

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

The following management discussion and analysis is prepared as at December 28, 2006 and should be read in conjunction with the audited financial statements for the year ended June 30, 2006 of Benchmark Energy Corp. (the "Company"). Those financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

Except for statements of historical fact, all statements in this MD&A - including, without limitation, statements regarding production estimates, potential reserves and future plans and objectives of the Company - are forward looking statements that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from anticipated results include risks and uncertainties most of which are beyond the Company's control such as: risks relating to estimates of reserves and recoveries; production rates and operating cost assumptions; development risks and costs; the risk of commodity price and currency fluctuations; general economic and industry conditions; political and regulatory risks; environmental risks; stock market volatility; access to sufficient capital from internal and external sources; and other risks and uncertainties as disclosed under the heading "Risk Factors" and elsewhere in the Company's documents filed from time-to-time with the Canadian securities regulatory authorities. The reader is cautioned that assumptions used in the preparation of such information, while considered reasonable by the Company at the time, may prove to be incorrect. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Overview**

The Company is listed on the TSX Venture Exchange ("TSXV"). Operations at this time are focused on the acquisition, exploration and development of international petroleum and natural gas properties.

#### *Tunisia*

On April 15, 2005, the Company entered into a purchase and sale agreement with a concession-holder to acquire a one-third interest in the Cosmos Concession located in Tunisia (the "Cosmos Concession") along with all geological data pertaining to the Cosmos Concession. The Company acquired a 33.33% interest in the Cosmos Concession, subject to a 5% carried interest, including all of the geological data pertaining to the Cosmos Concession. The concession is large with near-term development potential as well as significant exploration possibilities.

Capitalized petroleum and natural gas interests as at June 30, 2006 of \$441,795 (2005 - \$50,096) consist solely of acquisition costs of the Company's 33.33% interest in the Cosmos Concession. During the year ended June 30, 2006, the \$391,699 acquisition cost was comprised of a cash payment of \$74,454 (US \$60,000), a success fee of \$194,595 (US \$165,090) and an accrual of \$122,650 (US \$110,000) for the Company's share of all outstanding operating costs, license fees and other obligations related to its 33.33% interest incurred from January 1, 1999 to date. This

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

compares with \$50,096 (US \$40,000) of cash used for the initial deposit for the acquisition of the Cosmos Concession during the year ended June 30, 2005. See "Transaction with Related Party" for the success fee paid to a related party on the acquisition of the concession.

*Indonesia*

Benchmark has entered into an exclusive arrangement for an initial 12-month period with a local Indonesian group whereby the group will seek out and present to the Company marginal petroleum and natural gas field opportunities in Indonesia in consideration for success fees. As part of the arrangement, Benchmark has advanced a refundable deposit of \$222,475 (US\$200,000) to the Indonesian group which will be applied to potential future success fees that may become due under the arrangement.

*Drilling Technology*

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 that the Company applies the radial drilling technology to.

**Selected Annual Financial Information**

	June 30, 2006 \$	June 30, 2005 \$	June 30, 2004 \$
Total revenue (interest income)	11,510	1,028	96
Net loss	(899,720)	(307,551)	(182,098)
Net loss per share - basic and diluted	(0.08)	(0.05)	(0.05)
Total assets	2,346,555	676,723	57,669
Total long-term financial liabilities	-	-	-
Cash dividends declared per share	-	-	-

During the year ended June 30, 2006, the Company acquired its interest in the Cosmos Concession in Tunisia. As a result of the acquisition and its efforts to acquire additional prospects and capital raising efforts, the Company experienced higher net losses in the past two years. The Company has no production and no reserves in place. As a result, the Company expects to incur losses for the foreseeable future.

The Company expects to incur further capital expenditures on its Cosmos Concession. During the year ended June 30, 2006, the Company used cash of \$391,699 for the acquisition of the 33.33% interest in the Cosmos Concession and \$50,096 for the initial deposit during the year ended June 30, 2005.

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

The Company's net assets were higher at June 30, 2006, largely as a result of its cash balance of \$1,652,621 as compared to a cash balance of \$626,627 at June 30, 2005.

**Results of Operations**

*Results of Operations for the years ended June 30, 2006 and 2005*

General and administrative expenses consist of the following:

Years ended June 30,	2006	2005
<b>Expenses</b>		
Travel and promotion	\$ 68,007	\$ 67,739
Rent	59,688	63,701
Consulting fees	325,490	57,800
Management and administrative fees	67,172	51,115
Transfer agent and filing fees	53,914	21,503
Professional Fees	72,103	19,846
Stock based compensation	209,961	14,806
Office	29,669	11,161
Mineral property expense	22,500	-
	908,504	307,671

The levels of expenditures for individual cost categories increased from period to period due to the closing of the Cosmos Concession during the current period and the capital raising efforts of management.

During the current year, the Company pursued additional petroleum and natural gas prospects which resulted in increased general and administrative costs. In particular, consulting fees for due diligence and property investigation increased to \$325,490 during the current period as compared to \$57,800 during the prior period. The Company also saw its professional fees increase to \$72,103 for the year ended June 30, 2006 from \$19,846 for the year ended June 30, 2005. The increase is due to the Company's reactivation to Tier 2 issuer status on the TSXV and general increase in corporate activities.

Stock based compensation was \$209,961 during the current year due to the granting of stock options to directors, officers and consultants of the Company. This compares with \$14,806 in such charge in the comparative period.

During the year ended June 30, 2006, the Company recorded an expense of \$22,500 related to a contemplated mineral property acquisition in 2003. The expense represents a termination fee that was paid subsequent to the year ended June 30, 2006.

The Company earned \$11,510 in interest income during the year ended June 30, 2006 compared to \$1,028 during the year ended June 30, 2005. Interest was the sole source of revenue during both periods and was earned on cash and cash equivalents held by the Company.

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

*Net Loss*

The Company incurred a net loss for the year ended June 30, 2006 of \$899,720 or \$0.08 per share, compared to a net loss of \$307,551 or \$0.05 per share for the year ended June 30, 2005.

**Summary of Quarterly Results**

	<b>Jun 30</b>	<b>Mar 31</b>	<b>Dec 31</b>	<b>Sep 30</b>	<b>Jun 30</b>	<b>Mar 31</b>	<b>Dec 31</b>	<b>Sep 30</b>
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2004</b>	<b>2004</b>
	\$	\$	\$	\$	\$	\$	\$	\$
Interest income	7,930	1,036	1,376	1,168	912	43	41	32
Net loss	(375,981)	(233,791)	(154,743)	(135,205)	(153,637)	(80,785)	(47,327)	(25,802)
Net loss per share								
- basic and diluted	(0.02)	(0.02)	(0.02)	(0.02)	(0.03)	(0.01)	(0.01)	(0.00)

The Company's expenses have risen since the quarter ended June 30, 2005, when the Company announced its acquisition of the Cosmos Concessions. The Company's costs have increased due to the increased operations of the Company as a result of its business plan to acquire, explore and develop petroleum and natural gas properties.

**Liquidity and Capital Resources**

Historically the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. There can be no assurance of continued access to any equity funding.

The Company began the year with a working capital deficit of \$155,614, which included cash of \$626,627. The Company closed three financings during the year ended June 30, 2006 which provided net proceeds of \$2,909,116 and improved the working capital to \$1,682,807 as at June 30, 2006, including cash of \$1,652,621.

The Company's financial statements are prepared in accordance with Canadian 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 and 2005, the Company incurred net losses and at June 30, 2006, the Company had a deficit. 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.

The Company believes it has adequate working capital to fund its corporate general and administrative activities over the next twelve months. If the Company chooses to proceed with any acquisition, it will need to raise additional funds for those expenditures.

The Company had no commitments for material capital expenditures as of June 30, 2006. As at the date of this MD&A, the Company has no other arrangement for sources of financing.

**Analysis of Fourth Quarter**

The Company recorded a net loss of \$375,981 during the fourth quarter ended June 30, 2006. During the fourth quarter, consulting fees increased by \$181,724 due to continued due diligence of petroleum and natural gas prospects in Africa and capital raising efforts. During the fourth

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

quarter, the company also granted 500,000 stock options to officers, directors and consultants and recorded \$94,152 in stock based compensation charges.

**Transactions with Related Parties**

For the year ended June 30, 2006, the Company incurred management and consulting 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. This amount was capitalized under property and equipment as part of the acquisition costs. In addition, the consultant was also paid consulting fees of \$87,472 (2005 - \$38,781) during the year ended June 30, 2006.

**Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

**Critical Accounting Estimates**

The notes to the financial statements outline the Company's significant accounting policies. The policies discussed below are considered particularly important, as they require management to make significant judgments, some of which may relate to matters that are inherently uncertain.

**Stock-Based Compensation**

The Company has a stock-based compensation plan. 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.

**Financial Estimates and use of Estimates**

The financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. In preparing financial statements, management makes informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reported period. Actual results will differ from these estimates.

**Accounting for Oil and Gas Operations**

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs related to the acquisition, exploration and development of petroleum and natural gas interests are accumulated within cost centres on a country-by country basis.

Proceeds from the sale of petroleum and natural gas interests are applied against capitalized costs except for sales that would change the rate of depletion and depreciation by 20% or more, in which case a gain or loss is recorded. Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted and depreciated using the unit of production method based on estimated gross proved reserves of petroleum and natural gas as determined by independent engineers. Costs of acquiring and evaluating significant unproved petroleum and natural gas interests are excluded from costs subject to depletion and depreciation until it is determined that proved reserves are attributable to such interest or until impairment occurs.

A revision to the estimate for proved reserves can have a significant impact on earnings as they are a key component in the calculation of depreciation, depletion and accretion.

An impairment loss is recognized when 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 the 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 product prices and costs and are discounted using a risk-free interest rate.

Undeveloped lands are assessed quarterly to determine whether impairment has occurred. Where interests are considered impaired, the cost of the property or the amount of impairment is included in costs subject to depletion and the ceiling test.

A substantial portion of the Company's exploration and development activities are conducted jointly with others. The financial statements reflect only the Company's proportionate interests in such activities.

### **New Accounting Pronouncements**

#### Financial instruments – recognition and measurement

In January 2005, the CICA released new Handbook Section 3855, "Financial Instruments – Recognition and Measurement" ("Section 3855"), effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value and other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities, and derivative contracts. The company has not yet determined the impact of adopting Section 3855 on its results of operations or financial position.

#### Comprehensive income and equity

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

In January 2005, the CICA released new Handbook Section 1530, "Comprehensive Income", and Section 3251, "Equity", effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530. The Company has not yet determined the impact of adopting Sections 1530 and 3251 on its results of operations or financial position.

#### Hedges

In April 2005, the CICA released a new Handbook Section 3865, "Hedges", effective for fiscal periods beginning on or after October 1, 2006. Section 3865 establishes standards for when and how hedge accounting may be applied. Hedge accounting is optional. The Company has not yet determined the impact of adopting Section 3865 on its results of operations or financial position.

#### Outstanding Share Data

The following details the share capital structure as of the date of this MD&A.

	Expiry date	Exercise price	Number	Number
Common shares				17,201,431
Warrants	March 28, 2007	\$0.75	1,589,500	
	May 11, 2007	\$0.75	546,500	2,136,000
Stock options	May 24, 2010	\$0.27	467,500	
	January 17, 2011	\$0.35	675,000	
	February 14, 2011	\$0.50	29,000	
	May 24, 2011	\$0.71	500,000	1,671,500

#### Disclosure controls and procedures update

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that, despite the material weaknesses identified during their evaluation, disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In the current year, there have been no changes in the Company's internal control over financial reporting that has materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

One material weakness identified by the Company is a lack of financial and regulatory reporting resources required to meet its reporting requirements on a timely basis. Although the Company is working with legal counsel and outside consultants to have the resources available to improve on this as necessary, it is possible that the Company could miss a filing deadline resulting in suspension of trading. Such an event could adversely affect the trading market for the shares and investment in the company.

**Internal controls over financial reporting**

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We have assessed the design of our internal control over financial reporting and during this process we identified certain weaknesses in internal controls over financial reporting which are as follows:

- a) Due to the limited number of staff at the Company, it is not feasible to achieve complete segregation of incompatible duties.
- b) Due to the limited number of staff, the Company does not have a sufficient number of finance personnel with all the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise.
- c) Although a Whistleblower Policy and a Code of Conduct are being created and will subsequently be approved and adopted by the Company, the company did not have a Whistle Blower Policy or Code of Conduct in place during the period.

These weaknesses in the Company's internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting, however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

**Risk Factors**

The Company's business is subject to risks inherent in oil and gas exploration and development operations. In addition, there are risks associated with the Company's development stage of operations and the foreign jurisdiction in which it operates. The Company has identified certain risks pertinent to its business including: exploration and reserve risks, uncertainty of reserve estimates, ability to exploit successful discoveries, drilling and operating risks, title to properties, costs and availability of materials and services, capital markets and the requirement for additional capital, market perception, loss of or changes to production sharing, joint venture or related agreements, economic and sovereign risks, possibility of less developed legal systems, corporate and regulatory formalities, environmental regulation, reliance on strategic relationships, market risk, competition, dependence on key personnel, volatility of future oil and gas prices and foreign currency risk.

**BENCHMARK ENERGY CORP.**  
**Years ended June 30, 2006 and 2005**  
**Management's Discussion and Analysis**

---

The Company attempts to monitor, assess and mitigate certain of these risks by retaining an experienced team of professionals and using modern technology. There are certain risks, however, over which the Company has little or no control.