



(Formerly Avery Resources Inc.)

International exploration & production

**Third Quarter Interim Report  
Ended December 31, 2008**

The comparative prior periods have not been reviewed by the Company's auditors.



(Formerly Avery Resources Inc.)

International exploration & production

**Management's Discussion & Analysis**  
**Three and Nine Months Ended December 31, 2008 and**  
**2007**

The comparative prior periods have not been reviewed by the Company's auditors.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS – February 11, 2009**

Management's Discussion and Analysis ('MD&A') of the financial condition, results of operations and cash flows of Bengal Energy Ltd. ("Bengal" or the "Company") (formerly Avery Resources Inc. – see paragraph on Share Capital) for the three and nine months ended December 31, 2008 should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the same periods, as well as in conjunction with the MD&A, audited consolidated financial statements and accompanying notes for the fiscal year ended March 31, 2008. This MD&A is effective February 11, 2009. Additional information relating to the Company, including the Company's Annual Information Form (AIF), is on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company's activities are focused in Canada, Australia, India, and Ireland. Over the reporting period, revenue and expenses were generated and capital expenditures were made in Canada and Australia, and capital expenditures were made in India and Ireland. The Company's activities are carried out primarily in Canadian dollars as well as the currencies of each country in which the Company operates. The Company reports financial results in Canadian dollars.

The selected financial information presented throughout the MD&A is prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), except for "funds flow from operations", "net operating income", and "operating netback", which are used by the Company to analyze the results of operations. These non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

The periods reported on in this MD&A and accompanying financial statements and notes are the three-month and nine-month periods ending December 31, 2008. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from October 1, 2008 through December 31, 2008. The terms "prior year's quarter" and "2007 quarter" are used throughout the MD&A for comparative purposes and refer to the period from October 1, 2007 through December 31, 2007. The term "year-to-date" is used throughout the MD&A and in all cases refers to the period from April 1, 2008 through December 31, 2008. The terms "prior year's period" and "2007 period" are used throughout the MD&A and in all cases refer to the period from April 1, 2007 through December 31, 2007. The term "prior year's periods" is used throughout this MD&A for comparative purposes and refers to the period from April 1, 2006 through March 31, 2007.

The fiscal year for the Company is the 12-month period ending March 31, 2009. The terms "fiscal 2009", "current year" and "the year" are used throughout the MD&A and in all cases refer to the period from April 1, 2008 through March 31, 2009. The term "fiscal 2010" is used throughout the MD&A and refers to the period from April 1, 2009 through March 31, 2010. The terms "previous year", "prior year" and "fiscal 2008" are used throughout the MD&A for comparative purposes and refer to the period from April 1, 2007 through March 31, 2008. The term "fiscal 2007" is used throughout this MD&A for comparative purposes and refers to the period from April 1, 2006 through March 31, 2007.

BOE (barrels oil equivalent) is a measure used throughout the MD&A. BOE is derived by converting natural gas to oil in the ratio of 1 bbl:6 Mcf. BOE may be misleading, particularly if used in isolation. A BOE conversion ration of 1 bbl:6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

**Forward Looking Information** - Certain statements contained within the Management's Discussion and Analysis ("MD&A") constitute "forward looking information" under applicable securities laws. These statements relate to future events or Bengal's future performance. All statements other than statements of historical fact may constitute forward looking information. Forward looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking information. Bengal believes the expectations reflected in such statements or disclosures constituting forward looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A.

In particular, this MD&A contains forward-looking information under the headings "Pricing," "Liquidity and Capital Resources" and "Outlook" pertaining to the following:

- the performance characteristics of Bengal's oil and natural gas properties;
- oil and natural gas production levels;
- the size of the oil and natural gas reserves;
- projections of market prices and costs;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws; and
- capital expenditures programs.
- expectation that Bengal's future realized gas and oil prices will coincide with the AECO and TAPIS daily index price;
- funding of working capital requirements, commitments and other planned expenses will be by cash on hand;
- sufficiency of funds to meet working capital requirements, commitments and planned expenditures;
- commencement of exploration and development activities on Block C-Y-ONN-2005/1 in India with Bengal's share of the first year budget is \$330,000;
- estimates of production levels in the Cooper Basin of Queensland, Australia and in Canada.
- suggested pay sands and production start date of the Cuisinier well;
- future amount and timing of activity to be carried out by the Santos Joint Venture;
- potential for the award of Cooper Basin Block ATP 934 in Queensland Australia;

The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- geological, technical, drilling and processing problems; and
- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry.

## Non-GAAP Measures

By examining funds flow from operations, the Company is able to assess its past performance and to determine its ability to fund future capital projects and investments. Funds flow from operations is calculated as cash flows from operating activities prior to the change in operating non-cash working capital. Funds flow from operations is a non-GAAP measure and does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

By examining net operating income and operating netback the Company is able to evaluate past performance by segment and overall. Net operating income is calculated as oil and natural gas revenues less royalties, operating and transportation expenses. Operating netback is calculated as net operating income per barrel oil equivalent (BOE) and represents the before-tax margin for every BOE sold. There are no comparable GAAP measures for net operating income and operating netback and these measures are unlikely to be comparable with the calculation of similar measures in other companies. The following table reconciles cash provided by operations to funds flow from operations, which is used in the MD&A:

	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
\$000's					
Cash provided by (used in) operations	303	(20)	1,142	1,858	41
Changes in non-cash working capital	(332)	185	(775)	(673)	(8)
Funds flow from operations	(29)	165	367	1,185	33

## HIGHLIGHTS

\$000's except per share, volumes and netback amounts	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Revenue					
Natural gas	\$ 516	\$ 144	\$ 476	\$ 1,753	\$ 585
Natural gas liquids	67	104	138	411	283
Oil	242	708	868	2,095	1,447
Total	825	956	1,482	4,259	2,315
Royalties	125	111	258	739	299
% of revenue	15.2	11.6	17.4	17.4	12.9
Operating & transportation	211	142	372	862	393
Netback <sup>(1)</sup>	489	703	852	2,658	1,623
Funds flow from operations: <sup>(2)</sup>	(29)	165	367	1,185	33
Per share (\$) (basic & diluted)	(0.00)	0.01	0.02	0.07	(0.00)
Net (loss):	(6,196)	(1,702)	(812)	(7,359)	(3,013)
Per share (\$) (basic & diluted)	(0.34)	(0.02)	(0.04)	(0.40)	(0.04)
Capital expenditures	\$ (1,096)	\$ (77)	\$ 3,823	\$ 6,470	\$ 1,008
Volumes					
Natural gas (mcf/d)	842	244	609	729	332
Natural gas liquids (boe/d)	19	14	15	19	16
Oil (bbl/d)	46	79	69	63	59
Total (boe/d @ 6:1)	205	134	186	203	130
Netback (\$/boe) <sup>(1)</sup>					
Revenue	\$ 43.69	\$ 77.80	\$ 86.53	\$ 76.22	\$ 64.59
Royalties	6.63	9.05	15.05	13.23	8.34
Operating & transportation	11.16	11.51	21.73	15.43	10.96
Total	\$ 25.90	\$ 57.24	\$ 49.75	\$ 47.56	\$ 45.29

<sup>(1)</sup> Netback is a non-GAAP measure. Netback per boe is calculated by dividing the revenue and costs in total for the company by the total production of the company measured in boe.

<sup>(2)</sup> Funds flow from operations is a non-GAAP measure. The comparable GAAP measure is cash flow from operations. A reconciliation of the two measures can be found in the table on page 3.

## RESULTS OF OPERATIONS

### Production

The following table outlines Bengal's production volumes for the periods indicated:

Production	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Natural Gas (mcf/d)	842	244	609	729	332
NGL's (boe/d)	19	14	15	19	16
Oil (bbls/d)	46	79	69	63	59
Total (boe/d)	205	134	186	203	130

For the three months ended December 31, 2008 ("Q3-2009"), total oil, natural gas and natural gas liquids (NGL's) production averaged 205 boe/d, an increase of 53% from the 134 boe/d produced in the prior year's quarter and a 10% increase from Q2-2009 production of 186 boe/d. The increase over the prior year period is mainly due to the acquisition of two producing gas wells in Oak, British Columbia effective February 13, 2008. The increase over the quarter ended September 30, 2008 is due to commencement of production from the Company's new well at Oak drilled in October, 2008. In the nine month period ending December 31, 2008 total production averaged 203 boe/d, an increase of 56% over the prior year's period of 130 boe/d due to the above noted events.

Oil production averaged 46 bbl/d in the current quarter down 42% from the 79 bbl/d averaged in prior year's quarter mainly as a result of natural decline of the Company's Toparoa well in Australia. The decline from the previous quarter to the current quarter of 33% or 23 bbl/d is partly a result of Toparoa field production measurement issues. The field operator is using estimates to allocate production from the entire Derrilyn field back to each well and Bengal, as well as other Joint Venture partners, believes the estimate for Toparoa is low. Measurement issues are expected to be resolved during the fourth quarter.

Natural gas production averaged 842 mcf/d during the current quarter, an increase of 38% over the prior quarter average of 609 mcf/d and an increase of 245% over the prior year's quarter. For the nine months ending December 31, 2008 gas production averaged 729 mcf/d, an increase of 120% over the prior year's period of 332 mcf/d. Gas production has increased due to the acquisition on February 13, 2008 and the drilling and tie-in of a new well at Oak, B.C. in October.

### Pricing

Bengal markets its Kaybob, Alberta natural gas under one year contracts with pricing based on the AECO Daily Index (5A) less transport and fuel costs (approximately \$0.10/mcf) and therefore Bengal expects its future realized gas prices to coincide with the AECO Daily Index price. Oak, British Columbia gas sales are marketed by the operator and the price received is based on the reference price at British Columbia's Station 2 plus \$0.03 per mcf. Station 2 gas deliveries can come from natural gas produced in British Columbia, Alberta, or the Territories north of British Columbia. Since natural gas can be sourced from several producing regions, the liquidity at Station 2 can often be greater than at the Sumas hub, located on the British Columbia / Washington, USA border.

Bengal's realized price for its Australian oil production is based on the Tapis Crude benchmark price. Tapis is the main regional reference price for light sweet crude oils in South East Asia and is used as the reference price for Australian oil producers. Bengal's oil price is calculated using the Tapis reference price with the Toparoa crude traditionally receiving a quality premium. Tapis has historically traded at a premium to West Texas Intermediate ("WTI") of between US \$2.00 and US \$5.50/bbl over the past year. During the third quarter Bengal's realized crude price was at a discount to Tapis due to regional refining issues that placed a lower demand, and therefore, price on light sweet crudes.

NGL's include condensate, pentane, butane and propane. While prices for condensate and pentane have a relatively strong correlation to oil prices, prices for butane and propane trade at varying discounts due to the market conditions of local supply and demand.

The following table outlines benchmark prices compared to Bengal's realized prices:

Prices and Marketing	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
<b>Average Benchmark Prices</b>					
AECO 30 day firm (\$/mcf)	\$ 6.78	\$ 6.00	\$ 9.26	\$ 8.46	\$ 6.33
TAPIS oil (\$US/bbl)	60.73	94.35	124.29	104.61	82.76
Cdn/Aus exchange rate	0.8	0.87	0.93	0.90	0.89
WTI oil (\$US/bbl)	\$ 58.71	\$ 90.68	\$ 118.13	\$ 100.19	\$ 77.36
<b>Bengal's Realized Price (\$ CAD)</b>					
Natural gas (\$/mcf)	\$ 6.66	\$ 6.42	\$ 8.48	\$ 8.75	\$ 6.39
Oil (\$/bbl)	56.71	97.09	136.22	121.13	89.18
NGLs (\$/bbl)	39.30	82.68	98.08	79.24	64.68
Total (\$/boe)	\$ 43.69	\$ 77.80	\$ 86.53	\$ 76.22	\$ 64.59

## Petroleum and Natural Gas Sales

The following table outlines Bengal's production sales by category for the periods indicated below:

Petroleum and Natural Gas Sales (\$000's)	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Natural Gas	\$ 516	\$ 144	\$ 476	\$ 1,753	\$ 585
NGLs	67	104	138	411	283
Oil	242	708	868	2,095	1,447
<b>Total</b>	<b>\$ 825</b>	<b>\$ 956</b>	<b>\$ 1,482</b>	<b>\$ 4,259</b>	<b>\$ 2,315</b>

Revenue in the current quarter decreased 44% from the previous quarter and 14% from the prior year's quarter due to lower oil and gas prices and lower crude production offset by higher gas production.

Revenue for the nine month period ending December 31, 2008 was 84% higher than the prior year's period due to increased overall production resulting from the acquisition of two producing gas wells and the drilling and tie-in of a gas well in October. As well, higher average commodity prices were realized over the period.

## Royalties

Royalty payments are made by oil and natural gas producers to the owners of the mineral rights on the leases. These owners include governments (Crown) and freehold landowners as well as other third parties that may receive contractual overriding royalties.

In Alberta, royalties on natural gas and NGL's are charged by the government based on an established monthly reference price. The reference price is meant to reflect the average price for natural gas and NGL's in Alberta. Gas cost allowance and custom processing credits reduce the effective royalty rate. Bengal also pays a 7.5% Gross Overriding Royalty ("GORR") to the landholder for two of its four Kaybob gas wells.

In British Columbia, royalties are calculated based on average daily production from a well multiplied by a reference price. The reference price is the greater of the Producer Price and the Posted Minimum Price. The Producer Price is determined monthly for each producer at each gas processing plant at which the producer has production for the month. The Ministry of Energy, Mines and Petroleum Resources calculates and publishes a Posted Minimum Price (PMP) each month for each processing plant. The royalty rate is reduced by a Producer Cost of Service (PCOS) allowance for the producers' field costs for gathering, dehydration and compression of the royalty share. Bengal also pays a 15% GORR to the landholder for its three Oak gas wells.

In Australia, oil royalties are based on a government-established rate of 11% of gross revenues after deducting an allowance for transportation and operating costs.

Royalties paid in the current quarter decreased 51% from the prior quarter due to lower product prices. Royalties were 14% higher than the prior year's quarter due to higher production but lower on a boe basis due to lower prices. For the nine month period ending December 31, 2008 royalties were 147% higher than the previous year's period due to higher production levels resulting from the acquisition of two producing gas well on February 13, 2008 and the drilling and tie-in of a new gas well at our B.C. property. Royalties were also higher due to higher average commodity prices during the period compared to the prior year's period.

Royalties by Type (\$000's)	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Canada Crown	\$ 86	\$ 46	\$ 112	\$ 412	\$ 151
Canada Gross overriding	15	12	47	140	31
Australian Government	24	53	99	187	117
<b>Total</b>	<b>\$ 127</b>	<b>\$ 111</b>	<b>\$ 258</b>	<b>\$ 739</b>	<b>\$ 299</b>
\$/boe	6.63	9.05	15.05	13.23	8.34
% of revenue	15.2	11.6	17.4	17.4	12.9

Royalties by Commodity	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Natural Gas					
\$000's	\$ 81	\$ 16	\$ 112	\$ 431	\$ 84
\$/mcf	1.05	0.70	1.99	2.15	0.92
% of revenue	15.7	10.9	23.5	24.6	14.3
Oil					
\$000's	\$ 24	\$ 53	\$ 99	\$ 187	\$ 117
\$/bbl	6.68	7.34	15.48	10.84	7.20
% of revenue	10.0	7.6	11.4	8.9	8.1
NGLs					
\$000's	\$ 20	\$ 42	\$ 47	\$ 121	\$ 98
\$/bbl	11.58	33.31	33.47	23.30	22.48
% of revenue	29.5	40.3	34.1	29.4	34.8

### Operating & Transportation Expenses

Operating and transportation costs decreased 43% in the current quarter compared to the prior quarter due to lower crude oil production in Australia and higher Canadian operating costs in the prior quarter resulting from annual facility maintenance work. Operating expenses in the nine month period ending December 31, 2008 were 120% higher than the prior year's period due to a 56% increase in production, higher compression costs at our B.C. gas facility and annual maintenance costs related to our purchased assets at Oak, B.C.

Operating costs per boe declined by 48% in the current quarter compared to the prior quarter due to a 10% increase in production and completion of annual facility maintenance activity that occurred in the prior quarter. Operating costs per boe for the nine months ending December 31, 2008 are 40% higher than the prior year's period due to the acquisition of higher cost production at Oak B.C. which requires compression and sweetening, and lower crude oil volumes from Australia. Also, higher boe costs were the result of workovers conducted on two Oak gas wells after they were shut in for a plant turnaround in the second quarter. The wells did not come back on production at the same levels as before they were shut-in and therefore service rig costs were incurred to workover and swab the wells.

Transportation costs in Australia are incurred to get Bengal's oil production from the wellhead to the Limestone Creek processing facility. From there the oil is pipelined to the Moomba facility which accepts production from 115 gas fields and 28 oil fields through approximately 5,600 kilometers of pipelines. The oil is then sent through a pipeline to Port Bonython, South Australia where it is held in storage tanks until being loaded on tankers.

Operating Expenses (\$000's)	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Australia					
Operating	\$ 12	\$ 13	\$ 36	\$ 58	\$ 38
Transportation	51	89	83	225	197
	63	102	119	283	235
Canada – operating costs	148	40	253	579	158
Total	\$ 211	\$ 142	\$ 372	\$ 862	\$ 393
Australia					
Operating - \$/boe	2.90	1.78	5.70	3.36	2.33
Transportation - \$/boe	12.01	12.18	13.19	13.00	12.16
Canada - \$/boe	10.07	7.93	23.58	15.02	8.05
Total (\$/boe)	\$ 11.16	\$ 11.51	\$ 21.73	\$ 15.43	\$ 10.96

### General and Administration (G&A) Expenses

G&A expenses decreased 7% in the current quarter compared to the prior quarter. In the nine months ending December 31, 2008 gross G&A expenses increased 3% over the prior year's period while net G&A increased by 15% in the same periods.

In the nine months ended December 31, 2007 Bengal recovered \$170,000 for work done by geologists in their Australian office related to their successful bid for Australian Gazettal Block ATP 934.

On a boe basis, G&A costs declined due to increased production from the acquired Oak, B.C. gas wells.

General and Administrative Expenses (\$000's)	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Gross G&A	\$ 570	\$ 580	\$ 615	\$ 1,741	\$ 1,689
Acquisition-related G&A	-	-	-	-	(170)
<b>Net G&amp;A</b>	<b>\$ 570</b>	<b>\$ 580</b>	<b>\$ 615</b>	<b>\$ 1,741</b>	<b>\$ 1,519</b>
<b>Net G&amp;A (\$/boe)</b>	<b>\$ 30.21</b>	<b>\$ 47.20</b>	<b>\$ 35.95</b>	<b>\$ 31.17</b>	<b>\$ 42.37</b>

### Stock based compensation

The Company applies the fair value method for valuing stock option grants. Under this method, compensation costs attributable to all share options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus.

Bengal recognized stock-based compensation expense of \$5,000 for the current quarter compared to \$148,000 in the comparable prior year's period. The current quarter expense was reduced by \$49,000 due to the forfeiture of 161,000 stock options in October 2008, some of which had not vested. The decline in expense is due to the expense related to most option grants has been fully amortized. There is \$21,000 remaining to be amortized and all stock based compensation will have been recognized on existing option grants.

YTD-2009 compensation expense is \$179,000 compared to \$409,000 in the prior comparable period. The lower expense is a result of no additional options being granted in the nine months ended December 31, 2008 (2007 - 104,000) and due to compensation expense on older option grants being fully expensed.

In the three months ended December 31, 2008, no stock options were granted.

### Depletion, Depreciation and Accretion (DD&A)

DD&A Expenses (\$000's)	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
DD&A – Australia	\$ 1,003	\$ 1,052	\$ 807	\$ 2,549	\$ 1,773
DD&A – Canada	221	74	270	794	302
Subtotal	1,224	1,126	\$ 1,077	3,343	2,075
Australia – Ceiling test write down	3,133	600	-	3,133	600
<b>Total</b>	<b>\$ 4,357</b>	<b>\$ 1,726</b>	<b>\$ 1,077</b>	<b>\$ 6,476</b>	<b>\$ 2,675</b>
\$/boe – Australia	235.82	143.43	126.62	147.33	109.23
\$/boe – Canada	15.03	14.92	25.14	20.58	15.41
\$/boe – Sub-total	64.79	91.70	\$ 62.75	59.83	57.89
\$/boe – Australia (Ceiling test)	166.05	48.77	-	56.09	16.74
<b>\$/boe – Total</b>	<b>\$ 230.84</b>	<b>\$ 140.47</b>	<b>\$ 62.75</b>	<b>\$ 115.92</b>	<b>\$ 74.63</b>

DD&A (before the ceiling test writedown) increased for the three and nine months ended December 31, 2008 over the comparable prior year's periods due to higher production volumes and DD&A rate per boe. Consolidated DD&A per boe increased for the three and nine months ended December 31, 2008 compared to the same period in the prior year due to additions to the depletable cost pool for drilling the Hudson exploration well (dry and abandoned) on the Barta block in Australia partially offset by the relatively lower cost reserves related to the Oak B.C. acquisition and new drilling of an Oak well.

DD&A expense (before ceiling test writedown) for Q3-2009 increased \$98,000 or 9% over Q3-2008 due to higher production volumes offset by lower DD&A per boe. DD&A per boe declined \$26.91 per boe or 29% due to the higher proportion of natural gas and liquids production which has a lower DD&A rate per boe.

### **Ceiling Test**

The Company performed a ceiling test calculation on each cost center at December 31, 2008 resulting in the carrying value of oil and gas assets for the Australian cost center exceeding undiscounted cash flows from proved reserves and the cost of unproved properties. Consequently, Bengal performed stage two of the ceiling test assessing whether future cash flows from the production of proved plus probable reserves discounted at 5% plus the carrying cost of unproved properties, net of any impairment allowance, exceeds the carrying value of its petroleum and natural gas properties. As a result of performing this test, a ceiling test impairment loss of \$3,133,000 (2007 - \$600,000) has been included in DD&A expense in the consolidated statement of earnings and included in accumulated depletion. The impairment charge increased the total YTD-2009 and Q3-2009 DD&A rate per boe by \$56.09 and \$166.05 respectively.

### **Goodwill**

On February 13, 2008 Bengal Energy Ltd. (formerly Avery Resources Inc.) acquired all the issued and outstanding shares of Bengal Energy Inc. The purchase price recorded in Bengal's March 31, 2008 year end financial statements included recognition of goodwill in the amount of \$1.6 million, which subsequently was increased to \$1.8 million.

Due to current economic conditions and the recent decline in the Company's share price, a goodwill impairment test was performed at December 31, 2008. The test compared the fair value of the Canadian reporting unit to its carrying value. Fair value was determined using cash flows discounted at 10% and accounted for the recent price decline received for the Company's oil and natural gas sales. Based on the impairment test, a goodwill impairment charge of \$1.8 million was recorded in the current period.

### **Funds flow from Operations and Net Earnings**

In the nine months ended December 31, 2008 funds flow from operations increased to \$1,185,000 from \$33,000 in the prior comparable period. The improvement is due to higher production volumes resulting from the Oak B.C. acquisition and higher prices. Cash flow from operating activities in the same period increased from \$41,000 to \$1,858,000 due to the reasons noted above for funds flow from operations and due to increased cash provided by changes in working capital.

The loss for the nine months ended December 31, 2008 was \$7,359,000 compared to \$3,013,000 in the prior year's period. The change in the loss is due to higher production volumes and prices more than offset by the ceiling test writedown in the current period.

### **CAPITAL EXPENDITURES**

During the nine months ended December 31, 2008 the Company drilled four wells: The Cuisinier oil discovery and the Hudson dry and abandoned oil well which were the first two wells in the Santos Joint Venture program on Bengal's Barta block (25%) in Australia; the suspended Subzero gas well on the PEL 113 Murteree block (35%) in Australia; and

the new Oak gas well (42%) on the Company's property in British Columbia. The Cuisinier well is scheduled to be completed and tied in during the second quarter of calendar 2009. The Oak well started production on October 4, 2008.

In India, Bengal's strategy is to selectively partner with National Oil Companies ("NOC's") with a view to accessing high-impact exploration and exploitation opportunities with low upfront costs. Bengal, along with two NOC joint venture partners, has received the Seventh New Exploration Licensing Policy ("NELP VII") award of the Cauvery Block in India and signed an exploration and production sharing agreement with the Government of India on December 22, 2008.

Geological and Geophysical expenses relate to seismic acquisition and analysis on our Australia lands as well as assessment work done on evaluating NELP VII blocks on offer from the Government of India, and the evaluation of exploration blocks during the most recent Australian bid round.

Completions expenses were incurred to bring the Oak well on to production.

Capital Expenditures (\$000's)	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Land	\$ -	\$ -	\$ -	\$ -	\$ 107
Geological and geophysical	368	(77)	161	846	716
Drilling	428	5	3,580	5,207	130
Completions	169	(15)	42	196	(4)
Total oil and gas additions	965	(87)	3,783	6,249	949
Office	131	10	59	221	59
Total expenditures	\$ 1,096	\$ (77)	\$ 3,842	\$ 6,470	\$ 1,008

**SHARE CAPITAL (Note all share and warrant figures are post 5:1 share consolidation completed on July 17, 2008)**

The Company has an unlimited number of common shares authorized for issuance. On February 11, 2009 there are 18,212,787 common shares issued and outstanding on a post-consolidation basis.

On July 17, 2008 Avery Resources Inc. consolidated its shares on a 5:1 basis and renamed the company Bengal Energy Ltd.

On February 13, 2008, the Company acquired all of the issued and outstanding common shares and common share purchase warrants of Bengal Energy Inc., a private oil and gas company, in exchange for 2,860,000 Bengal shares and 940,000 common share purchase warrants. Each Bengal warrant vests and is exercisable upon the 20-day weighted average trading price of the Bengal shares, being \$4.00 per share, and upon vesting shall entitle the holder to acquire one Bengal share at an exercise price of \$2.00 until August 11, 2011.

On November 24, 2007, 1,680,000 share purchase warrants, with an exercise price of \$2.50 expired.

At February 11, 2009, there are 950,366 employee stock options outstanding with an average exercise price of \$2.94 of which 922,700 are vested. These options expire between 2009 and 2012 with an average remaining life of 2.4 years.

Share Information (000's) (prior periods adjusted for 5:1 consolidation)	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
Shares Outstanding					
Basic	18,213	15,338	18,213	18,213	15,338
Diluted	18,213	15,338	18,213	18,213	15,338
Weighted average shares outstanding					
Basic	18,213	15,338	18,213	18,212	15,338
Diluted	18,213	15,338	18,213	18,212	15,338

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2008 the Company had working capital of \$2.6 million, including cash and cash equivalents of \$3.0 million compared to working capital of \$8.0 million at March 31, 2008. The Company invests surplus cash only in guaranteed investment certificates.

The Company has planned capital expenditures of \$6.8 million for fiscal 2009 of which \$6.5 million has been spent to December 31, 2008. The Company plans to meet its working capital requirements, commitments and other planned capital expenditures with cash on hand.

Work commitments and planned Joint Venture expenditures are currently estimated at less than \$1 million for fiscal 2010. Any additional expenditure, subject to Board approval, will be based on project economics, strategic importance, commodity prices, financing capability, general economic conditions, and the Company's financial position. The Company has prepared a budget for the period April 2009 to March 2010 and based on \$40 US per bbl WTI and \$4.00 CAD AECO gas prices, expects to have sufficient cash remaining in the bank to remain a going concern at March 2010. This budget is based on the expectation that the Cuisinier well in Australia will begin production in the second quarter of 2009 at approximately 45 bbls per day and that the remainder of the Company's production will continue to decline at similar rates as those experienced in the past.

Note the above comments are forward looking and are based on management's best estimates at this time. Readers are cautioned that actual results will vary from the above estimates.

The Company recognizes that in the current market conditions, raising new capital through share issuances may be difficult. Based on cash requirements and cash sources described above, the Company expects its current funds will be sufficient to meet its working capital requirements, commitments and other planned expenditures beyond fiscal 2010.

Trading History	Three Months Ended			Nine Months Ended	
	12/31/08	12/31/07	09/30/08	12/31/08	12/31/07
High	1.00	2.00	2.60	2.90	2.25
Low	0.17	1.30	0.85	0.17	1.30
Close	0.32	1.55	1.05	0.32	1.55
Volume (000's)	915	618	746	3,220	1,935

The above figures are presented on a post-consolidated basis. On November 1, 2007, trading moved from the TSX Venture Exchange to the TSX. On July 21, 2008 Bengal Energy Ltd. began trading on the TSX under the symbol BNG.

## RELATED PARTY TRANSACTIONS

There were no related party transactions during the nine months ended December 31, 2008 or in the prior year comparable period.

## FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of cash and cash equivalents, accounts receivable, cash call advances, and accounts payable and accrued liabilities. As at December 31, 2008 and March 31, 2008, there were no significant differences between the carrying amounts of these instruments and the fair values.

The Company is exposed to fluctuations in the value of its cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities due to changes in foreign exchange rates as these financial instruments are denominated in Canadian dollars, U.S. dollars, Australian dollars, and Indian rupees. This risk is reduced because a portion of the Company's revenue is denominated in U.S. dollars. The Company further manages this risk by converting

Canadian held cash to Australian dollars or Indian rupees as required to fund forecast expenditures. The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short periods of maturity. The fair value of cash call advances to joint venture partners is the amount of the funds advanced.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivable. The Company has accounts receivable from a single customer engaged in the oil and gas industry in Australia and a joint venture partner and two marketing companies in Canada.

## OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

## CONTRACTUAL ARRANGEMENTS

The Company is committed to minimum annual operating lease payments on its premises in Canada in the amount of \$30,000 for the balance of the year ending March 31, 2009, \$121,000 for the year ending March 31, 2010 and \$40,000 from April to July, 2010. On October 31, Bengal's wholly-owned subsidiary did not renew its office lease in Brisbane, Australia and the Company will realize future savings of approximately \$80,000.

The Company also has asset retirement obligations with respect to the abandonment and reclamation of wells and facilities owned by the Company. Bengal includes the present value of the estimated liabilities for such costs on its balance sheet. The total estimated undiscounted cost of these liabilities at December 31, 2008 was \$310,000.

<b>Contractual Obligations (\$000's)</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>After 5 Years</b>
Office lease	\$ 191	\$ 30	\$ 161	\$ –	\$ –
Asset retirement obligations	163	21	–	–	142
<b>Total Contractual Obligations</b>	<b>\$ 354</b>	<b>\$ 51</b>	<b>\$ 161</b>	<b>\$ –</b>	<b>\$ 142</b>

## OUTLOOK

In continuing the execution of our international growth strategy, Bengal's wholly-owned subsidiary, Bengal Energy International Inc., along with its two joint bidding partners, has received the official award of the NELP-VII Block CY-ONN-2005/1 (the "Block") on December 22, 2008, at a formal signing ceremony with the Government of India ("GOI"). Following this final award of the block by the GOI and the signing of the Production Sharing Contract, the granting of Petroleum Exploration License ("PEL") from the state (i.e. provincial) government is expected to occur by June 2009, subsequent to which the exploration period will commence. The Block is a 946 square kilometer (233,761 acre) land block located in the Cauvery Basin, a proven producing basin in southeast India. Bengal has a 30% interest in the Block. The operator of the Block, GAIL (India) Limited, holds a 40% interest and Gujarat State Petroleum Corporation holds a 30% interest.

In the first year of the initial four year phase of exploration activities in the Block, Bengal and its partners intend to undertake 2,000 kilometers of airborne magnetometry survey, reprocess 1,000 kilometers of existing 2D seismic survey data, and complete the design of 500 square kilometers of 3D seismic survey. Bengal's net cost exposure to this first year's exploration activity is estimated at \$330,000. Bengal will be required to submit a bank guarantee of 35% of the first year's estimated expenditure.

On October 17, 2007, Bengal announced that it had signed a formal agreement with Santos Ltd. (Santos), a major Australian oil and gas explorer and producer, whereby Bengal and Santos would jointly explore and develop, subject to certain terms and conditions, exploration license ATP 752P within the Cooper/Eromanga Basin of Queensland,

Australia. ATP 752P – a large, 868,000 gross acre parcel, divided into northern (Barta area) and southern (Wompi area) blocks – represents some 45% of Bengal's overall gross Cooper/Eromanga Basin acreage. On the northern 631,093-acre Barta Block, the new well Cuisinier-1 was drilled and completed as the first well of the Santos Joint Venture in May 2008. Cuisinier-1 exhibited good hydrocarbon shows in an uphole zone called the Murta Sandstone with open-hole logs initially suggesting minimum 6 meters of pay sands. In September 2008, the entire 13-meter Murta sandstone interval was perforated in the Cuisinier-1 well and flowed clean oil to surface over a 29-hour test period. The oil is a low viscosity, light (52 API gravity), sweet, premium crude. The Cuisinier-1 well will be completed in the second quarter of calendar 2009 with a beam pumping unit and the initial productivity estimate offered from the experience of the operator Santos is between 200-300 barrels of oil per day. Estimated completion and tie-in costs are \$320,000 net to Bengal. Santos's Cook oilfield battery is located approximately 6 kilometers to the east and will allow for tie-in once surface access, native title, and processing agreements are settled. Santos has estimated a production start in Q2 2009. In addition to the new Murta fairway, the deeper Hutton zone, with established production at the offsetting Cook oilfield, also remains prospective in the Barta/Cuisinier area. To further evaluate the discovery and exploration potential, and as part of the Joint Venture and farm-in terms (at no cost to Bengal), the operator Santos has plans to acquire 103 Km<sup>2</sup> of additional new 3D seismic data over the Cuisinier-1 discovery. The new 3D seismic program is presently expected to be complete in April 2009. The Company has an earned 17.5% interest in the Barta Block but has an option to increase its working interest to a final 25% simply by funding 55% of the next well to be drilled. Although the operator has identified a number of follow-up locations to the Cuisinier discovery, the next well to be drilled will be determined after the new 3D seismic is processed and evaluated and a partner meeting is held to determine an appropriate development plan for the project. The next well is anticipated to be drilled in the first quarter of 2010.

On the southern portion of ATP 752P (the Wompi Block), in ongoing fulfillment of the joint venture and farm-in terms, the operator Santos has completed the acquisition of 206 Km<sup>2</sup> of new 3D seismic (again at no cost to Bengal). Following thorough evaluation of the new 3D seismic data, the JV and farm-in agreement allows for Santos to drill up to four new exploration wells. The Company is carried by Santos for the costs of the initial 3 exploration wells but Bengal retains as an option the opportunity to fund 60% of the final exploration well in order to retain its 30% working interest in the Wompi block. Drilling is expected to begin in the third quarter of 2009.

The Company holds a 10% interest in the offshore Timor Sea Permit AC/P 24, which the Company earned through the drilling of the oil discovery well Katandra-1 in December 2004. The Joint Venture had earlier decided that an additional processing stage would be required on the 3D seismic shot over Katandra prior to making a decision regarding the proposal of follow-up appraisal drilling. The Joint Venture has received approval from the Northern Territory Government to carry out 180 square kilometers of 3D Pre-Stack Depth Migration ("PSDM") processing and geotechnical studies for the year commencing on June 8<sup>th</sup> 2008 as the minimum work requirement for the year at an estimated net cost to Bengal of \$42,500. Any follow-up appraisal drilling would then be contingent on the outcome of the PSDM processing and would occur in the subsequent year (i.e. year commencing June 2009).

Bengal (50% interest) is the Operator of the Cooper Basin ATP 934P exploration block in Queensland, Australia – the other partners are Seoul City Gas (30%) and Mosaic Oil (20%). Bengal is working on clearing Native Title issues on this land. ATP 934P has an area of 361,260 gross acres, is in the heart of the central Cooper Basin gas province and is surrounded by Permian gas fields, with more recent activities nearby having resulted in Jurassic and Cretaceous oil discoveries.

Bengal holds a 33.3% working interest in Petroleum Prospecting License PL1/01 and Minerals Prospecting License AR01/08 in South Larne, Northern Ireland. Antrim Resources (N.I.) Limited is the operator. To date, the Company has spent approximately \$400,000 on geophysical and geochemical studies to determine prospectivity for oil and gas and to identify salt strata in the license area and determine the feasibility of using caverns leached from the salt deposits for underground storage of natural gas. The operator has applied to the regulatory authority to extend the current work program of geoscience work by one more year to better determine drill locations for a drill decision in 2010. Budget

decisions for 2009 will be made after consultations with the Ireland Department of Enterprise, Trade, and Investment and are not expected to exceed \$100,000 net to Bengal for the next budget year.

## SELECTED QUARTERLY INFORMATION

Set out below is selected quarterly information for Bengal for the last eight quarters (on a pre-share consolidation basis).

(000's, except per share amounts)	Quarter Ended							
	12/31/08	09/30/08	6/30/08	3/31/08	12/31/07	9/30/07	6/30/07	3/31/07
Petroleum and Natural Gas Sales	\$ 825	\$ 1,482	\$ 1,952	\$ 1,259	\$ 956	\$ 732	\$ 627	\$ 914
Funds flow from Operations <sup>1</sup>	(29)	367	829	(226)	165	79	(211)	(371)
Per Share- Basic and Diluted	0.00	0.02	0.05	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)
Loss and comprehensive loss	\$ (6,196)	\$ (812)	\$ (351)	\$ (632)	\$(1,702)	\$ (553)	\$ (758)	\$(3,666)
Per Share- Basic and Diluted	(0.34)	(0.04)	(0.02)	(0.03)	(0.11)	(0.04)	(0.05)	(0.24)
Additions to capital assets	\$ 1,096	\$ 3,842	\$ 1,532	\$ 575	\$ (77)	\$ 735	\$ 350	\$ 3,247
Working capital	2,642	3,783	7,224	8,043	8,142	7,900	8,556	9,117
Total Assets	13,459	22,812	21,134	20,410	15,327	16,967	16,839	18,086
Shares Outstanding								
Basic and diluted	18,213	18,213	18,213	18,198	15,338	15,338	15,338	15,338
<b>Operations</b>								
Average daily production								
Natural gas (Mcf/d)	842	609	734	542	244	382	372	281
Oil and NGLs (bbls/d)	65	84	96	93	93	75	57	111
Combined (boe/d)	205	186	218	184	134	138	119	157
Netback (\$/boe)	\$ 25.90	\$ 49.75	\$ 59.37	\$ 52.25	\$ 57.24	\$ 37.79	\$ 40.73	\$ 37.92

Petroleum and natural gas sales have been on an increasing trend due to increasing production volumes until the current quarter in which production continued its upward trend but sales declined due to lower prices.

Losses for the quarter's ended March 31, 2007 and 2008 and the quarters ended June 30, 2007 and 2008 were higher due to ceiling test impairment charges. In the current quarter the loss is increased by goodwill and ceiling test impairment charges.

Production volumes began an upward trend in the quarter ended March 31, 2008 with the acquisition of two gas wells in Oak, British Columbia. The current quarterly increase in volumes is due to commencement of production from the new Oak well drilled in October, 2008.

## DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Bengal's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") are responsible for the design of disclosure control procedures ("DC&P"), which provide reasonable assurances that information required to be disclosed by Bengal under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information submitted under securities legislation is accumulated and communicated to management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

<sup>1</sup> Funds flow from operations is a non-GAAP measure. The comparable GAAP measure is cash flow from operations and is equal to \$303,000

The Certifying Officers are also responsible for the design of internal control over financial reporting (“ICFR”), which provide reasonable assurance regarding the reliability of financial reporting and reporting of financial statements for external purposes in accordance with Canadian GAAP.

There were no changes in the Company’s ICFR in the quarter ended December 31, 2008 that have materially affected, or are reasonably likely to affect, the Company’s ICFR. Management is aware that there is a lack of segregation of duties due to the limited number of employees dealing with financial matters. The limited number of staff may also result in identifying weaknesses in accounting for complex and / or non-routine transactions due to lack of technical resources within the Company. Bengal’s Chief Executive Officer, Chief Financial Officer, President and Vice President have extensive industry experience. They are aware of and actively involved in the Company’s on-going operating activities. While there is an inherent weakness in internal controls over financial reporting due to the limited number of staff and the resultant lack of segregation of incompatible duties and technical resources, the capabilities and involvement of the Chief Executive Officer, Chief Financial Officer, President and Vice President serve to mitigate this structural weakness. Their efforts, together with the active involvement of the board of directors, are directed to minimize the risk of a material misstatement in financial reporting.

It should be noted that while Bengal’s Chief Executive Officer and Chief Financial Officer believe that the Company’s disclosure and internal control procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure and internal control procedures will 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.

#### **APPLICATION OF CRITICAL ACCOUNTING ESTIMATES**

The significant accounting policies used by Bengal are disclosed in Note 2 to the audited Consolidated Financial Statements for the years ended March 31, 2008 and 2007. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates. A detailed discussion of the critical accounting policies and practices of the Company which helps to assess the likelihood of materially different results being reported is disclosed in the March 31, 2008 Annual Management Discussion and Analysis.

#### **FINANCIAL REPORTING UPDATE**

##### **Accounting standards adopted**

On April 1, 2007, the Company adopted three new accounting standards: Section 1535, Capital Disclosures, Section 3862, Financial Instruments — Disclosures and Section 3863, Financial Instruments – Presentation. Section 1535 requires disclosure of an entity’s objectives, policies and processes for managing capital, including: quantitative data about what the entity’s considers capital, whether the entity has complied with any capital requirements and the consequences of non-compliance if the entity has not complied. Sections 3862 and 3863 specify standards of presentation and enhanced disclosures on financial instruments. The adoption of these new standards did not impact the amounts reported in the Company’s financial statements as they primarily related to disclosures.

## **Recent pronouncements**

On February 13, 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed the mandatory changeover date to International Financial Reporting Standards (“IFRS”) for Canadian profit-oriented publicly accountable entities (“PAEs”) such as Bengal.

The AcSB requires the IFRS compliant financial statements be prepared for annual and interim financial statements commencing on or after January 1, 2011. For PAEs with a March 31 year end, the first unaudited interim financial statements under IFRS will be for the quarter ending June 30, 2011, with comparative financial information for the quarter ended June 30, 2010. The first audited annual financial statements will be for the year ending March 31, 2012, with comparative financial information for the year ended March 31, 2011. This also means that all opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the April 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the June 30, 2011 unaudited interim financial statements.

Bengal intends to adopt these requirements as set by the AcSB and other regulatory bodies. Although the Company has not completed development of its IFRS changeover plan, when finalized it will include an analysis of key GAAP differences and a plan to assess accounting policies under IFRS as well as potential IFRS exemptions. The Company anticipates completing its development and changeover plan by the third quarter of calendar 2009. The Company cannot reasonably estimate the effect of adopting these requirements on the Company's financial statements at this time.

## **RISK FACTORS**

In the normal course of business the Company is exposed to a variety of actual and potential events, uncertainties, trends and risks. In addition to the risks associated with critical accounting estimates and financial instruments, the Company's commitments and actual and expected operating events, all of which are discussed above, the Company has identified the following events, uncertainties, trends and risks that could have a material adverse impact on the Company:

- The Company may not be able to find reserves at a reasonable cost, develop reserves within required time-frames or at a reasonable cost, or sell these reserves for a reasonable profit;
- Reserves may be revised due to economic or technical factors;
- The Company may not be able to obtain approval, or obtain approval on a timely basis for the exploration and development activities;
- Changing governmental policies, social instability and other political, economic or diplomatic developments un which the Company operates;
- Changing taxation policies, taxation laws, and interpretations thereof;
- Adverse factors including climate and geographical conditions, weather conditions, and labor disputes;
- Changes in foreign exchange rates that in turn change the Company's future recorder revenues as a portion of sales are based on the U.S. dollar; and
- Changes in future oil and natural gas prices.
- Access to capital
- For a comprehensive discussion of all identified risks, refer to the Company's Annual Information Form, which can be found at [www.sedar.com](http://www.sedar.com).

**ADDITIONAL INFORMATION**

Additional information relating to Bengal is filed on SEDAR and can be viewed at [www.sedar.com](http://www.sedar.com). Information can also be obtained by contacting the Company at Bengal Energy Ltd., 1140, 715 5th Ave S.W., Calgary, Alberta T2P 2X6 or by email to [info@Bengalenergy.ca](mailto:info@Bengalenergy.ca) or by accessing Bengal's website at [www.Bengalenergy.ca](http://www.Bengalenergy.ca).



(Formerly Avery Resources Inc.)

International exploration & production

## **Consolidated Financial Statements**

**Three and Nine Months Ended December 31, 2008  
and 2007**

The comparative prior periods have not been reviewed by the Company's auditors.

# BENGAL ENERGY LTD.

## CONSOLIDATED BALANCE SHEETS

(unaudited)

(thousands of dollars)

<b>As at</b>	<b>December 31, 2008</b>	<b>March 31, 2008</b>
<b>ASSETS</b>		
Current assets		
Cash and short term deposits	\$ 2,958	\$ 7,852
Accounts receivable	1,053	1,481
Prepaid expenses and deposits	143	144
	4,154	9,477
Petroleum and natural gas properties (Note 5)	9,305	9,294
Goodwill (Note 6)	–	1,639
	\$ 13,459	\$ 20,410
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,512	\$ 1,434
Asset retirement obligations (Note 7)	163	180
Non-controlling interest	–	9
Shareholders' equity:		
Share capital (Note 8)	43,460	43,438
Warrants (Note 8)	186	31
Contributed surplus (Note 8)	3,520	3,341
Deficit	(35,382)	(28,023)
	11,784	18,787
	\$ 13,459	\$ 20,410
Going concern (Note 2)		
Commitment (Note 11)		

See accompanying notes to consolidated financial statements.

# BENGAL ENERGY LTD.

## CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(unaudited)

(thousands of dollars, except per share amounts)

Periods ended December 31	Three months		Nine months	
	2008	2007	2008	2007
Revenues				
Petroleum and natural gas sales	\$ 825	\$ 956	\$ 4,259	\$ 2,315
Royalties	(125)	(111)	(739)	(299)
Interest income	29	81	150	243
	729	926	3,670	2,259
Expenses				
General and administrative	570	580	1,741	1,519
Operating and transportation	211	142	862	393
Depletion, depreciation and accretion	4,357	1,726	6,476	2,675
Stock and warrant based compensation	52	148	334	409
Goodwill impairment	1,759	–	1,759	–
Foreign exchange (gain) loss	(24)	38	(134)	309
	6,925	2,634	11,038	5,305
Loss before non-controlling interest	(6,196)	(1,708)	(7,368)	(3,046)
Non-controlling interest	–	6	9	33
Loss and comprehensive loss	(6,196)	(1,702)	(7,359)	(3,013)
Deficit, beginning of period	(29,186)	(25,689)	(28,023)	(24,378)
Deficit, end of period	\$ (35,382)	\$ (27,391)	\$ (35,382)	\$ (27,391)
Weighted average number of shares outstanding (000's) (Note 8)	18,213	15,338	18,212	15,338
Basic and diluted loss per share (Note 8)	\$ (0.34)	\$ (0.11)	\$ (0.40)	\$ (0.20)

See accompanying notes to consolidated financial statements.

# BENGAL ENERGY LTD.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(thousands of dollars)

Periods ended December 31	Three months		Nine months	
	2008	2007	2008	2007
Cash provided by (used in)				
Operations				
Loss for the period	\$ (6,196)	\$ (1,702)	\$ (7,359)	\$ (3,013)
Items not affecting cash				
Depletion, depreciation and accretion	4,357	1,726	6,476	2,675
Unrealized foreign exchange loss (gain)	(1)	(7)	(13)	409
Stock and warrant based compensation	52	148	334	(38)
Goodwill impairment	1,759	-	1,759	-
Abandonment expenditures	-	-	(12)	-
	(29)	165	1,185	33
Changes in non-cash working capital (Note 10)	332	(185)	673	8
	303	(20)	1,858	41
Financing				
Exercise of stock options	-	-	22	-
Changes in non-cash working capital (Note 10)	(25)	120	(51)	206
	(25)	120	(29)	206
Investments				
Additions to petroleum and natural gas properties and facilities	(1,096)	77	(6,470)	(1,008)
Changes in non-cash working capital (Note 10)	(3,095)	(59)	(253)	356
	(4,191)	18	(6,723)	(652)
Increase (decrease) in cash	(3,913)	118	(4,894)	(405)
Cash and short term deposits, beginning of period	6,871	7,816	7,852	8,339
Cash and short term deposits, end of period	\$ 2,958	\$ 7,934	\$ 2,958	\$ 7,934
Interest received	\$ 127	\$ 211	\$ 198	\$ 315
Taxes paid	\$ -	\$ -	\$ -	\$ -

See accompanying notes to consolidated financial statements.

# BENGAL ENERGY LTD.

## Notes to Consolidated Financial Statements

Three and nine months ended December 31, 2008 and 2007

(Tabular amounts are stated in thousands of dollars except share and per share amounts)  
(unaudited)

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### 1. INCORPORATION:

Bengal Energy Ltd (the “Company” or “Bengal”) is incorporated under the laws of the Province of Alberta and is involved in the exploration for and development of oil and gas reserves in Canada, Australia, India and Ireland.

### 2. GOING CONCERN:

The Company’s ability to continue as a going concern is dependent upon obtaining the necessary financing to complete development activities and generate profitable operations from its oil and natural gas interests in the future. The Company’s financial statements as of and for the nine months ended December 31, 2008 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company incurred a net loss of \$7.4 million for the nine months ended December 31, 2008 and had an accumulated deficit of \$35.4 million as at December 31, 2008. The Company expects to incur expenditures to further its capital investment programs and the Company’s existing cash balance and cash flow from operating activities are sufficient to satisfy its current obligations, and meet its capital investment commitments.

Should the going concern assumption not be appropriate, certain asset and liability amounts would require adjustment and reclassification and such adjustments and reclassifications may be significant.

### 3. SIGNIFICANT ACCOUNTING POLICES:

The interim consolidated financial statements for Bengal have been prepared by management in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with 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 reported period. Actual results could differ from these estimates.

The consolidated financial statements include the accounts of the Company and its wholly-owned and majority owned subsidiaries.

These Interim unaudited consolidated financial statements have been prepared by management following the same accounting policies and methods that were used and disclosed in the audited financial statements for the year ended March 31, 2008, supplemented as disclosed below. The disclosures provided below are incremental to those included with the annual audited consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended March 31, 2008.

### 4. CHANGES IN ACCOUNTING POLICY

Effective April 1, 2008, the Company adopted three new accounting standards: Capital Disclosures, Financial Instruments – Disclosures, and Financial Instruments – Presentation. Capital Disclosures requires disclosure of objectives, policies and processes for managing capital, including: quantitative data about the

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**(unaudited)**

components of capital, whether the Company has complied with any capital requirements and the consequences of non-compliance if the Company has not complied. Financial Instruments – Disclosures, and Financial Instruments – Presentation specify standards of presentation and enhanced disclosures on financial instruments. The adoption of these policies did not impact the measurement of the amounts reported in the Company's financial statements as they primarily relate to disclosures.

**FUTURE ACCOUNTING CHANGES**

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the mandatory changeover date to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

As Bengal has a March 31 year-end, the first unaudited interim financial statements under IFRS will be until the quarter ending June 30, 2011, with comparative financial information for the quarter ended June 30, 2010. The first audited annual financial statements will be for the year ending March 31, 2012, with comparative financial information for the year ended March 31, 2011. This also means that all opening balance sheet adjustments relating to the adoption of IFRS must be reflected in the April 1, 2010 opening balance sheet which will be issued as part of the comparative financial information in the June 30, 2011 unaudited interim financial statements.

Bengal intends to adopt these requirements as set by the AcSB and other regulatory bodies. Although the Company has not completed development of its IFRS changeover plan, when finalized it will include an analysis of key GAAP differences and a plan to assess accounting policies under IFRS as well as potential IFRS exemptions. The Company anticipates completing its development and changeover plan by the third quarter of calendar 2009.

**5. PETROLEUM AND NATURAL GAS PROPERTIES**

(\$000's)	Cost	Accumulated depletion & depreciation	Net book value
<b>December 31, 2008</b>			
Australia			
Petroleum and natural gas properties	\$ 18,036	\$ 14,826	\$ 3,210
Other assets	107	61	46
Canada			
Petroleum and natural gas properties	6,873	1,867	5,006
Other assets	521	240	281
Other			
Petroleum and natural gas properties	762	–	762
	\$ 26,299	\$ 16,994	\$ 9,305
<b>March 31, 2008</b>			
Australia			
Petroleum and natural gas properties	\$ 12,913	\$ 9,162	\$ 3,749
Other assets	107	45	62
Canada			
Petroleum and natural gas properties	6,170	1,113	5,057
Other assets	300	207	93
Other			
Petroleum and natural gas properties	333	–	333
	\$ 19,823	\$ 10,527	\$ 9,294

Undeveloped property costs of \$3.0 million (2007 - \$3.1 million) have been excluded from the depletion

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calculation. Future development costs of proven reserves of \$322,000 are included in the depletion calculation.

**Ceiling Test**

Bengal calculates a ceiling test quarterly and annually whereby the carrying value of petroleum and natural gas properties in each country is compared to estimated future cash flow from the production of proved reserves.

The Corporation performed a ceiling test calculation at December 31, 2008 resulting in undiscounted cash flows from proved reserves and the cost of unproved properties being less than the carrying value of oil and gas assets for the Australian cost center. Consequently, Bengal performed stage two of the ceiling test assessing whether discounted future cash flows from the production of proved plus probable reserves plus the carrying cost of unproved properties, net of any impairment allowance, exceeds the carrying value of its petroleum and natural gas properties. As a result of performing this test, a ceiling test impairment charge of \$3,133,000 on the Company's Australian cost centre has been included in DD&A expense in the consolidated statement of earnings and included in accumulated depletion.

The prices used in the ceiling test at December 31, 2008 were from the "Summary of Price Forecasts as of December 31, 2008", published by Sproule Associates Limited and are as follows:

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	2009	2010	2011	2012	2013	Percent increase per year to 2019
WTI Cushing Oklahoma (\$US/bbl)	\$ 53.73	\$ 63.41	\$ 69.53	\$ 79.59	\$ 92.01	2%
Alberta AECO-C Spot (\$Cdn/mcf)	\$ 6.82	\$ 7.56	\$ 7.84	\$ 8.38	\$ 9.20	2.3%
Tapis (\$Cdn/bbl)	\$ 68.58	\$ 74.78	\$ 81.99	\$ 88.64	\$ 92.40	0%

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The above prices have been adjusted to reflect Company-specific transportation and quality differentials.

**6. ACQUISITION**

On February 13, 2008 Bengal Energy Ltd. (formerly Avery Resources Inc.) acquired all the issued and outstanding shares of Bengal Energy Inc. The purchase price recorded in Bengal's March 31, 2008 year end financial statements was based on estimates made by management using the information available at that time. An amendment has been recorded in the nine month period ended December 31, 2008 due to updates to those estimates resulting in a decrease in working capital of \$138,000, a decrease in asset retirement obligations of \$18,000 and an increase in goodwill of \$120,000.

Due to current economic conditions and the recent decline in the Company's share price, a goodwill impairment test was performed. The test compared the fair value of the Canadian reporting unit to its carrying value. Fair value was determined using discounted cash flows and accounted for the recent price decline received for the Company's products. Based on the impairment test, the balance of goodwill was written off.

**7. ASSET RETIREMENT OBLIGATIONS**

The Company's asset retirement obligations result from ownership interests in petroleum and natural gas assets. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations at December 31, 2008 is approximately \$310,000 (March 31, 2008 - \$302,000) which will be incurred between 2009 and 2028 with a significant majority of the costs being incurred after 2010. An

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inflation factor of 2% has been applied to the estimated asset retirement cost at December 31, 2008 and March 31, 2008. A credit-adjusted risk-free rate of 10.0% was used to calculate the fair value of the asset retirement obligation at December 31, 2008 which is an increase from 7% used at March 31, 2008 due to tightening credit markets.

A reconciliation of the asset retirement obligations is provided below:

<b>(\$000's)</b>	<b>Nine months ended December 31, 2008</b>	<b>Year ended March 31, 2008</b>
Balance, beginning of period	\$ 180	\$ 85
Revisions	(19)	(20)
Liabilities settled	(12)	–
Liabilities acquired	6	107
Accretion expense	8	8
Balance, end of period	\$ 163	\$ 180

**8. SHARE CAPITAL**

**(a) Authorized:**

Unlimited number of common shares

Unlimited number of preferred shares, of which none have been issued

**(b) Issued (number of shares adjusted for 5:1 consolidation):**

<b>(\$000's)</b>	<b>Number of shares</b>	<b>Amount</b>
<b>Balance March 31, 2007</b>	<b>15,337,787</b>	<b>\$ 38,507</b>
Issued on acquisitions	2,860,000	4,931
<b>Balance March 31, 2008</b>	<b>18,197,787</b>	<b>\$ 43,438</b>
Issued on exercise of stock options	15,000	22
<b>Balance December 31, 2008</b>	<b>18,212,787</b>	<b>\$ 43,460</b>

**Stock consolidation:**

On July 17, 2008, the Company's shareholders approved the consolidation of the Company's shares on a 5:1 basis and the change of the Company's name from Avery Resources Inc. to Bengal Energy Ltd., effective on the close of business July 21, 2008. The effect of the one-for-five consolidation was to reduce to one-fifth the number of common shares, warrants and stock options outstanding as of the close of business on July 21, 2008. In addition the weighted average exercise prices and fair value per option and warrant have been adjusted to five times the pre-consolidation prices. Both the weighted average number of shares outstanding and the earnings per share for both the three and nine months ended December 31, 2008 and 2007 have been presented as if the one-for-five consolidation had been in effect as of April 1, 2008 and 2007, respectively. All information included in these financial statements is calculated and presented subsequent to the one-for-five consolidation.

On February 13, 2008 Bengal Energy Ltd. acquired all the issued and outstanding common shares and common share purchase warrants of Bengal Energy Inc. in exchange for 2,860,000 Bengal Energy Ltd. shares and 940,000 common share purchase warrants.

Of the 2,860,000 Bengal Energy Ltd. common shares issued to Bengal Energy Inc. shareholders, 1,586,001 were issued to Bengal Energy Inc. shareholders who became the new management at Bengal Energy Ltd. The shares received by the new Bengal Energy Ltd. management team have been put in voluntary escrow whereby one-third of the shares were released on August 13, 2008 (i.e. six

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months from the closing date), one-half of the remaining escrowed shares will be released on the date that is twelve months from the closing date and all the remaining escrowed shares (that is one-third) on a date that is eighteen months from the closing date.

**(c) Common share purchase warrants:**

On February 13, 2008 Bengal Energy Ltd. issued 940,000 common share purchase warrants in exchange for 1,807,692 Bengal Energy Inc. common share purchase warrants as part of the acquisition of Bengal Energy Inc. Each Bengal Energy Ltd. warrant vests and is exercisable upon the 20-day weighted average trading price of the Bengal Energy Ltd. shares being \$4.00 per share and upon vesting shall entitle the holder to acquire one Bengal Energy Ltd. share at an exercise price of \$2.00 until August 13, 2011.

The fair value of warrants issued on February 13, 2008 was estimated to be \$0.7 million using the Black-Scholes option-pricing model and will be recorded in warrant capital and compensation expense over the 42 month life of the warrants.

On November 24, 2007, 1,680,000 share purchase warrants with an exercise price of \$2.50 expired.

The table below provides details of common share purchase warrant activity (adjusted for 5:1 share consolidation):

<b>(\$000's)</b>	<b>Number of warrants</b>	<b>Amount</b>
<b>Balance March 31, 2007</b>	<b>1,680,000</b>	<b>\$ 927</b>
Expired	(1,680,000)	(927)
Issued for Bengal Acquisition	940,000	31
<b>Balance March 31, 2008</b>	<b>940,000</b>	<b>\$ 31</b>
Amortization of warrant fair value	–	155
<b>Balance December 31, 2008</b>	<b>940,000</b>	<b>\$ 186</b>

**(d) Contributed surplus**

A reconciliation of contributed surplus is provided below:

<b>(\$000's)</b>	<b>Nine months ended December 31, 2008</b>	<b>Year ended March 31, 2008</b>
<b>Balance, beginning of period</b>	<b>\$ 3,341</b>	<b>\$ 1,881</b>
Stock-based compensation expense	179	533
Transfer from warrants on expiry of warrants	–	927
<b>Balance, end of period</b>	<b>\$ 3,520</b>	<b>\$ 3,341</b>

**(e) Stock options:**

The Company has a stock option plan for directors, officers, employees and consultants of the Company whereby stock options representing up to 10% of the issued and outstanding common shares can be granted by the Board of Directors. Stock options are granted for a term of up to five years and vest one-third immediately and one-third on each of the next two anniversary dates. The exercise price of each option equals the market price of the Company's common shares on the date of the grant.

(unaudited)

A summary of stock option activity is presented below:

	Options	Weighted average exercise price
<b>Outstanding at March 31, 2007</b>	<b>1,038,373</b>	<b>\$ 3.00</b>
Granted	104,000	1.60
<b>Outstanding at March 31, 2008</b>	<b>1,142,373</b>	<b>\$ 2.90</b>
Exercised	(15,000)	1.50
Expired	(13,340)	2.25
Forfeited	(161,000)	2.80
<b>Outstanding December 31, 2008</b>	<b>953,033</b>	<b>2.93</b>
Exercisable at December 31, 2008	925,367	\$ 2.97

Bengal has not incorporated an estimated forfeiture rate for stock options that will not vest, rather the Company accounts for actual forfeitures as they occur.

No stock options were granted in the nine months ended December 31, 2008.

**(f) Per share amounts:**

Per share amounts are calculated using losses and the weighted-average number of common shares outstanding. The Company has recorded a loss in each of the last two periods and therefore any addition to basic shares outstanding is anti-dilutive. The weighted average number of shares outstanding at December 31, 2008 is 18,211,587 (2007 – 15,337,787).

**9. FINANCIAL RISK MANAGEMENT**

The Company has exposure to credit, liquidity and market risk from its use of financial instruments. This note presents information about the Company's exposure to these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for identifying the principal risks of the Company and ensuring the policies and procedures are in place to appropriately manage these risks. Bengal's management identifies, analyzes and monitors risks and considers the implication of the market condition in relation to the Company's activities.

**(a) Fair value of financial instruments:**

Financial instruments comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities.

**(b) Credit risk:**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bengal's cash calls paid to joint venture partners in Australia and receivables from petroleum and natural gas marketers. At December 31, 2008 Bengal's receivables consisted of \$0.6 million (2007 - \$0.5 million) from joint venture partners, \$0.1 million (2007 - \$0.1 million) of receivables from petroleum and natural gas marketers and \$0.4 million (2007 - \$0.5 million) of other trade receivables.

In Canada receivables from petroleum and natural gas marketers are normally collected on the 25<sup>th</sup> day

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of the month following production. Bengal markets its Kaybob gas production and the Kaybob liquids production through large, public Canadian marketers. Oak production is marketed by the operator. Bengal has contracts with the marketers and has not experienced any collection issues with them or with the operator of the Oak wells.

In Australia production is purchased by a consortium led by the largest public oil and gas company in Australia which is also the operator of Bengal's production. Bengal has a Crude Oil Purchase Agreement with the buyer.

Cash calls paid to Bengal's Australian joint venture partners are held in trust accounts by the partner until spent. Bengal attempts to mitigate the risk from joint venture receivables by approving significant spending by partners prior to expenditure and only paying the cash call shortly before the funds are to be spent.

At December 31, 2008, the Company had no receivables that were considered past due.

Cash and cash equivalents, when held, consist of cash bank balances and guaranteed investment certificates redeemable at any time. Bengal manages the credit exposure related to guaranteed investments by selecting counterparties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

Bengal establishes an allowance for doubtful accounts as determined by management based on their assessment of collection therefore the carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. Bengal does not have an allowance for doubtful accounts as at December 31, 2008 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the year ended March 31, 2008 or the nine months ended December 31, 2008.

**(c) Liquidity risk:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. Bengal prepares an annual budget and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Bengal's financial liabilities consist of accounts payable and accrued liabilities and amounted to \$1.5 million at December 31, 2008. Bengal has \$3.0 million in cash and a net working capital surplus of \$2.6 million at December 31, 2008.

As the Company is in the early stages of exploration and development and although it is generating operating revenue, funding of most activities to date has been supplemented through the issuance of share capital. It is expected that further equity financings will be used to fund ongoing operations and the Company's projected capital program, supplemented by cash flow from operations, sale of assets, working capital and project specific debt when a suitable project is identified.

Currently the equity markets are being affected by the world-wide financial and liquidity concerns and Bengal's ability to raise funds through equity financing may be restricted at this time. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to Bengal's reputation.

**(d) Market risk:**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate

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because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used to reduce exposure to these risks.

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Bengal receives Canadian dollars for sales in Canada and U.S. dollars for Australian oil sales and incurs expenditures in Australian, Canadian and U.S. currencies. Having sales and expenditures denominated in three currencies spreads the impact of individual currency fluctuations. The Company had no forward exchange rate contracts in place as at December 31, 2008 and March 31, 2008.

The Company may enter into derivative foreign currency contracts in order to manage foreign currency exchange rate risk, but has not done so to date.

The table below shows the Company's exposure to foreign currencies for its financial instruments:

<b>As at December 31, 2008 (\$000's)</b>				
	<b>Total</b>	<b>CAD</b>	<b>AUD</b>	<b>USD</b>
			CAD \$ Equivalent	
Cash and cash equivalents	2,958	2,574	308	76
Accounts receivable	1,053	178	875	–
Prepaid expenses and deposits	143	114	29	–
Accounts payable	(1,512)	(446)	(1,066)	–
Balance sheet exposure	2,642	2,420	146	76

The Company believes a five percent change in the CAD\$ against these foreign currencies would be reasonably possible within the next three month reporting period. A five percent strengthening of the CAD\$ would result in a reduction in earnings of \$41,000 dollars (an equal but opposite impact to earnings would result if the CAD\$ weakened by five percent).

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of a change in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. Australian oil prices are based on the Tapis reference price which tracks WTI but is also affected by refinery capacity in South East Asia and the US. There were no financial instruments in place to manage commodity prices during the periods ended December 31, 2008 and March 31, 2008. At December 31, 2008 a \$5.00 decrease in oil prices and a \$0.50 decline in natural gas prices would have caused net earnings to decrease by \$171,000 for the nine months ended December 31, 2008.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents that have a floating interest rate. If interest rates had been 100 basis points lower for the nine months ended December 31, 2008, net income and cash flow would have decreased by \$49,000. The Company had no interest rate swaps or hedges at December 31, 2008 and March 31, 2008.

**(e) Capital management:**

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility which will allow it to execute on its capital investment program, provide creditor and market confidence and to sustain in future development of the business.

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The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling and commitments inventory, the efficiencies of past investments, the efficiencies of forecasted investments and the timing of such investments, the forecasted cash balances, the forecasted commodity prices and resulting cashflow. The Company currently has no debt.

In order to maintain or adjust the capital structure, the Company may from time to time issue shares, if available on favorable terms, sell assets and adjust its capital spending to manage current and projected cash levels. The Company presently does not have a credit facility in place but based on project viability may arrange separate project financing.

Bengal's share capital is not subject to external restrictions and the Company has not paid or declared any dividends since the date of incorporation nor does it expect to.

**10. CHANGES IN NON-CASH WORKING CAPITAL**

<b>Nine months ended December 31 (\$000's)</b>	<b>2008</b>	<b>2007</b>
Accounts receivable and prepaid expenses	429	694
Accounts payable and accrued liabilities	(60)	(124)
<b>Total</b>	<b>369</b>	<b>570</b>
Relating to:		
Operating	673	8
Financing	(51)	206
Investing	(253)	356
<b>Total</b>	<b>369</b>	<b>570</b>

The change in working capital includes adjustments resulting from the Bengal Energy Inc. acquisition on February 13, 2008 (see Note 5).

**11. COMMITMENT**

At December 31, 2008 the Company had the following lease commitment for office space:

<b>Years ended March 31</b>	
2009 – Jan to Mar	\$ 30
2010 – April 2009 to Mar 2010	121
2010 – April to July	40
	<b>\$ 191</b>

The Company acquired a flow-through share spending commitment as part of the Bengal Energy Inc. acquisition on February 13, 2008. The acquired company renounced \$1.0 million of qualifying oil and natural gas expenditures effective December 31, 2007 pursuant to a flow-through share offering. Bengal has fulfilled the qualifying expenditure requirement during the year.

(unaudited)

12. SEGMENTED INFORMATION

<b>Nine months ended December 31, 2008 (\$000's)</b>				
	<b>Australia</b>	<b>Canada</b>	<b>Other</b>	<b>Total</b>
Revenue, net of royalties	\$ 1,908	\$ 1,612	\$ –	\$ 3,483
Loss for period	(4,565)	(2,794)	–	(7,359)
Petroleum and natural gas properties				
Cost	18,143	7,394	762	26,299
Accumulated depletion, depreciation and amortization	(14,887)	(2,107)	–	(16,994)
Net Book Value	3,256	5,287	762	9,305
Petroleum and natural gas property expenditures	\$ 5,099	\$ 942	\$ 429	\$ 6,470
<b>Nine months ended December 31, 2007 (\$000's)</b>				
	<b>Australia</b>	<b>Canada</b>	<b>Other</b>	<b>Total</b>
Revenue, net of royalties	\$ 1,330	\$ 686	\$ –	\$ 2,016
Loss for period	(2,197)	(816)	–	(3,013)
Petroleum and natural gas properties				
Cost	13,013	3,256	298	16,567
Accumulated depletion, depreciation and amortization	(9,184)	(1,091)	–	(10,275)
Net Book Value	3,829	2,165	298	6,292
Petroleum and natural gas property expenditures	\$ 900	\$ 104	\$ 4	\$ 1,008

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**(unaudited)**

**CORPORATE INFORMATION**

**AUDITORS**

KPMG LLP • Calgary, Canada

**LEGAL COUNSEL**

Borden Ladner Gervais • Calgary, Canada

**BANKERS**

Royal Bank of Canada • Calgary, Canada

West Pac Bank • Brisbane, Australia

Commonwealth Bank • Brisbane, Australia

**REGISTRAR AND TRANSFER AGENT**

Valiant Trust Corporation • Calgary, Canada

**INVESTOR RELATIONS**

Bryan Mills Iradesso • Calgary, Canada

**DIRECTORS**

Chayan Chakrabarty

Richard N. Edgar

James B. Howe

Bradley G. Johnson

Ted Hanbury

Judith A. Stripling

Ian J. Towers

**GOVERNANCE AND DISCLOSURE COMMITTEE**

*All Directors are members of the Committee*

**AUDIT COMMITTEE**

James B. Howe

Ian J. Towers

Judith A. Stripling

**RESERVES COMMITTEE**

Ian J. Towers

Richard N. Edgar

Ted Hanbury

**COMPENSATION COMMITTEE**

Ted Hanbury

Richard N. Edgar

Ian J. Towers

Judith A. Stripling

**OFFICERS**

Bradley Johnson, Chief Executive Officer

Chayan Chakrabarty, President

James Mott, Vice President, Exploration

Bryan C. Goudie, Chief Financial Officer

Melinda Park, Secretary

**STOCK EXCHANGE LISTING**

TSX: BNG