



International exploration & production

Management's Discussion & Analysis

**Three and Six Months Ended
September 30, 2009 and 2008**

MANAGEMENT'S DISCUSSION AND ANALYSIS – November 13, 2009

The following Management's Discussion and Analysis (MD&A) as provided by the management of Bengal Energy Ltd. ("Bengal" or the "Company") should be read in conjunction with the unaudited interim Consolidated Financial Statements and notes thereto for the three and six months ended September 30, 2009 and 2008 and the audited Consolidated Financial Statements, related notes and MD&A for the years ended March 31, 2009 and 2008. The reader should be aware that historical results are not necessarily indicative of future performance.

The Company's activities are focused in Australia, India and Canada. Over the reporting period, revenue and expenses were generated and capital expenditures were made in Australia and Canada, and capital expenditures were made in India. 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.

Basis of Presentation - The financial statements and financial data presented herein were prepared in accordance with Canadian generally accepted accounting principles (GAAP). The reporting and the functional currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas volumes have been converted to barrels of oil equivalent (boe) using a conversion ratio of six thousand cubic feet (mcf) of natural gas to one barrel (bbl) of oil. The following MD&A compares the results of the six months ended September 30, 2009 ("YTD 2010") to the six months ended September 30, 2008 ("YTD 2009") and the results of the three months ended September 30, 2009 ("Q2 2010") to the three months ended September 30, 2008 ("Q2 2009") and the results of the three months ended June 30, 2009 ("Q1 2010").

Non-GAAP Measurements – Within the MD&A references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks are not defined by GAAP in Canada and are referred to as non-GAAP measures. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Netbacks equal total revenue less royalties and operating and transportation expenses calculated on a boe basis. Management utilizes these measures to analyze operating performance. Funds from operations is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net income, cash flow from operations or other measures of financial performance calculated in accordance with Canadian GAAP. Funds from operations is commonly referred to as cash flow by research analysts, is used to value and compare oil and gas companies and is frequently included in published research when providing investment recommendations. Total boes are calculated by multiplying the daily production by the number of days in the period.

The following table reconciles cash flow from operations to funds from operations, which is used in the MD&A:

\$000s	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Cash flow from (used in) operations	(263)	1,094	(630)	(893)	1,719
Abandonment expenditures	-	-	21	21	12
Changes in non-cash working capital	(32)	(727)	311	279	(505)
Funds from (used in) operations	(295)	367	(298)	(593)	1,226

Forward-looking Statements - Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward-looking statements. These statements relate to future events or Bengal's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are 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. These statements involve 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 statements. Bengal believes the expectations reflected in

those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon.

In particular, this Management's Discussion and Analysis, and the documents incorporated by reference, contain forward-looking statements 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;
- Capital expenditures programs;
- Expectations 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 CY-ONN-2005/1 in India;
- Commencement of exploration and development activities on Permit AC/P 47 offshore Australia;
- 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; and
- Future amount and timing of activity to be carried out by the Santos Joint Venture.

With respect to the forward looking statements contained in the MD&A, Bengal has made assumptions regarding: future commodity prices; the impact of royalty regimes; the timing and the amount of capital expenditures; production of new and existing wells and the timing of new wells coming on stream; future operating expenses including processing and gathering fees; the performance characteristics of oil and natural gas properties; the size of oil and natural gas reserves; the ability to raise capital; the continued availability of undeveloped land and skilled personnel; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to obtain financing on acceptable terms; the ability to add production and reserves through exploration and development activities; and the continued stability of political, regulatory; tax and fiscal regimes in which the Company has operations.

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 Management's Discussion and Analysis:

- 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 assessment of the value of acquisitions;
- Geological, technical, drilling and processing problems;
- Changes in income tax laws or changes to royalty and environmental regulations relating to the oil and gas industry; and
- Counter-party credit risk, stock market volatility and market valuation of Bengal's stock.

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The

forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and Bengal does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

Additional information can also be found in Bengal's Annual Information Form dated June 22, 2009, available on SEDAR at www.sedar.com.

HIGHLIGHTS

\$000s except per share, volumes and netback amounts	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Revenue					
Natural gas	\$ 218	\$ 476	\$ 219	\$ 437	\$ 1,237
Natural gas liquids	67	138	56	123	343
Oil	220	868	299	519	1,854
Total	505	1,482	574	1,079	3,434
Royalties	74	258	65	139	614
% of revenue	14.8	17.4	11.3	12.9	17.9
Operating & transportation	230	373	246	476	651
Netback ⁽¹⁾	201	851	263	464	2,169
Cash flow from (used in) operations:	(263)	1,094	(628)	(893)	1,719
Per share (\$) (basic & diluted)	(0.01)	0.06	(0.03)	(0.05)	0.09
Funds from (used in) operations: ⁽²⁾	(295)	367	(298)	(593)	1,226
Per share (\$) (basic & diluted)	(0.02)	0.02	(0.02)	(0.03)	0.07
Net (loss):	(1,848)	(812)	(865)	(2,713)	(1,163)
Per share (\$) (basic & diluted)	(0.10)	(0.04)	(0.05)	(0.15)	(0.06)
Capital expenditures	\$ (426)	\$ 3,823	\$ 154	\$ (272)	\$ 5,374
Property disposition proceeds	\$ 2,111	\$	\$	\$ 2,111	\$ -
Volumes					
Natural gas (mcf/d)	787	609	684	736	672
Natural gas liquids (boe/d)	17	15	15	16	19
Oil (bbl/d)	36	69	43	40	71
Total (boe/d @ 6:1)	184	186	172	179	202
Netback ⁽¹⁾ (\$/boe)					
Revenue	\$ 29.70	\$ 86.53	\$ 36.54	\$ 32.99	\$ 92.81
Royalties	4.39	15.05	4.11	4.26	16.60
Operating & transportation	13.54	21.73	15.64	14.55	17.56
Total	\$ 11.77	\$ 49.75	\$ 16.79	\$ 14.18	\$ 58.65

⁽¹⁾ 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.

⁽²⁾ Funds 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 1.

RESULTS OF OPERATIONS

Production

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

Production	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Natural Gas (mcf/d)	787	609	684	736	672
NGLs (boe/d)	17	15	15	16	19
Oil (bbls/d)	36	69	43	40	71
Total (boe/d)	184	186	172	179	202

Production volumes remained relatively constant for the quarters ended September 30, 2009 and 2008 and June 30, 2009. Oil volumes produced from the Company's Toparoa well in the Cooper Basin of Australia decreased due to natural reservoir declines. This was offset by increased gas production from Bengal's 3 Oak, B.C. gas wells where workover downtime in the quarters ended September 30, 2008 and June 30, 2009 reduced production.

The Company expects natural declines from the Toparoa well will continue but anticipates overall oil production to increase upon commencement of the Cuisinier well expected in December 2009. Gas production will decline going forward due to the sale of the Company's interest in 4 Kaybob, Alberta gas wells which closed September 24, 2009. These wells contributed 70 boe/d to the current quarter production and 59 boe/d to production in the six months ended September 30, 2009.

YTD 2010 production declined 23 boe/d or 11% compared to YTD 2009 due to natural reservoir decline of the Toparoa oil well.

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). The sale of the Kaybob property closed on September 24, 2009 and the purchaser agreed to sell the Kaybob gas to the marketer until the contract expired on October 31, 2009. 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.

NGLs 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. Bengal had two NGL marketing contracts which expire March 31, 2010. Both contracts were assigned to the purchaser on close of the sale of the Kaybob property.

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

Prices and Marketing	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Average Benchmark Prices					
AECO 30 day firm (\$/mcf)	\$ 3.03	\$ 9.26	\$ 3.65	\$ 3.34	\$ 9.30
TAPIS oil (\$US/bbl)	71.69	124.29	67.55	69.63	126.67
Cdn/Aus exchange rate	0.91	0.93	0.89	0.90	0.94
WTI oil (\$US/bbl)	\$ 68.29	\$ 118.13	\$ 59.62	\$ 63.98	\$ 121.05
Bengal's Realized Price (\$ CAD)					
Natural gas (\$/mcf)	\$ 3.01	\$ 8.48	\$ 3.51	\$ 3.24	\$ 10.06
Oil (\$/bbl)	65.53	136.22	75.80	71.09	142.13
NGLs (\$/bbl)	42.72	98.08	40.24	41.56	98.88
Total (\$/boe)	\$ 29.70	\$ 86.53	\$ 36.54	\$ 32.99	\$ 92.81

Bengal's realized price for its Australian oil production is based on the Tapis Crude benchmark price plus a small quality premium. 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. Tapis has been trading at an average premium to West Texas Intermediate (WTI) of US \$4.82 per bbl over the past year.

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 (\$000s)	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Natural gas	\$ 218	\$ 476	\$ 219	\$ 437	\$ 1,237
NGLs	67	138	56	123	343
Oil	220	868	299	519	1,854
Total	\$ 505	\$ 1,482	\$ 574	\$ 1,079	\$ 3,434

Revenue declined 12% or \$69,000 from the prior quarter ended June 30, 2009 to the current quarter. The decline was mainly due to lower commodity prices as decreased oil production was offset by higher gas and NGL volumes. Revenues for the quarter ended September 30, 2009 decreased by 66% or \$977,000 from the prior year comparable period due to a 66% decline in realized commodity prices.

YTD 2010 revenue declined 69% or \$2,355,000 from YTD 2009 due to 64% lower commodity prices and lower oil production.

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 NGLs are charged by the government based on an established monthly reference price. Gas cost allowance and custom processing credits reduce the effective royalty rate. Bengal also pays a 7.5% gross overriding royalty (GORR) on 2 of the Kaybob gas wells which were sold on September 30, 2009.

In British Columbia, royalties are calculated based on average daily production from a well multiplied by a reference price. 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 GORR to the landholder of between 7.5% and 10% on its Oak gas wells.

Royalties by Type (\$000s)	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/2009	09/30/2008
Canada Crown	\$ 40	\$ 112	\$ 18	\$ 58	\$ 326
Canada gross overriding	12	47	19	31	125
Australian Government	22	99	28	50	163
Total	\$ 74	\$ 258	\$ 65	\$ 139	\$ 614
\$/boe	4.39	15.05	4.11	4.26	16.60
% of revenue	14.8	17.4	11.3	12.9	17.9

Royalties by Commodity	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Natural gas					
\$000s	\$ 46	\$ 112	\$ 16	\$ 62	\$ 348
\$/mcf	0.64	1.99	0.26	0.46	2.83
% of revenue	21.4	23.5	7.3	14.3	28.1
Oil					
\$000s	\$ 22	\$ 99	\$ 28	\$ 50	\$ 163
\$/bbl	6.59	15.48	7.18	6.91	12.52
% of revenue	10.1	11.4	9.5	9.7	8.8
NGLs					
\$000s	\$ 6	\$ 47	\$ 21	\$ 27	\$ 103
\$/bbl	3.77	33.47	14.63	8.89	29.73
% of revenue	8.8	34.1	36.4	21.4	30.1

The decrease in Bengal's royalties for the three months ended September 30, 2009 to \$74,000 compared with \$258,000 in the same period of the previous year is due to lower product prices in the current period. Crown royalties in the quarter ended June 30, 2009 were reduced by \$10,000 due to a payout adjustment on the Oak 5-30 gas well.

In Australia, oil royalties are based on a Government established rate of 11%. The royalty rate is applied to gross revenues after deducting an allowance for transportation and operating costs resulting in an effective rate of less than 11%.

YTD 2010 royalties declined \$475,000 or 77% from the prior year comparable period due to a 64% decline in commodity prices and lower production volumes.

Operating & Transportation Expenses

Operating and transportation costs for the three months ended September 30, 2009 were reduced \$8.19 per boe or \$143,000 from the prior comparable period. Canadian costs decreased due to high workover costs in the prior period for the Company's Oak property while Australian transportation costs were lower due to less oil production being transported. Due to the fixed nature of some operating costs Q2 – 2010 costs per boe increased in Australia due to lower volumes while in Canada costs per boe decreased due to higher volumes compared to Q1 - 2010.

Costs in the six months ended September 30, 2009 were reduced \$3.02 per boe or \$175,000 from the six months ended September 30, 2008 due to workover costs in the prior period for the Company's Oak property combined with higher transportation costs in Australia due to higher oil volumes.

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.

Operating Expenses (\$000s)	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Australia					
Operating	\$ 20	\$ 36	\$ 17	\$ 37	\$ 46
Transportation	48	83	54	102	172
	68	119	71	139	218
Canada – operating costs	162	254	175	337	433
Total	\$ 230	\$ 373	\$ 246	\$ 476	\$ 651
Australia					
Operating - \$/boe	6.13	5.70	4.22	5.09	3.51
Transportation - \$/boe	14.32	13.19	13.81	14.04	13.32
Canada - \$/boe	11.85	23.58	14.84	13.24	18.04
Total (\$/boe)	\$ 13.54	\$ 21.73	\$ 15.64	\$ 14.55	\$ 17.56

General and Administration (G&A) Expenses

G&A costs were \$88,000 or 14% lower in the quarter ended September 30, 2009 compared to the comparable prior period due to closure of the Australia office in August 2008.

YTD 2010 G&A costs decreased \$121,000 or 10% compared to YTD 2009 due to closure of the Australian office.

On a boe basis, G&A costs remained relatively constant as the lower expenses were partially offset by lower production volumes.

General and Administrative Expenses (\$000s)	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
G&A	\$ 527	\$ 615	\$ 523	\$ 1,050	\$ 1,171
G&A (\$/boe)	\$ 30.99	\$ 35.95	\$ 33.30	\$ 32.10	\$ 31.67

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.

In March 2009, 685,000 stock options were granted to employees and directors. The options expire five years from the grant date; they vest one-third on the grant date and one-third on each of the following two annual anniversaries, and have an exercise price of \$0.36 per option which was the market price of the Company's shares at the time of the grant. The fair value of the options is \$129,000 using the Black-Scholes option pricing model.

For the three months ended September 30, 2009 stock-based compensation expense is \$16,000 compared to \$54,000 in the prior comparable period. The lower expense is due to compensation expense on older option grants being fully amortized and a lower fair value on the new options issued in March 2009. At September 30, 2009 there is \$70,000 of stock-based compensation remaining to be amortized over the next two years.

The Company recorded stock-based compensation expense related to warrants of \$114,000 (2008 - \$52,000) for the three months ended September 30, 2009. At September 30, 2009 there is \$322,000 of fair value related to the warrants to be amortized.

Depletion, Depreciation and Accretion (DD&A)

DD&A Expenses (\$000s)	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
DD&A – Australia	\$ 75	\$ 807	\$ 239	\$ 314	\$ 1,545
DD&A – Canada	369	270	320	689	574
Total	\$ 444	\$ 1,077	\$ 559	\$ 1,003	\$ 2,119
\$/boe – Australia	22.57	126.62	60.34	43.04	118.41
\$/boe – Canada	27.07	25.14	27.21	27.14	23.98
\$/boe – Total	\$ 26.18	\$ 62.75	\$ 35.55	\$ 30.69	\$ 57.29

In the three months ended September 30, 2009 depletion, depreciation and accretion (DD&A) declined \$633,000 or \$36.57 per boe to \$444,000 from \$1,077,000 in the prior year comparable quarter. The lower expense and DD&A rate in the current quarter is due to a reduction in Australian depletable costs resulting from a \$3.1 million ceiling test impairment charge recorded on December 31, 2008. DD&A expense decreased \$115,000 from \$559,000 in Q1-2010 to \$444,000 in Q2-2010 due to the reversal of previously accrued Australian drilling costs out of depletable costs in Q2-2010 when it became known that actual costs are expected to be \$594,000 less than originally billed by the operator.

YTD 2010 DD&A decreased \$1,016,000 or 53% compared to YTD 2009. DD&A per boe declined \$26.64 due to lower depletable costs as explained above.

Bengal has excluded \$3,316,000 (Q2-2009 - \$2,700,000) from the depletion base related to unproved properties in Q2-2010 and included \$50,000 (Q2-2009 - \$322,000) in future development costs related to proved reserves.

Funds from (used in) Operations and Net Loss

Q2-2010 funds used in operations totaled (\$295,000) or (\$0.02) per basic and diluted share. Funds used in operations for Q1-2010 was (\$298,000) or (\$0.02) per basic and diluted share. Funds from operations for Q2-2009 were \$367,000 or \$0.02 per basic and diluted share. Funds used in operations in Q2-2010 decreased from Q2-2009 primarily due to lower realized commodity prices. YTD 2010 funds used in operations was (\$593,000) or (\$0.03) per basic and diluted share compared to funds from operations of \$1,226,000 or \$0.07 per basic and diluted share for YTD 2009.

The Q2-2010 net loss was \$1,848,000 compared to losses of \$865,000 in Q1-2010 and \$812,000 in Q2-2009. On a per share basis, the net loss in Q2-2010 was \$0.10 per basic and diluted share compared to Q1-2010 loss of \$0.05 per basic and diluted share and Q2-2009 loss of \$0.04 per basic and diluted share. YTD 2010 loss \$2,713,000 or \$0.15 per basic and diluted share compared to a loss of \$1,163,000 or \$0.06 per basic and diluted share for YTD 2009. The changes in non-cash working capital and abandonment expenditures are removed from cash flow from (used in) operations to arrive at funds from (used in) operations.

CAPITAL EXPENDITURES

Geological and geophysical expenses totalled \$320,000 YTD 2010 and \$168,000 in Q2-2010 and relate to seismic acquisition, interpretation and analysis on all of the Company's lands including prospect identification and play development. In the current quarter it was determined that all costs related to a well drilled in the prior year have been identified and recorded and the final cost was less than originally estimated. As a result an accrual for the estimated costs of \$594,000 related to the well was reversed. On September 24, 2009 the Company disposed of its interest in the Kaybob property for net proceeds of \$2,111,000. The disposition resulted in a \$3,117,000 reduction to petroleum and natural gas assets and a loss of \$943,000.

Capital Expenditures (\$000s)	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Geological and geophysical	\$ 168	\$ 161	\$ 152	\$ 320	\$ 477
Drilling	(594)	3,580	-	(594)	4,780
Completions	-	42	2	2	27
Total oil and gas additions	(426)	3,783	154	(272)	5,284
Office	-	59	-	-	90
Total expenditures	\$ (426)	\$ 3,842	\$ 154	\$ (272)	\$ 5,374
Property Disposition	(2,111)	-	-	(2,111)	-
Total net expenditures	\$ (2,537)	\$ 3,842	\$ 154	\$ (2,383)	\$ 5,374

SHARE CAPITAL

The Company has an unlimited number of common shares authorized for issuance. On November 13, 2009 there are 18,212,783 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. YTD 2010 no options were granted.

At November 13, 2009, there are 1,152,667 employee stock options outstanding with an average exercise price of \$1.43 per share – of these, 696,005 are exercisable at an average price of \$2.13 per share. These options expire between 2009 and 2014 with an average remaining life of 3.3 years.

Trading History	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
High	\$ 0.61	\$ 2.60	\$ 0.84	\$ 0.84	\$ 2.90
Low	0.30	0.85	0.27	0.27	0.85
Close	\$ 0.49	\$ 1.05	\$ 0.43	\$ 0.49	\$ 1.05
Volume (000s)	374	746	909	1,283	2,304

The above figures are presented on a post-consolidated basis. On November 1, 2007, trading in Avery Resources Inc. (Bengal's predecessor company) 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.

Share Information (000s) (prior periods adjusted for 5:1 consolidation)	Three Months Ended			Six Months Ended	
	09/30/09	09/30/08	06/30/09	09/30/09	09/30/08
Shares outstanding Basic and diluted	18,213	18,213	18,213	18,213	18,213
Weighted average shares outstanding Basic and diluted	18,213	18,213	18,213	18,213	18,211

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2009 the Company had working capital of \$3,970,000, including cash and short term deposits of \$3,740,000, compared to working capital of \$1,764,000 and cash and short term deposits of \$2,098,000 at June 30, 2009. The Company's future capital expenditure plans are discussed below in the "Outlook" section. The Company invests surplus cash only in guaranteed investment certificates.

Work commitments and planned Joint Venture expenditures are currently estimated at \$2,778,000 over the next twelve months. 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. Bengal plans on taking on one or more partners or farming out a portion of its interest on most of its major blocks to manage its capital exposure and risk. The Company has prepared a forecast for the period October 1, 2009 to September 30, 2010 and based on \$70 US per bbl WTI and \$5.00 CAD AECO gas prices and the sale of the Kaybob property, expects to have sufficient cash to remain a going concern at September 30, 2010. This forecast is based on the expectation that the Cuisinier well in Australia will begin production in December 2009 at approximately 40 bbls per day net to the Company and that the remainder of the Company's production will continue to decline at similar rates as those experienced in the past.

The Company recognizes that in the current market conditions, raising new capital through share issuances may be overly dilutive, however will be revisited as market conditions improve. 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 in fiscal 2010.

Contractual Arrangements

The Company is committed to minimum annual operating lease payments on its premises in Canada in the amount of \$63,000 for the balance of the year ended March 31, 2010 and \$42,000 from April to July, 2010.

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 September 30, 2009 was \$161,000 (2008 - \$271,000).

Contractual Obligations (\$000s)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Office lease	\$ 105	\$ 105	\$ -	\$ -	\$ -
Asset retirement obligations	101	27	30	15	29
Total Contractual Obligations	\$ 206	\$ 132	\$ 30	\$ 15	\$ 29

Bengal enters into commitments for capital expenditures in advance of the expenditures being made. The Company also enters into farm-in agreements where it commits to capital expenditures in order to earn and retain certain lands. These are considered routine in nature and form part of normal course of operations for active oil and gas companies and therefore are not included in the table above.

RELATED PARTY TRANSACTIONS

There were no related party transactions during the quarter ended September 30, 2009 or in the prior year comparable period.

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

OUTLOOK

On October 21, 2009, Bengal announced that its wholly owned subsidiary, Bengal Energy International Inc. ("BEII"), was named the provisional winner of block CY-OSN-2009/1 ("the Block") by India's Directorate General of Hydrocarbons ("DGH") at the recently concluded New Exploration Licensing Policy bid round ("NELP VIII") which took place in New Delhi, India.

The Block is located in the shallow offshore area of the southern Cauvery Basin and encompasses 1,362 square kilometers (340,000 acres). The block sits between seven to 16 kilometers offshore with over 60% of the block in water depths of less than 100 meters and 85% of the block in water depths less than 500 meters. BEII will hold 100% interest in the block and be the operator. Prospects identified on the Block will need further technical work to become drill-ready. At least one seismically defined feature already identified from existing seismic data could be as much as 64 square kilometers (16,000 acres) in size. The winning bid requires BEII to acquire 310 line kilometers of 2D seismic data and 81 square kilometers of 3D seismic data during the first four years of the seven-year exploration phase of the block. The committed work program capital expenditure is estimated at US\$2,020,000 (about \$6/acre). Drilling will be required to hold the block after the first four years of exploration is complete. A one-time bank guarantee of approximately US\$141,400 is required to be submitted at the time of the signing of the production sharing contract expected to be late in 2010.

BEII also has a 30% working interest in the onshore block CY-ONN-2005/1 where it partnered with two Indian National Oil Companies in last year's NELP VII bid round. Commencement of exploration work in this block is currently waiting on the granting of Petroleum Exploration License ("PEL") from the provincial government, which is expected to occur by the end of Calendar Year 2009. In the first year of the initial four-year phase of exploration activities in the block CY-ONN-2005/1, 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 \$356,000. Bengal will be required to submit a bank guarantee of 35% of the first year's estimated expenditure upon the granting of the PEL.

Bengal's joint venture partner at ATP 732P in Australia executed a Native Title Agreement with the Boonthamurra People on September 4, 2009. This is significant because the Native Title Agreement is required before the state government can authorize exploration activities to commence. ATP 732P is 654,321 gross acres in size and is located in the Cooper Basin in close proximity to producing oil and gas fields. Under the terms of the farm-in agreement, Bengal will spend AU\$3 million (approximately CAD \$2.8 million) on exploration to earn a 35 percent interest in the block. Anticipated expenditures will be approximately AU\$1 million over the next year.

On the Barta block (ATP 752P), the operator's efforts continue towards initial production start-up at the Cuisinier oil discovery. Production facilities have been installed and a production license has been applied for. Production will commence when marketing and transportation contracts have been executed. Processing of the 103 square kilometer Cuisinier appraisal 3D seismic survey is underway and results are expected in November 2009 which will enable a development plan to be undertaken in 2010.

Also in Australia, Bengal's joint-venture partner reported that it has now received approval from Primary Industries and Resources SA (PIRSA), an agency of the Government of South Australia, to commence a coal seam test-coring program to evaluate coal seam methane potential on PEL 103A on the Innamincka Dome in the Cooper Basin. Wellsite construction commenced this week and mobilization of the drilling contractor is expected in the next three weeks. Drilling of the initial well will commence within six weeks and is expected to take approximately 10 days. Bengal has a 25 percent interest in two of the initial test-holes to be drilled; the Company's net estimated cost for these two test-holes is \$350,000. The resource potential of the coal seam gas and determination of plans for any subsequent pilot program will be determined on the basis of the test-hole results which are anticipated to be complete in Q1 of calendar 2010.

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 for extension of the license to June 2011 subject to a more technically elaborate merging and reprocessing two existing 3D seismic surveys in this year's work program ended June 2010. An exploration well will be required to retain the block past June 2010 in the final year of the permit. The operator's proposed work-program is estimated to have a net cost to Bengal of US\$112,700 ending Q1 of calendar 2010; Details as to the exploration strategy on this block and the proposed budget will be discussed and firmed up by the AC/P24 joint venture partners in November 2009 in Perth, Australia. Any follow-up appraisal drilling would be contingent on the outcome of the PSDM processing and would occur in the subsequent year.

Bengal holds and operates 100% interest in the offshore Timor Sea Permit AC/P 47 which is now in its first year of work program. The Company has budgeted initially \$250,000 for some early seismic reprocessing and testing. The Company is in the process of collecting all available seismic data records from the associated regulatory agencies. New acquisition of seismic data has not been planned until year two of the permit (ending April 2011).

Bengal has recently raised \$2.1 million through the disposition of relatively small, non-operated production assets in the Kaybob region of Alberta. The Kaybob assets contributed approximately \$58,000 to Bengal's net operating income and 59 boe/d production over the last six months. The Kaybob assets comprise less than a net section of land which makes them non-strategic to the Company. Funds from the disposition will enable Bengal to more quickly advance a number of higher impact prospects in Australia and India.

The Company continues to review strategic opportunities on the Merger & Acquisition front towards enhancing our portfolio of assets and projects.

SELECTED QUARTERLY INFORMATION

(000s, except per share amounts)	Quarter Ended							
	09/30/09	6/30/09	3/31/09	12/31/08	9/30/08	6/30/08	3/31/08	12/31/07
Petroleum and natural gas sales	\$ 505	\$ 574	\$ 667	\$ 825	\$ 1,482	\$ 1,952	\$ 1,259	\$ 956
Cash flow from (used-in) operations	(263)	(628)	(85)	303	1,094	625	(527)	(20)
Per share								
Basic and diluted	(0.01)	(0.03)	(0.00)	0.02	0.06	0.03	(0.03)	(0.00)
Funds from (used in) operations	(295)	(298)	(92)	(29)	367	860	(226)	165
Per share								
Basic and diluted	(0.02)	(0.02)	(0.01)	(0.00)	0.02	0.05	(0.01)	0.01
Net loss	\$ (1,848)	\$ (865)	\$ (839)	\$ (6,916)	\$ (812)	\$ (351)	\$ (632)	\$ (1,702)
Per share								
Basic and diluted	(0.10)	(0.05)	(0.05)	(0.34)	(0.04)	(0.02)	(0.03)	(0.11)
Additions to capital assets	\$ (426)	\$ 154	\$ 254	\$ 1,096	\$ 3,842	\$ 1,532	\$ 575	\$ (77)
Working capital	3,970	1,764	2,189	2,642	3,783	7,224	8,043	8,142
Total assets	9,159	11,839	12,664	13,459	22,812	21,134	20,410	15,327
Shares outstanding								
Basic and diluted	18,213	18,213	18,213	18,213	18,213	18,213	18,198	15,338
Operations								
Average daily production								
Natural gas (Mcf/d)	787	684	712	842	609	734	542	244
Oil and NGLs (bbls/d)	53	58	63	65	84	96	93	93
Combined (boe/d)	184	172	182	205	186	218	184	138
Netback (\$/boe)	\$ 11.77	\$16.78	\$14.86	\$25.90	\$ 49.75	\$ 59.37	\$52.25	\$ 57.24

Petroleum and natural gas sales were on an increasing trend up to the quarter ended June 30, 2008 due to increasing production and commodity prices. Production increases were due to commencement of Toparoa oil production and acquisition of Oak gas wells. Since that time sales have been on a declining trend due to natural reservoir declines and lower commodity prices.

Losses for the quarter ended March 31, 2008 and June 30, 2008 are higher due to ceiling test impairment charges. In the quarter ended December 31, 2008 the loss is increased by goodwill and ceiling test impairment charges and in the quarter ended September 30, 2009 the net loss was increased by a loss on the disposal of oil and gas assets.

Gas production volumes began an upward trend in the quarter ended March 31, 2008 with the acquisition of two gas wells in Oak, British Columbia and continued in the quarter ended December 31, 2008 due to commencement of production from the new Oak well. Gas volumes have declined marginally since that time due to natural reservoir decline and will decline going forward due to sale of the Kaybob property. Oil and NGL production has declined since the quarter ended March 31, 2008 due to natural reservoir decline of the Toparoa well.

FINANCIAL INSTRUMENTS

Financial instruments comprise cash and short term deposits, 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. Bengal has not identified any embedded derivatives in any of its contracts.

DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Disclosure Controls and Procedures

The Company has established disclosure controls and procedures for the timely and accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the periods specified by applicable securities regulations and that information required to be disclosed is accumulated and communicated to the

appropriate members of management and properly reflected in the Company's filings. Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these disclosure controls and procedures should not exceed their expected benefits. As such, the Company's disclosure controls and procedures can only provide reasonable assurance, and not absolute assurance, that the objectives of such controls and procedures are met. The Chief Executive Officer and Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are not effective in providing reasonable assurance that material information required to be disclosed by the Company in reports filed with the Canadian securities regulators is accurate and complete and filed within the periods required due to the material weaknesses identified in internal controls over financial reporting as noted below. The Chief Executive Officer and Chief Financial Officer have individually signed certifications to this effect.

Internal Controls over Financial Reporting (ICFR)

The Chief Executive Officer and Chief Financial Officer of Bengal are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting or causing them to be designed and operating effectively 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. Bengal's management has assessed the design and operating effectiveness of internal controls over financial reporting.

There were no changes in the Company's ICFR in the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to affect, the Company's ICFR. While Bengal's Chief Executive Officer and Chief Financial Officer believe the Company's internal controls and procedures provide a reasonable level of assurance that they are reliable, an internal control system cannot prevent all errors and fraud. It is management's belief that any 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.

During the design and operating effectiveness assessment certain material weaknesses in internal controls over financial reporting were identified, as follows:

- Management is aware that there is a lack of segregation of duties due to the small number of employees dealing with general and administrative and financial matters. However, management believes that at this time the potential benefits of adding employees to clearly segregate duties do not justify the costs associated with such increase;
- Many of Bengal's information systems are subject to general control deficiencies including a lack of effective controls over spreadsheets, access and documentation. The Company expects that some deficiencies will continue into the future; and
- Bengal does not have full-time in-house personnel to address all complex financial and non-routine tax issues that may arise. It is not deemed as economically feasible at this time to have such personnel. Bengal relies on external experts for review and advice on complicated financial issues and for tax planning, tax provision and compilation of corporate tax returns.

These weaknesses in 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 material misstatement; however, management and the Board do not have reasonable assurance that this risk can be reduced to a remote likelihood of a material misstatement.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Bengal are disclosed in Note 1 to the audited Consolidated Financial Statements for the years ended March 31, 2009 and 2008. 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, 2009 Annual Management Discussion and Analysis.

FINANCIAL REPORTING UPDATE

Recent pronouncements

In February 2008, the CICA Accounting Standards Board (AcSB) confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The Company continues to perform detailed analysis on the major areas impacted by IFRS and will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Future Accounting Changes

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for Bengal on March 31, 2010.

RISK FACTORS

There are a number of risk factors facing companies that participate in the international oil and gas industry. A summary of certain risk factors relating to our business is provided in the Risk Factors section of our Annual Information Form on SEDAR at www.sedar.com.

ADDITIONAL INFORMATION

Additional information relating to Bengal is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at: Bengal Energy Ltd., Suite 1140, 715 - 5 Avenue S.W., Calgary, Alberta T2P 2X6 or by e-mail at info@bengalenergy.ca or by accessing Bengal's website at www.bengalenergy.ca.

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

Edwin (Ted) S. Hanbury

James B. Howe

Bradley G. Johnson

Judith A. Stripling

Ian J. Towers

GOVERNANCE AND DISCLOSURE COMMITTEE

All Directors are members of the Committee

AUDIT COMMITTEE

James B. Howe

Judith A. Stripling

Ian J. Towers

RESERVES COMMITTEE

Richard N. Edgar

Edwin (Ted) S. Hanbury

Ian J. Towers

COMPENSATION COMMITTEE

Richard N. Edgar

Edwin (Ted) S. Hanbury

Judith A. Stripling

Ian J. Towers

OFFICERS

Bradley G. 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



International exploration & production

Consolidated Financial Statements

**Three and Six Months Ended
September 30, 2009 and 2008**

BENGAL ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

(thousands of dollars) (unaudited)

As at	Sept 30, 2009	March 31, 2009
ASSETS		
Current assets:		
Cash and short term deposits	\$ 3,740	\$ 2,676
Accounts receivable	666	835
Prepaid expenses and deposits	104	118
	<u>4,510</u>	<u>3,629</u>
Petroleum and natural gas properties (Note 4)	4,649	9,035
	<u>\$ 9,159</u>	<u>\$ 12,664</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 540	\$ 1,440
Asset retirement obligations (Note 5)	101	179
Shareholders' equity:		
Share capital (Note 6)	43,460	43,460
Warrants (Note 6)	383	229
Contributed surplus (Note 6)	3,609	3,577
Deficit	(38,934)	(36,221)
	<u>8,518</u>	<u>11,045</u>
Going concern (Note 2)		
Commitments (Note 10)		
	<u>\$ 9,159</u>	<u>\$ 12,664</u>

See accompanying notes to consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(thousands of dollars, except per share amounts) (unaudited)

Periods ended September 30	Three months		Six months	
	2009	2008	2009	2008
Revenues				
Petroleum and natural gas sales	\$ 505	\$ 1,482	\$ 1,079	\$ 3,434
Royalties	(74)	(258)	(139)	(614)
Interest income	6	51	13	121
	437	1,275	953	2,941
Expenses				
General and administrative	527	615	1,050	1,171
Operating and transportation	230	373	476	651
Depletion, depreciation and accretion	444	1,077	1,003	2,119
Loss on sale of oil and gas assets (Note 4)	943	–	943	–
Stock based compensation (Note 6)	130	106	186	282
Foreign exchange loss (gain)	11	(82)	8	(110)
	2,285	2,089	3,666	4,113
Loss before non-controlling interest	(1,848)	(814)	(2,713)	(1,172)
Non-controlling interest	–	2	–	9
Net loss and comprehensive loss	(1,848)	(812)	(2,713)	(1,163)
Deficit, beginning of period	(37,086)	(28,374)	(36,221)	(28,023)
Deficit, end of period	\$ (38,934)	\$ (29,186)	\$ (38,934)	\$ (29,186)
Weighted average number of shares outstanding (000s) (Note 6)	18,213	18,213	18,213	18,211
Basic and diluted loss per share (Note 6)	\$ (0.10)	\$ (0.04)	\$ (0.15)	\$ (0.06)

See accompanying notes to consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) (thousands of dollars)

Periods ended September 30	Three months		Six months	
	2009	2008	2009	2008
Cash provided by (used in)				
Operations				
Net loss	\$ (1,848)	\$ (812)	\$ (2,713)	\$ (1,163)
Items not affecting cash				
Depletion, depreciation and accretion	444	1,077	1,003	2,119
Unrealized foreign exchange gain (loss)	36	(4)	(12)	(12)
Loss on sale of oil and gas assets	943	-	943	-
Stock based compensation	130	106	186	282
Abandonment expenditures	-	-	(21)	(12)
Changes in non-cash working capital (Note 9)	32	727	(279)	505
Cash flow from (used in) operations	(263)	1,094	(893)	1,719
Financing				
Exercise of stock options	-	-	-	22
Changes in non-cash working capital (Note 9)	-	45	-	(190)
Cash flow used in financing	-	45	-	(168)
Investments				
Additions to petroleum and natural gas properties	426	(3,823)	272	(5,374)
Property disposition (Note 4)	2,111	-	2,111	-
Changes in non-cash working capital (Note 9)	(596)	2,551	(438)	2,842
Cash flow from (used in) investing	1,941	(1,272)	1,945	(2,532)
Foreign exchange gain (loss) on cash held in a foreign currency	(36)	-	12	-
Decrease in cash and short-term deposits	1,642	(133)	1,064	(981)
Cash and short-term deposits, beginning of period	2,098	7,004	2,676	7,852
Cash and short-term deposits, end of period	\$ 3,740	\$ 6,871	\$ 3,740	\$ 6,871
	2009	2008	2009	2008
Interest received	\$ 18	\$ 35	\$ 22	\$ 71

See accompanying notes to consolidated financial statements.

BENGAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three and six months ended September 30, 2009 and 2008
(Tabular amounts are stated in thousands of dollars except share and per share amounts)
(unaudited)

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 three and six months ended September 30, 2009 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 \$2.7 million for the six months ended September 30, 2009 and has a deficit of \$38.9 million. The Company expects to incur expenditures to further its capital investment programs and based on its current forecasts of production volumes and commodity pricing, the Company expects that sufficient liquidity exists to satisfy its obligations for the period ending September 30, 2010, and meet its capital investment commitments. In the event that the Company is unable to make the future work commitment payments on certain of its permits, the Company's existing capital investment on those permits of \$427,000 in India and \$197,000 in Australia may be forfeited and recorded as an impairment loss in the consolidated financial statements of the Company.

Should the going concern assumption not be appropriate, certain asset and liability amounts would require adjustment and reclassification which may be material.

3. SIGNIFICANT ACCOUNTING POLICES:

The interim consolidated financial statements of 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, 2009, supplemented as disclosed below. The disclosures provided below are incremental to those included with the annual audited consolidated financial statements. These interim

(unaudited)

consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year ended March 31, 2009.

Recent pronouncements

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The Company continues to perform analysis on the major areas impacted by IFRS and will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

Future Accounting Changes

In May 2009, the CICA amended Section 3862, “Financial Instruments – Disclosures,” to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for Bengal for its annual financial statements for the year ended March 31, 2010.

4. PETROLEUM AND NATURAL GAS PROPERTIES

(\$000s)	Cost	Accumulated depletion & depreciation	Net book value
September 30, 2009			
Australia			
Petroleum and natural gas properties	\$ 17,967	\$ 15,363	\$ 2,604
Other assets	56	45	11
Canada			
Petroleum and natural gas properties	3,765	2,823	942
Other assets	525	298	227
Other			
Petroleum and natural gas properties	865	–	865
	\$ 23,178	\$ 18,529	\$ 4,649
March 31, 2009			
Australia			
Petroleum and natural gas properties	\$ 18,389	\$ 15,057	\$ 3,332
Other assets	56	39	17
Canada			
Petroleum and natural gas properties	6,796	2,176	4,620
Other assets	525	260	265
Other			
Petroleum and natural gas properties	801	–	801
	\$ 26,567	\$ 17,532	\$ 9,035

(unaudited)

Undeveloped property costs of \$3.3 million (2008 - \$2.7 million) have been excluded from the depletion calculation. Future development costs of proven reserves of \$50,000 (2008 – \$322,000) are included in the depletion calculation.

On September 24, 2009 the Company disposed of interests in certain Canadian petroleum and natural gas assets for \$2,111,000 net of purchase price adjustments. The disposition also resulted in the removal of \$63,000 of asset retirement obligations. The disposition of assets resulted in a change greater than 20% in the depletion and depreciation rate in the Canadian cost centre, and, as a result a loss of \$943,000 has been charged to earnings in the current period.

5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from ownership interests in petroleum and natural gas assets. The Company estimates the total inflation adjusted undiscounted amount of cash flow required to settle its asset retirement obligations at September 30, 2009 is approximately \$161,000 (March 31, 2009 - \$301,000) which will be incurred between 2009 and 2024. An inflation factor of 2% has been applied to the estimated asset retirement cost at September 30, 2009 and March 31, 2009. A credit-adjusted risk-free rate of between 7% and 10% was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

(\$000s)	Six months ended September 30, 2009	Year ended March 31, 2009
Balance, beginning of period	\$ 179	\$ 180
Revisions	–	(17)
Liabilities settled	(21)	(12)
Liabilities incurred	–	16
Liabilities disposed	(63)	–
Accretion	6	12
Balance, end of period	\$ 101	\$ 179

6. 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):

(\$000s)	Number of shares	Amount
Balance March 31, 2008	18,197,783	\$ 43,438
Issued on exercise of stock options	15,000	22
Balance March 31, 2009 and September 30, 2009	18,212,783	\$ 43,460

(unaudited)

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. All information included in these financial statements is calculated and presented subsequent to the one-for-five consolidation.

(c) Stock-based compensation - warrants:

On February 13, 2008 Bengal 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 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 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.

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

(\$000s)	Number of warrants	Amount
Balance March 31, 2008	940,000	\$ 31
Amortization of warrant fair value	-	198
Balance March 31, 2009	940,000	\$ 229
Amortization of warrant fair value	-	154
Balance September 30, 2009	940,000	\$ 383

(d) Stock-based compensation – 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.

A summary of stock option activity is presented below:

	Options	Weighted average exercise price
Outstanding at March 31, 2008	1,142,373	\$ 2.90
Granted	685,000	0.36
Exercised	(15,000)	1.50
Expired	(16,007)	2.08
Forfeited	(231,000)	2.82
Outstanding at March 31 2009 and September 30, 2009	1,565,366	\$ 1.81
Exercisable at September 30, 2009	1,082,705	\$ 2.43

(unaudited)

The fair value of options and warrants granted were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

	Six months ended Sept 30, 2009	Year ended March 31, 2009
Assumptions:		
Risk free interest rate (%)	–	2.0%
Expected life (years)	–	5 yr
Expected volatility (%)	–	60 %
Vesting period (years)	–	2 yr
Results:		
Weighted average fair value of options granted	\$ –	\$ 0.19

The fair value of stock options granted during the year ended March 31, 2009 was estimated to be \$0.1 million. No stock options were granted in the six months ended September 30, 2009.

(e) Contributed surplus

A reconciliation of contributed surplus is provided below:

(\$000s)	Six months ended Sept 30, 2009	Year ended March 31, 2009
Balance, beginning of period	\$ 3,577	\$ 3,341
Stock-based compensation expense	32	236
Balance, end of period	\$ 3,609	\$ 3,577

(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 years and therefore any addition to basic shares outstanding is anti-dilutive.

The weighted average number of shares outstanding for the six months ended September 30, 2009 is 18,212,783 (2008 – 18,211,066) and for the three months ended September 30, 2009 is 18,212,783 (2008 – 18,211,066).

At September 30, 2009 all stock options and warrants were anti-dilutive.

7. 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 short term deposits, accounts receivable and accounts payable

(unaudited)

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. As at September 30, 2009 Bengal's receivables consisted of \$0.5 million (March 31, 2009 - \$0.4 million) from joint venture partners, \$0.1 million (March 31, 2009 - \$0.1 million) of receivables from petroleum and natural gas marketers and \$0.1 million (March 31, 2009 - \$0.3 million) of other trade receivables.

In Canada, receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Bengal markets its Kaybob gas and liquids production through large publically traded companies. The Kaybob property was sold on September 24, 2009 with the remaining term of the contract to October 31, 2009 assigned to the purchaser. Oak production is marketed by the operator. Bengal has not experienced any collection issues with the operator of the Oak wells.

In Australia, production is purchased by a consortium led by one of Australia's largest public oil and gas companies which is also the operator of Bengal's production. Bengal has a Crude Oil Purchase Agreement with this purchaser and has not experienced any collection problems to date.

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 September 30, 2009, the Company had no receivables that were considered past due (past due is considered greater than 90 days outstanding).

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 September 30, 2009 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the year ended March 31, 2009 or the three and six months ended September 30, 2009.

Cash and short-term deposits, 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.

(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. Bengal's financial liabilities consist of accounts payable and accrued liabilities and amounted to \$0.5 million at September 30, 2009. Bengal has \$3.7 million in cash and short-term deposits and a net working capital surplus of \$4.0 million at September 30, 2009.

As the Company is in the early stages of exploration and development, and although it is generating

(unaudited)

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, working capital and debt, when the level of operations provides borrowing capacity.

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate 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, 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 September 30, 2009 and March 31, 2009.

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:

As at September 30, 2009 (\$000s)	Total	CAD	AUD	USD
			<i>CAD \$ Equivalent</i>	
Cash and short-term deposits	3,740	3,058	167	515
Accounts receivable	666	162	295	209
Accounts payable and accrued liabilities	(540)	(181)	(359)	-
Balance sheet exposure	3,866	3,039	103	724

A five percent strengthening or weakening of the CAD\$ would have no material impact on earnings.

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 the 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 U.S. There were no financial instruments in place to manage commodity prices during the periods ended September 30, 2009 and March 31, 2009.

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. The Company is only receiving one quarter of one percent interest on its guaranteed investment certificates. If interest rates declined to zero, there would have been a \$12,000 decrease to earnings and cashflow in the six months ended September 30, 2009 and a one percent increase in interest rates would add \$52,000 to earnings and cashflow over the same period. The Company had no interest rate swaps or hedges at September 30, 2009 and March 31, 2009.

(unaudited)

8. 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 future development of the business.

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 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 cash flow. 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.

9. CHANGES IN NON-CASH WORKING CAPITAL

Six months ended September 30 (\$000s)	2009	2008
Accounts receivable and pre-paid expenses	\$ 183	\$ (2)
Accounts payable and accrued liabilities	(900)	3,159
Total	\$ (717)	\$ 3,157
Relating to:		
Operating	\$ (279)	\$ 505
Financing	–	(190)
Investing	(438)	2,842
Total	\$ (717)	\$ 3,157

10. COMMITMENT

At September 30, 2009 the Company had the following lease commitment for office space in Canada:

(\$000s)		
Fiscal 2010 – Oct 2009 to March 2010	\$	63
Fiscal 2011 – April to July 2010		42
	\$	105

In order to retain the license on certain blocks, the Company is committed to spend funds over the next fiscal year in the normal course of business. See note 2 of these Financial Statements.

(unaudited)

11. SEGMENTED INFORMATION

Six months ended Sept 30, 2009 (\$000s)				
	Australia	Canada	Other	Total
Revenue, net of royalties	\$ 468	\$ 472	\$ –	\$ 940
Net loss	(275)	(2,354)	(84)	(2,713)
As at Sept 30, 2009 (\$000s)				
Petroleum and natural gas properties				
Cost	\$ 18,023	\$ 4,290	\$ 865	\$ 23,178
Accumulated depletion, depreciation and accretion	(15,408)	(3,121)	–	(18,529)
Net Book Value	\$ 2,615	\$ 1,169	\$ 865	\$ 4,649
Petroleum and natural gas property expenditures	\$ (422)	\$ 86	\$ 64	\$ (272)
Property disposition	\$ –	\$ 2,111	\$ –	\$ 2,111
Goodwill	\$ –	\$ –	\$ –	\$ –
Six months ended Sept 30, 2008 (\$000s)				
	Australia	Canada	Other	Total
Revenue, net of royalties	\$ 1,691	\$ 1,129	\$ –	\$ 2,820
Net loss	(417)	(746)	–	(1,163)
As at Sept 30, 2008 (\$000s)				
Petroleum and natural gas properties				
Cost	\$ 17,516	\$ 7,051	\$ 630	\$ 25,197
Accumulated depletion, depreciation and accretion	(10,753)	(1,889)	–	(12,642)
Net Book Value	\$ 6,763	\$ 5,162	\$ 630	\$ 12,555
Petroleum and natural gas property expenditures	\$ 4,496	\$ 582	\$ 296	\$ 5,374
Goodwill	\$ –	\$ 1,759	\$ –	\$ 1,759

(unaudited)

CORPORATE INFORMATION

AUDITORS

KPMG LLP • Calgary, Canada

LEGAL COUNSEL

Borden Ladner Gervais • Calgary, Canada
Allens Arthur Robinson • Brisbane, Australia

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
Edwin (Ted) S. Hanbury
James B. Howe
Bradley G. Johnson
Judith A. Stripling
Ian J. Towers

GOVERNANCE AND DISCLOSURE COMMITTEE

All Directors are members of the Committee

AUDIT COMMITTEE

James B. Howe
Judith A. Stripling
Ian J. Towers

RESERVES COMMITTEE

Richard N. Edgar
Edwin (Ted) S. Hanbury
Ian J. Towers

COMPENSATION COMMITTEE

Richard Edgar
Edwin (Ted) S. Hanbury
Judith A. Stripling
Ian J. Towers

OFFICERS

Bradley G. 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