reporting period. Financial statements of prior periods will be restated only for the foreign currency translation adjustment.
- d) Section 3855 – “Financial Instruments – Recognition and Measurement” prescribes when a financial asset, financial liability, or non financial derivative is to be recognized on the balance sheet as well as its measurement amount. This section also specifies how financial instruments gains and losses are to be presented.
- e) The Company includes all transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability with the fair value of the financial asset or financial liability. These adjustments were previously recorded in deferred charges. Transaction costs included with the fair value of the financial asset or financial liability will be amortized using the effective interest method.
- f) Section 3865 – “Hedges” replaces Accounting Guideline – “Hedging Relationships” and EIC 128 – “Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments” and specifies how hedge accounting is to be applied and what disclosures are necessary when hedge accounting is applied.
- g) Adoption of this standard will require the Company to record all of its derivative financials instruments on the balance sheet at fair value, including those designated as hedges. Designated hedges are currently not recognized on the balance sheet but are disclosed in the notes to the financial statements. The adjustments to recognize the designated hedges on the balance sheet will be recorded as an adjustment to the opening balance of retained earnings or accumulated other comprehensive income, as appropriate.
- h) Subsequently, if the derivative is designated as a fair value hedge, changes in the fair value of the derivative and changes in the fair value of the hedged item attributed to the hedge risk are recognized in the consolidated statement of earnings each period. If the derivative is designated as a cash flow hedge, the effective portions of the changes in fair value of the derivative are initially recorded in comprehensive income each period and are recognized in the consolidated statements of earnings when the hedged item is recognized. Ineffective portions of changes in the fair value of hedging instruments are recognized in net earnings immediately for both fair value and cash flow hedges.

Adoption of these standards had a nil effective on the Company's consolidated balance sheet.

a) PROPERTY AND EQUIPMENT

	September 30, 2007	December 31, 2006
Petroleum and natural gas properties	\$ 404,492	\$ 361,794
Accumulated depletion	-	-
	404,492	361,794
Office equipment	22,727	20,867
Accumulated depreciation	(5,764)	(2,771)
	16,963	18,096
	\$ 421,454	\$ 379,890

During fiscal 2006, the Company wrote off all of its investment in all its Canadian properties, located in Nova Scotia and Alberta (Note 6).

In February 2006 the Company entered into an agreement where the Company earned an interest in the San Joaquin East Slope Project, an undeveloped property immediately north of Bakersfield California. The Company made total payments of US \$250,000 in 2006 which resulted in the Company earning a 9.65% interest in the joint venture.

During the nine months ended September 30, 2007, the Company continued to acquire lands in the San Joaquin East Slope Project and expended a further \$44,557 on this project.

5. FORMER LIABILITY OF DISCONTINUED OPERATIONS - ELLIOTT

On October 4, 2005, the Company ceased the operations of its subsidiary, Elliot Industrial Resources Ltd. ("Elliot"), and began the orderly disposition of its assets and payment of bank debts. On November 21, 2005, the holders of a debenture with an original principal amount of \$200,000, for which the Elliot shares had been provided as security, seized the shares of Elliot.

On February 13, 2006, the debenture holders served the Company with a formal demand for payment of the outstanding debenture amount together with accrued interest. In May 2006, Elliot paid the full amount owing to the debenture holders' June 7, 2006, Elliot made a formal demand to Beacon for the payment of \$167,176, being the amount Elliot had paid, plus an additional amount of \$361,090 representing an inter-company loan payable by the Company to Elliot.

On February 23, 2007 both parties reached a settlement agreement and mutual release of claims, which provided that Beacon would pay Elliot \$200,000 on or before May 30, 2007 (see note 6). Of this amount, \$50,000 was paid in February, 2007 and the remaining \$150,000, plus a \$15,000 late payment fee in Units, was paid on 9th August.

6. DISCONTINUED OPERATION

The Company entered into an exploration agreement with the Province of Nova Scotia in 2004, regarding the Masstown property near Truro, Nova Scotia. Current management of Beacon considered that the technical risks and the financial rewards associated with the Masstown property were not commensurate with the capital required to develop it. As a consequence of this

decision, the property, together with a security bond for \$40,000 reverted to the Government of Nova Scotia, and the related assets were written off during the year.

The settlement of debt described in Note 5 resulted in a gain to the Company of \$298,906 in fiscal 2006, which has been included in the net loss from discontinued operations. During 2006, the Company also wrote off its interests in a non-producing oil and gas property at Joffre Alberta, and settled various accounts receivable and accounts payable which had been previously accrued in relation to the discontinued operations.

7. SHARE CAPITAL

a) Authorized

An unlimited number of common shares

b) Issued

Share Capital

	Number	Amount \$
Common shares		
Balance, December 31, 2005	15,127,948	4,413,175
Private placement #1	6,000,000	200,063
Exercise options - Robert James	291,152	29,115
Private placement - August	333,334	50,000
Private placement #2	11,082,858	769,573
Share issue costs	-	(74,246)
Balance, December 31, 2006	32,835,292	5,387,680
Issued for settlement of directors fees	4,946,871	341,307
Exercised warrants	200,000	20,000
Balance, June 30, 2007	37,982,163	5,748,987
Issued for settlement of management fees	-	
Private placement July 17	11,830,000	589,746
Share issue costs	-	(58,649)
Warrants	-	113,383
Total share capital	49,812,163	6,393,467

In December 2006 the Company completed a private placement of 11,082,858 units at \$0.07 per unit for gross proceeds of \$775,800. Each unit consists of one common share, and one common share purchase warrant exercisable into one common share at an exercise price of \$0.12. An amount of \$6,227 has been attributed to the value of the warrants. The warrants expire December 19, 2008. In connection with the offering, the Company also issued 973,286 broker's warrants, which are exercisable into common shares at an exercise price of \$0.12, are subject to a four-month hold period and expire after two years. No value has been attributed to the broker's warrants. The transaction also included share issue costs of \$62,355 were paid in cash.

The outstanding proceeds of the December 2006 private placement were received in January 2007.

On 8th June 2007, the company received TSX approval to reach a shares for debt settlement with three former directors of the company, Messrs. Gerlitz, Squarek and Zaseybida. The company issued 4,046,871 Units at a deemed price of \$0.07 per Unit, each Unit comprising one common share priced at \$0.07 and one half warrant priced at \$0.10 and having a period of 24 months. An amount of \$4,974 has been attributed to the value of the warrants.

On July 17, 2007 the Company announced that it has closed a non-brokered private placement for CDN \$591,000. This private placement will consist of 11,830,000 units, with each unit consisting of one common share and one warrant with an exercise price of \$0.10 for a period of two years. All securities issued will be subject to a four month hold period.

c) Stock options

The Company has a rolling stock option plan which must be approved annually by the TSXV. The plan allows the Board of Directors to allocate options to purchase common shares of the Company to directors, officers, consultants and employees to a maximum of 10% of the issued and outstanding common shares. The minimum option price is equal to the market price of the Company's stock at the date of grant, as determined by the rules of any stock exchange to which the Company is subject. Options granted to employees vest in respect of one-third of the option shares on each of the first, second and third anniversaries of the date of grant. Options granted to directors, officers and consultants are exercisable on the date of grant, subject to regulatory approval.

	<u>Number</u>	<u>Weighted average exercisable price</u>
Outstanding, December 31, 2005	582,304	15.000
Granted	300,000	0.300
Granted	100,000	0.150
Cancelled or expired	(291,152)	0.100
Exercised	(291,152)	0.100
Outstanding, December 31, 2006	400,000	0.263
Granted in Q2 2007	2,000,000	0.075
Cancelled or expired	(300,000)	0.300
Outstanding, September 30, 2007	2,100,000	0.079
Exercisable at September 30, 2007	766,667	0.085

During fiscal 2006, the Company granted 300,000 options to a consultant with an exercise price of \$0.30 per share expiring on September 30, 2007. The fair value was determined to be insignificant, and was calculated using the Black-Scholes Model with the following assumptions; risk free interest rate of 4.2% (2005 - 5%), expected life of 2 years (2005 - 5 years), expected dividends of zero, and expected volatility of 20% (2005 - 95%).

During fiscal 2006, the Company granted 100,000 options to other consultants with an exercise price of \$0.14 per share expiring on 30th September 2008. The fair value was determined to be insignificant and was calculated using the Black-Scholes Model with the following assumptions; risk free interest rate of 4.2% (2005 - 5%), expected life of 2 years (2005 - 5 years), expected dividends of zero, and expected volatility of 20% (2005 - 95%).

In addition to the options described above, the Company issued 1,000,000 incentive stock options to a consultant as consideration for services to be provided pursuant to a Fiscal Agency Agreement dated October 16, 2006. Each option is exercisable for one common share of the Company at a price of \$0.15 and expires on February 14, 2009. No value has been attributed to these options in the accompanying financial statements. None of these options have been exercised, and, in March 2007, they were cancelled and replaced by the issuance of 1,000,000 bonus warrants, each exercisable for one common share of the Company at a price of \$0.15 and expire on February 14, 2009.

On April 11, 2007 the Company announced the issue of 2,000,000 incentive stock options at a price of \$0.075 per option and for a period of 3 years, to Directors, Officers and an Employee of the company. The fair value was determined to be insignificant and was calculated using the Black-Scholes Model with the following assumptions; risk free interest rate of 4.2% (2006 – 4.2%), expected life of 3 years (2006 - 2 years), expected dividends of zero, and expected volatility of 20% (20065 - 20%).

d) Warrants

The following table summarizes the changes in the Company's warrants as at September 30, 2007:

Warrants

	Number	Amount \$
Warrants		
Balance, December 31, 2005	-	-
Issued by private placement	6,000,000	99,937
Broker warrants issued	199,500	991
Issued as finder's fee on convertible debenture	333,334	-
Issued by private placement	11,082,858	6,227
Broker warrants issued	973,286	-
Balance, December 31, 2006	18,588,978	107,155
Issued bonus warrants March 2007	1,000,000	-
Issued for settlement of directors fees	2,473,436	4,974
Exercised	(200,000)	-
Issued by private placement July 2007	11,830,000	1,254
Balance, September 30, 2007	33,692,414	113,383

The fair value of the warrants was calculated using the Black-Scholes Model with the following assumptions; risk free interest rate of 4.2%, expected life of 1.87 years, expected dividends of zero, and expected volatility of 20%.

8. COMMITMENTS

Effective April 1st, 2006, the Company entered into a five year office lease agreement with annual rental payments due as follows:

Office Lease Commitments

Fiscal 2007	\$ 29,415
Fiscal 2008 - 2011	100,501
	<u>\$ 129,916</u>

The Company has entered into a consulting agreement for Investor Relations services, payable at the rate of \$5,000 and an incentive stock option to the consultant in the amount of 300,000 shares at an option price of \$0.30, for a term which expired on July 16, 2007.

The Company has entered also into a consulting agreement for Investor Relations services relating to the Company's website, payable at the rate of \$530 per month and 100,000 incentive options priced at \$0.15 per option to two consultants on 30th September 2006, with a period of 12 months.

The Company has entered also into a Fiscal Agency Agreement with a Toronto-based financial institution. The Company paid \$10,000 and issued 1,000,000 incentive stock options priced at \$0.15, which was subsequently corrected on 14th February 2007 to a partial payment of 1,000,000 Brokers' Warrants (rather than Stock Options) priced at \$0.15 for a Warrant for one Common Share.

9. RELATED PARTY TRANSACTIONS

The Company had the following related party transactions:

For the nine months ended September 30 2007 the Company paid management and consulting fees to directors and officers of the Company totalling \$115,587 (2006 - \$65,056).

10. DEBENTURES

The Company issued a \$600,000 debenture in March 2006. The debenture pays interest at 8% per annum and are convertible into units at a price of \$0.10 per unit at the holder's option until maturity on February 28, 2008. Each unit consists of one common share and one non-transferable warrant. Each warrant is convertible into a common share at an exercise price of \$0.15 per share, expiring at maturity. \$25,000 of the debenture was converted into equity in July 2007.

Accrued Interest on the remaining debentures, for the period March 7 to June 6, 2007, will be paid in Q3 2007.

11. CONTINGENCIES

Under the terms of the by-laws of the Company, the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company, to the extent permitted by law, against any and all damages, liabilities, costs, charges or expenses suffered by or incurred by the individuals as a result of their service. The claims covered by such indemnifications are subject to statutory and other legal limitation periods. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the

maximum potential amount it could be required to pay to beneficiaries of such indemnification agreements.

In the ordinary course of business, the Company enters into contracts which contain indemnification provisions, such as debenture agreements, joint venture operating agreements, leasing agreements, asset use agreements etc. In such contracts, the Company may indemnify counterparties to the contracts if certain events occur. These indemnification provisions vary on an agreement by agreement basis. In some cases, there are no pre-determined amounts or limits included in the indemnification provisions and the occurrence of contingent events that will trigger payment under them is difficult to predict. Therefore, the maximum potential future amount that the Company could be required to pay cannot be estimated.

12. FINANCIAL INSTRUMENTS

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, commodity price and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Fair Value

The fair value of current financial assets and liabilities approximates their carrying values due to the short-term nature of the items.

The fair value of amounts due to directors and former directors is not readily determinable because there is no commercial market for such non-arm's length loans.

Interest rate risk

The Company is not exposed to interest rate risk because the debenture bears a fixed rate of interest.

13. SUBSEQUENT EVENTS AFTER 30th SEPTEMBER 2007

1. Completion of the Acquisition Phase of the previously announced 3-D Seismic Survey

On Wednesday, 1st November 2007, Beacon announced that the previously announced 3-D seismic survey was underway on its East Slopes project area. The Seismic Survey data acquisition phase was expected to be completed by the end of November 2007. Processing and interpretation will follow, with the first drilling expected in the first quarter of 2008. Beacon has no cost associated with the seismic program. Beacon will pay about 5% of the cost of the initial four test wells and will have no cost for the next five wells. Beacon will then retain approximately a 2.5% working interest in the Chevron AMI leases through its approximate 20% interest in Nomad Hydrocarbons LLC. After drilling, the wells drilled on the AMI lands will be operated by Chevron and produced crude oil will be sold to Chevron at posted market prices. Beacon also still retains its 9.65% interests in the remainder of the San Joaquin East Side Project.

2. Acquisition of More Lands in the Bakersfield Area

On Tuesday, 20th November 2007, Beacon announced that the company (in partnership with California Oil & Gas Corporation), had acquired 50% working interests in two blocks of lands each of 320 acres (320 net acres) in the San Joaquin Basin, Southern California,.

The Company also participated in a Bureau of Land Management land sale where it acquired a 9.65% interest in three blocks totaling 1,360 acres (131 acres net), all in the Bakersfield area of the San Joaquin Basin, Southern California.

Drilling targets in all five blocks are highly porous and permeable sandstone reservoirs containing 15⁰ API to 25⁰ API crude oils at depths of 1,200 feet to 2,750 feet, and are therefore relatively inexpensive to drill.

Robust oil prices, nearby markets, availability of services, existing infrastructure geared to heavy oil production and refining, all in an area where little modern exploration has been carried out in a very prolific oil-prone basin make the San Joaquin Basin an attractive place to explore. Successful wells can be expected to be brought into production quickly.

3. Announcement of a planned \$ 1 MM private placement

On Monday, 26th November 2007, Beacon announced that it is planning a non-brokered private placement in the amount of up to Cdn \$1,000,000 at a price of \$0.05 per unit, subject to TSXV approval. Each unit will consist of one common share and one whole warrant, with an exercise price on the warrant of \$0.10 for a period of two years. Proceeds from this financing will be used for drilling of oil prospects on its California oil gas prospects located in the San Joaquin Basin, and general working capital.

Corporate Information

Directors

Richard J. Hawes, P.Geol.
Calgary, Alberta

Gilbert Schneider⁽¹⁾
Vancouver , British Columbia

John G.F. McLeod, P.Eng.⁽¹⁾⁽²⁾
Okotoks, Alberta

(1) *Member of Audit Committee*
(2) *Chairman*

Officers

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President and Secretary

Norman S. Johnson
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CIBC Mellon Trust Company
Calgary, Alberta

Stock Exchange Listing

TSX Venture Exchange
Trading Symbol: KBC