



**Condensed Interim Consolidated Financial
Statements (unaudited)**

**Three and Six Months Ended
September 30, 2011 and 2010**

BENGAL ENERGY LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Thousands of Canadian dollars)

(Unaudited)

As at	Notes	Sept 30, 2011	March 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	4	\$ 35,247	\$ 14,600
Restricted cash		135	1,227
Accounts receivable		1,236	817
Prepaid expenses and deposits		110	91
		36,728	16,735
Non-current assets:			
Petroleum and natural gas properties	5	3,511	2,030
Exploration and evaluation assets	6	5,457	7,064
		8,968	9,094
Total assets		\$ 45,696	\$ 25,829
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 3,619	\$ 2,672
Non-current liabilities:			
Decommissioning liability	7	161	159
Shareholders' equity:			
Share capital	8	\$ 86,073	\$ 62,595
Warrants	8	-	705
Contributed surplus		5,413	4,189
Accumulated other comprehensive income		324	95
Deficit		(49,894)	(44,586)
		41,916	22,998
Total liabilities and shareholder's equity		\$ 45,696	\$ 25,829

Subsequent event (note 5)

See accompanying notes to the condensed consolidated financial statements.

BENGAL ENERGY LTD.

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS

(Thousands of Canadian dollars, except per share amounts)

(Unaudited)

For the three months ended September 30,	Notes	Three months		Six months	
		2011	2010	2011	2010
Income					
Petroleum and natural gas revenue		\$ 1,017	\$ 383	\$ 2,336	\$ 732
Royalties		(95)	(40)	(216)	(68)
		922	343	2,120	664
Operating expenses					
General and administrative		1,026	569	1,788	1,239
Operating and transportation		316	220	838	399
Depletion and depreciation	5	104	92	201	171
Pre-licensing and impairment	6	3,638	5	4,340	7
Share-based compensation		240	94	517	187
		5,324	980	7,684	2,003
Operating loss		(4,402)	(637)	(5,564)	(1,339)
Other income (expenses)					
Finance income		168	-	308	-
Finance expenses		(2)	(1)	(46)	(19)
Foreign exchange gain (loss)		(11)	4	(6)	2
		155	3	256	(17)
Net Loss		(4,247)	(634)	(5,308)	(1,356)
Exchange differences on translation of foreign operations		19	36	229	(12)
Total comprehensive loss for the period		\$ (4,228)	\$ (598)	\$ (5,079)	\$ (1,368)
Earnings per share					
- Basic & Diluted	8	\$ (0.08)	\$ (0.03)	\$ (0.10)	\$ (0.07)
Weighted average number of shares outstanding (000s)					
- Basic & Diluted	8	51,961	19,317	50,878	18,774

See accompanying notes to the condensed consolidated financial statements.

BENGAL ENERGY LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Thousands of Canadian dollars)
(Unaudited)

	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at April 1, 2010	\$ 43,460	\$ 490	\$ 3,890	\$ -	\$ (41,208)	\$ 6,632
Net loss for the period	-	-	-	-	(1,356)	(1,356)
Comprehensive loss for the period	-	-	-	104	-	104
Issue of share capital (Note 8)	11,023	107	-	-	(16)	11,114
Share based payments	-	-	71	-	-	71
Balance at September 30, 2010	\$ 54,483	\$ 597	\$ 3,961	\$ 104	\$ (42,580)	\$ 16,565
Shares outstanding	30,237,783					
Balance at April 1, 2011	\$ 62,595	\$ 705	\$ 4,189	\$ 95	\$ (44,586)	\$ 22,998
Net loss for the period	-	-	-	-	(5,308)	(5,308)
Comprehensive loss for the period	-	-	-	229	-	229
Issue of share capital (Note 8)	23,478	-	-	-	-	23,478
Expiry of warrants	-	(705)	705	-	-	-
Share based payments	-	-	519	-	-	519
Balance at September 30, 2011	\$ 86,073	\$ -	\$ 5,413	\$ 324	\$ (49,894)	\$ 41,916
Shares outstanding	51,961,349					

See accompanying notes to the condensed consolidated financial statements.

BENGAL ENERGY LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Thousands of Canadian dollars)
(Unaudited)

For the periods ended September 30,	Notes	Three months		Six months	
		2011	2010	2011	2010
Operating activities					
Net loss		\$ (4,247)	\$ (634)	\$ (5,308)	\$ (1,356)
Non-cash items:					
Depletion and depreciation		104	92	201	171
Exploration and evaluation impairment		3,638	5	4,340	7
Accretion		-	-	2	2
Share-based compensation		240	94	517	187
Unrealized foreign exchange gain		(165)	(29)	(175)	(29)
Change in non-cash working capital	11	589	12	(789)	(12)
Net cash flow from (used in) operating activities		159	(460)	(1,212)	(1,030)
Investing activities					
Exploration and evaluation expenditures		(2,055)	(174)	(3,992)	(267)
Petroleum and natural gas properties		(352)	-	(348)	-
Change in restricted cash		-	100	1,092	450
Changes in investing working capital	11	(408)	81	1,380	(16)
Net cash flow from (used in) investing activities		(2,815)	7	(1,868)	167
Financing activities					
Proceeds from issuance of shares, net of issuance costs		-	11,015	23,478	11,015
Changes in financing working capital	11	-	100	(82)	95
Net cash flow from financing activities		-	11,115	23,396	11,110
Impact of foreign exchange on cash and cash equivalents		255	20	331	17
Net increase/(decrease) in cash equivalents		\$ (2,401)	\$ 10,682	\$ 20,647	\$ 10,264
Cash and cash equivalents, beginning of period		37,648	637	14,600	1,055
Cash and cash equivalents, end of period		\$ 35,247	\$ 11,319	\$ 35,247	\$ 11,319

See accompanying notes to condensed consolidated financial statements.

BENGAL ENERGY LTD.

Notes to Condensed Consolidated Interim Financial Statements (the “financial statements”)

Three and six months ended September 30, 2011 and 2010

(Tabular amounts are stated in thousands of Canadian 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 Australia, India and Canada.

Bengal’s registered office is located at 1000, 736 – 6th Avenue SW, Calgary, Alberta.

2. BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements as at September 30, 2011, including 2010 comparative periods, comprise a period of the Company’s first annual consolidated financial statements to be issued under IFRS at March 31, 2012 and have been prepared in accordance with IAS 34 “Interim Financial Reporting”. As a result, IFRS 1 “First-time Adoption of Internal Financial Reporting Standards” has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported consolidated financial position, financial performance and cash flows of the Company is provided in Note 16. That note includes reconciliations as at September 30, 2010 and for the three and six month periods ended September 30, 2010. For reconciliations to IFRS at the date of transition, being April 1, 2010, and March 31, 2011, refer to Note 15 of the condensed consolidated interim financial statement for the three months ended June 30, 2011.

For the Company’s detailed accounting policies, refer to Note 2 of the condensed consolidated interim financial statements for the three months ended June 30, 2011.

Basis of measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis. The comparative figures presented in the consolidated financial statements are in accordance with IFRS and have not been audited. The Company’s presentation currency is Canadian dollars (\$).

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the financial statements. Accordingly, actual results may differ from these estimates.

Following are the significant estimates and judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported results and financial position:

Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statement of operations and is also a key determinant in assessing whether the carrying value of any of the Company’s development and production assets has been impaired. Changes in reported reserves can impact asset carrying values due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

Decommissioning provisions

Amounts recorded for decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third party information and calculations and are subject to change over time and may have a material impact on profit and loss or financial position.

Share-based payments

The Company measures the cost of its share-based payments to directors, officers, employees and certain consultants by reference to the fair value of the equity instruments at the date at which they are granted. The assumptions used in determining fair value include: expected lives of options, risk-free rates of return, share price volatility and the estimated forfeiture rate. Changes to assumptions may have a material impact on the amounts presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial statements have been prepared following the same accounting policies and methods of computation as the interim condensed consolidated financial statements as at June 30, 2011. The significant accounting policies are described in note 2 of the June 30, 2011 interim condensed consolidated financial statements.

The impacts of the new standards, including reconciliations presenting the change from previous GAAP to IFRS as at September 30, 2010 and for the three and six months ended September 30, 2010, are presented in note 15 herein.

4. CASH AND CASH EQUIVALENTS

Cash flows, cash and cash equivalents include cash on hand and in banks and investments with an original maturity date of 90 days or less, net of outstanding bank overdrafts. Cash and short-term deposits at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

As at (\$000s)	September 30, 2011	March 31, 2011
Cash and bank balances	\$ 8,278	\$ 1,880
Short-term deposits	26,969	12,720
	\$ 35,247	\$ 14,600

5. PETROLEUM AND NATURAL GAS PROPERTIES

	Petroleum and Natural Gas Properties	Corporate Assets	Total
	\$000s	\$000s	\$000s
<i>Cost:</i>			
Balance at April 1, 2010	\$ 21,041	\$ 581	\$ 21,622
Additions	492	-	492
Exchange adjustments	(563)	-	(563)
Balance at March 31, 2011	20,970	581	21,551
Additions	348	-	348
Transfers from E&E assets	1,336	-	1,336
Exchange adjustments	140	-	140
Balance at September 30, 2011	\$ 22,794	\$ 581	\$ 23,375

	Oil and Gas Properties	Corporate Assets	Total
	\$000s	\$ 000s	\$000s
<i>Accumulated depletion, depreciation and impairment losses:</i>			
Balance at April 1, 2010	\$ 19,315	\$ 385	\$ 19,700
Depletion and depreciation charge for the period	286	51	337
Exchange adjustments	(516)	-	(516)
Balance at March 31, 2011	19,085	436	19,521
Depletion and depreciation charge for the period	181	20	201
Exchange adjustments	142	-	142
Balance at September 30, 2011	\$ 19,408	\$ 456	\$ 19,864
<i>Net carrying value</i>			
At April 1, 2010	\$ 1,726	\$ 196	\$ 1,922
At March 31, 2011	\$ 1,885	\$ 145	\$ 2,030
At September 30, 2011	\$ 3,386	\$ 125	\$ 3,511

The depletion expense calculation for the three months ended September 30, 2011 included \$847,000 (September 30, 2010 - \$948,000) for estimated future development costs associated with proved and probable reserves in Canada and Australia.

6. EXPLORATION AND EVALUATION ASSETS (E&E ASSETS)

	Exploration and Evaluation Expenditures
Balance at April 1, 2010	\$ 3,553
Additions	3,338
Exchange adjustments	173
Balance at March 31, 2011	\$ 7,064
Additions	3,992
E&E impairment loss	(4,340)
Transfer to petroleum and natural gas properties	(1,336)
Exchange adjustments	77
Balance at September 30, 2011	\$ 5,457

Exploration and evaluation assets consist of the Company's exploration projects in Australia and India which are pending the determination of technical feasibility and commercial viability. Costs primarily consist of acquisition costs, geological & geophysical work, seismic and drilling costs.

The Kingtree well, located on the AC/P 24 permit off the north coast of Australia in the Timor Sea, was drilled in October of 2011 to evaluate a potential oil target. No commercial hydrocarbons were encountered and the well has been plugged and abandoned.

A provision has been made for the cost of the Kingtree well at September 30, 2011 as the costs are reasonably known (estimated at \$1.4 million) and there is no future economic benefit to be derived from these costs. As well, due to the result of the Kingtree well, an assessment was made of all costs attributable to the AC/P24 permit on which the Kingtree well was drilled. An impairment loss of \$3.6 million equal to all costs associated with the AC/P24 permit has been recorded in the three months ended September 30, 2011.

In the current quarter, the Cuisinier 2 and 3 wells were deemed by management to be technically feasible and commercially viable and costs attributed to the wells were transferred from E&E assets to Development and Production ("D&P") assets within petroleum and natural gas properties.

7. DECOMMISSIONING AND RESTORATION LIABILITY

The total decommissioning and restoration obligations were estimated by management based on the estimated costs to reclaim and abandon the wells, well sites and certain facilities based on the Company's contractual requirements.

Changes to decommissioning and restoration obligations were as follows:

	Sept 30, 2011	March 31, 2011
Decommissioning liabilities, beginning of period	\$ 159	\$ 115
Revision	-	(4)
Additions	-	43
Accretion	2	5
Decommissioning liabilities, end of period	\$ 161	\$ 159

The Company's decommissioning liabilities result from ownership interests in petroleum and natural gas properties. The Company estimates the total inflation adjusted undiscounted amount of cash flow required to settle its decommissioning and restoration costs at September 30, 2011 is approximately \$213,000 (March 31, 2013 – \$204,000) which will be incurred between 2011 and 2026. An inflation factor of 2.0% and a discount rate of 4.0% have been applied to the decommissioning liability at September 30, 2011.

8. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares.

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

(b) Issued:

The following provides a continuity of share capital:

(\$000s)	Number of Shares	Amount
Balance at April 1, 2010	18,212,783	\$ 43,460
Issued on exercise of stock options	56,766	17
Shares issued for cash	19,525,000	21,030
Share issue costs	-	(1,912)
At March 31, 2011	37,794,549	\$ 62,595
Shares issued for cash	14,166,800	25,500
Share issue costs	-	(2,022)
At September 30, 2011	51,961,349	\$ 86,073

In April 2011, the Company issued 14,166,800 common shares at a price of \$1.80 per share. Proceeds of the offering, net of share issue costs of \$2,022,000, were \$23,478,000.

(c) Stock-based compensation - warrants:

The table below provides details of common share purchase warrant activity:

(\$000s)	Number of Warrants	Amount
Balance April 1, 2010	940,000	\$ 490
Stock-based compensation expense	-	215
Balance March 31, 2011	940,000	\$ 705
Transfer to contributed surplus on warrant expiry	(940,000)	(705)
Balance September 30, 2011	-	\$ -

These warrants expired on August 13, 2011.

(d) Share-based compensation – stock options:

The Company has a share option plan for directors, officers, employees and consultants of the Company whereby share options representing up to 10% of the issued and outstanding common shares can be granted by the Board of Directors. Share options are granted for a term of three 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.

Bengal accounts for its share-based compensation plan using the fair value method. Under this method, each grant results in three instalments. The fair value of the first instalment is charged to operations and loss immediately. The remaining two instalments are charged to operations and loss over their respective vesting period of one and two years respectively. Stock options granted under the plan can be exercised on a cashless basis, whereby the employee receives a lesser amount of shares in lieu of paying the exercise price based on the deemed market price of the shares on the exercise date.

Bengal has incorporated an estimated forfeiture rate of 6.4% for stock options that are not expected to vest.

A summary of stock option activity is presented below:

	Options	Weighted Average Exercise Price
Outstanding at April 1, 2010	1,802,000	\$ 1.37
Granted	660,000	1.41
Expired	(149,667)	2.19
Forfeited	(58,333)	0.75
Exercised	(83,333)	0.45
Outstanding at March 31, 2011	2,170,667	\$ 1.38
Granted	1,150,000	1.26
Forfeited	(150,000)	1.36
Expired	(172,000)	3.74
Outstanding at September 30, 2011	2,998,667	\$ 1.20
Exercisable at September 30, 2011	1,783,004	\$ 1.12

Options Outstanding				Options Exercisable	
Option Price (1)	Number Outstanding	Exercise Price (2)	Remaining Life (3)	Number Exercisable	Exercise Price (2)
\$ 0.36–1.25	976,667	\$ 0.68	3.5	709,997	\$ 0.51
\$ 1.26–2.25	1,902,000	\$ 1.34	2.9	953,007	\$ 1.33
\$ 2.26–3.25	120,000	\$ 3.15	0.2	120,000	\$ 3.15
Total	2,998,667	\$ 1.20	3.0	1,783,004	\$ 1.12

(1) Range of option exercise prices

(2) Weighted average exercise price of options

(3) Weighted average remaining contractual life of options in years

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

For the Period Ended	September 30, 2011	March 31, 2011	April 1, 2010
Assumptions:			
Risk free interest rate (%)	2.0%	2.0%	2.0%
Expected life (years)	5 yr	3 yr	3 yr
Expected volatility (%)	69%	72%	122%
Vesting period (years)	2 yr	2 yr	2 yr
Weighted average fair value of options granted	\$0.76	\$0.70	\$0.91

The fair value of stock options granted during the six months and quarter ended September 30, 2011 was \$871,000 and \$274,000 respectively.

(e) Earnings (loss) per share:

Earnings (loss) per share is calculated based on net loss and the weighted-average number of common shares outstanding. The Company has recorded a loss in each of the periods presented and therefore any addition to basic shares outstanding is anti-dilutive.

At September 30, 2011, there were 2,998,667 (September 30, 2010 – 1,689,000) options considered anti-dilutive and at September 30, 2011 there were nil warrants (September 30, 2010 – 940,000) considered anti-dilutive.

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 and policies and processes for measuring and managing risk.

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, restricted cash, 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 and receivables from petroleum and natural gas marketers. As at September 30, 2011, Bengal's receivables consisted of \$1.0 million (March 31, 2011 - \$0.6 million) from joint venture partners and \$0.2 million (March 31, 2011 - \$0.2 million) of other trade receivables.

Production from the Canadian operations is marketed by the operator. Bengal has not experienced any collection issues with the operator of the property.

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, 2011, the Company had no receivables that were considered past due (past due is considered greater than 90 days outstanding).

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. Bengal establishes an allowance for doubtful accounts as determined by management based on their assessment of collection. Bengal does not have an allowance for doubtful accounts as at September 30, 2011 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the three or six months ended September 30, 2011.

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.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations, including work commitments, 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 \$3.6 million at September 30, 2011 (March 31, 2011 - \$2.7 million). Bengal had \$35.2 million in cash (March 31, 2011 - \$14.6 million), \$0.1 million in restricted cash (March 31, 2011 - \$1.2 million) and a net working capital surplus of \$33.1 million at September 30, 2011 (March 31, 2011 - \$14.1 million).

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, as well as joint ventures and farm-ins when appropriate, 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 Risk

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 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, 2011 (\$000s)				
	Total	CAD	AUD	U.S.D
			<i>CAD \$ Equivalent</i>	
Cash and short-term deposits	35,247	20,697	9,639	4,911
Restricted cash	135	135	-	-
Accounts receivable	1,236	171	89	976
Accounts payable and accrued liabilities	(3,619)	(400)	(3,219)	-
Balance sheet exposure	32,999	20,603	6,509	5,887

A 5% strengthening or (weakening) of the CAD as compared to the AUD or USD would have increased or (decreased) net loss by \$392,000 respectively.

Commodity Price Risk

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 Daily Brent reference price, which trades at a premium to WTI. There were no financial instruments in place to manage commodity prices during the three or six months ended September 30, 2011.

Interest Rate Risk

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 receiving 1.3% interest on its guaranteed investment certificates in Canada and 4.55% on term deposits in Australia. A 1.0% decrease in interest rates would have resulted in a \$174,000 increase to net loss and cash flow from operating activities in the quarter ended September 30, 2011 and a 1.0% increase in interest rates would decrease net loss and cash flow from operating activities by \$174,000 over the same period. The Company had no interest rate swaps or hedges at September 30, 2011.

10. 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 reasonable terms), sell assets, farm out properties and adjust its capital spending to manage current and projected cash levels. There can be no assurance that equity financing will be available or sufficient to meet capital commitments, or for other corporate purposes, or if equity financing is available, that it will be on terms acceptable to the Company. The Company presently does not have a credit facility in place but based on project viability may arrange separate project financing.

11. CHANGES IN NON-CASH WORKING CAPITAL

Six months ended September 30 (\$000s)	2011	2010
Accounts receivable	\$ (419)	\$ (179)
Prepaid expenses and deposits	(19)	55
Accounts payable and accrued liabilities	947	191
Total	\$ 509	\$ 67
Relating to:		
Operating	\$ (789)	\$ (12)
Financing	(82)	(5)
Investing	1,380	84
Total	\$ 509	\$ 67

The following represents the cash interest received in each period.

Six months ended September 30 (\$000s)	2011	2010
Cash interest received	\$ 194	\$ -

12. COMMITMENTS AND CONTINGENCIES

Pursuant to current production sharing contracts (“PSC”), the Company is required to perform minimum exploration activities that include various types of surveys, acquisition and processing of seismic data and drilling of exploration wells. The costs of these activities are based on minimum work budgets included in bid documents and have not been provided for in the financial statements. Actual costs will vary from budget.

Country and Permit	Work Program	Obligation Period Ending	Estimated Expenditure (net) (millions CAD\$) ⁽¹⁾
Offshore Australia – AC/P47	750km ² 3D seismic ⁽²⁾	March 2, 2012	\$6.1
Onshore India – CY-ONN-2005/1	625km ² 3D seismic + 75km ² high resolution 3D seismic + 3 wells	March 3, 2014	\$6.6
Offshore India – CY-OSN-2009/1	310km 2D seismic & 81km ² 3D seismic	August 15, 2014	\$3.1
Onshore Australia – ATP 752	Drill 1 exploration well.	July 31, 2014	\$1.5
Onshore Australia – ATP 732	Shoot 456km ² of 2D and 50km ² of 3D seismic. Drill 1 exploration well.	March 31, 2015	\$6.8
Onshore Australia – ATP 934P	Awaiting completion of Native Title before granting of ATP ⁽³⁾	4 years after grant of ATP	\$11.8

⁽¹⁾ Translated at September 30, 2011 exchange rate of US \$1.00 = CAD \$ 1.0037 and AUD \$1.00 = CAD \$1.0111

⁽²⁾ The Company has made formal application to extend the permit period end from March 2, 2012 to June 2, 2013 and expects to receive a reply from the Northern Territory Department of Resources prior to December 31, 2011.

⁽³⁾ Currently negotiating Native Title Agreement with the Wongkumara People of Queensland. The Native Title Agreement is then submitted to the Government of Queensland for approval and granting of the Authority to Prospect (“ATP”). Work program consists of 500 km of 2D seismic and up to seven wells.

At September 30, 2011 the Company had the following lease commitment for office space in Canada:

(\$000s)	
Fiscal 2011 – October 2011 to March 2012	\$ 63

13. RELATED PARTY TRANSACTIONS

The Company paid \$40,050 in consulting fees to a former director of the Company and to a company controlled by the director. The fees were paid in the ordinary course of business based on market rates and were for international consulting services. At September 30, 2011, the Company has an accounts payable balance of \$21,124 (March 31, 2011 - \$41,328) payable to this director. At the Company’s Annual General Meeting this director did not stand for re-election and has been appointed as Executive Vice President of the Company.

14. SEGMENTED INFORMATION

As at September 30, 2011, the Company has three reportable operating segments being the Australian, Canadian and New Cost Centres’ oil and gas operations. Nwe Cost Centres are considered to be in the pre-production stage and includes India and Ireland.

Revenue reported below represents revenue generated from external customers. There were not inter-segment sales in any of the reported periods.

The accounting policies of the reportable segments are the same as the group’s accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration

costs and directors' salaries, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the six months ended Sept 30, 2011 (\$000)				
	Australia	Canada	Other⁽¹⁾	Total
Revenue	\$ 2,148	\$ 188	\$ -	\$ 2,336
Net loss	(252)	(4,927)	(129)	(5,308)
Petroleum and natural gas property expenditures	348	-	-	348
Exploration and evaluation expenditures	3,482	-	510	3,992
Impairment losses	(4,340)	-	-	(4,340)
As at Sept 30, 2011 (\$000)				
Petroleum and natural gas properties				
Cost	18,554	4,370	451	23,375
Accumulated depletion, depreciation and accretion	(15,809)	(3,604)	(451)	(19,864)
Net book value	2,745	766	-	3,511
Exploration and evaluation assets	8,503	-	1,294	9,797
Accumulated impairment losses	(4,340)	-	-	(4,340)
Net book value	\$ 4,163	\$ -	\$ 1,294	\$ 5,457

⁽¹⁾ Other is new cost centres considered to be in the pre-production stage and includes India and Ireland.

For the six months ended September 30, 2010 (\$000)				
	Australia	Canada	Other⁽¹⁾	Total
Revenue	\$ 444	\$ 288	\$ -	\$ 732
Net loss	(256)	(998)	(102)	(1,356)
Petroleum and natural gas property expenditures	-	-	-	-
Exploration and evaluation expenditures	203	-	64	267
As at March 31, 2011 (\$000)				
Petroleum and natural gas properties				
Cost	16,733	4,367	451	21,551
Accumulated depletion, depreciation and accretion	(15,551)	(3,519)	(451)	(19,521)
Net book value	1,182	848	-	2,030
Exploration and evaluation cost	\$ 6,315	\$ -	\$ 749	\$ 7,064

⁽¹⁾ Other is new cost centres considered to be in the pre-production stage and includes India and Ireland.

15. TRANSITION TO IFRS

As stated in Note 2, these are the Company's second IFRS condensed consolidated interim financial statements prepared in accordance with IFRS. The impact that the transition from Canadian GAAP to

IFRS has had on the Company's financial position, financial performance and cash flow is set out in this note.

The significant accounting policies described in Note 2 to the interim consolidated financial statements for the three months ended June 30, 2011 have been applied in the preparation of these financial statements for the quarter ended September 30, 2011, as well as in the preparation of the comparative information presented for the three and six months ended September 30, 2010 except where certain IFRS 1 exemptions have been applied as described below.

Exemptions Applied

IFRS 1 *First-time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the general requirement to retrospectively apply IFRS that were effective as at April 1, 2010. The Company has applied the following exemptions:

- IFRS 3 *Business Combinations* has not been applied to acquisitions of subsidiaries that occurred before April 1, 2010.
- IFRS 2 *Share-based Payment* has not been applied to equity instruments which vested before the Company's transition date to IFRS.
- The deemed cost of exploration and evaluation assets are the amount determined under Canadian GAAP. For assets in the development or production phases the deemed cost is the amount determined for the cost centre under Canadian GAAP, allocated to the cost centre's underlying assets pro rata using reserve volumes as of April 1, 2010.
- IAS 21 The Company set cumulative translation differences for its foreign operations to zero at transition.
- IAS 37 The Company measured asset retirement obligations ("ARO") in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and recognized directly into retained earnings the difference between that amount and the carrying amount of ARO under Canadian GAAP

IFRS 1 also requires that an entity's estimates under IFRS at the date of transition be consistent with estimates made under its Canadian GAAP for the same date, unless there is objective evidence that those estimates were made in error. The Company's IFRS estimates at April 1, 2010 are consistent with the estimates made under Canadian GAAP for that same date.

Reconciliations from Canadian GAAP to IFRS

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's consolidated statements of financial position, statements of operations and comprehensive loss as at September 30, 2010 and for the three and six months ended September 30, 2010 is set out in the following reconciliations and in the notes that accompany the reconciliations. Certain amounts on the statements of financial position and the statements of operations and comprehensive loss have been reclassified to conform to the presentation adopted under IFRS.

Reconciliation of Assets, Liabilities and Equity as reported under Canadian GAAP to IFRS

Note	September 30, 2010		
	CDN GAAP	Adj	IFRS
	(\$)	(\$)	(\$)
ASSETS			
Current assets			
Cash & cash equivalents	11,319	-	11,319
Restricted cash	60	-	60
Accounts receivable	452	-	452
Prepaid expenses & deposits A	48	(3)	45
	11,879	(3)	11,876
Non-current assets			
Petroleum and natural gas properties A & B	5,478	(3,564)	1,914
Exploration & evaluation assets A & B	-	3,749	3,749
Total assets	17,357	185	17,538
LIABILITIES & SHAREHOLDER'S EQUITY			
Current liabilities			
Accounts payable & accrued liabilities	857	-	857
	857	-	857
Non-current liabilities			
Decommissioning liability C	96	20	116
	96	20	116
Total liabilities	953	20	973
Shareholder's equity			
Share capital	54,483	-	54,483
Warrants	597	-	597
Contributed surplus D	3,970	(9)	3,961
Accumulated other comprehensive income	-	104	104
Deficit A to D	(42,646)	66	(42,580)
	16,404	161	16,565
Total liabilities & shareholder's equity	\$ 17,357	\$ 181	\$ 17,538

Reconciliation of Net Earnings for the Period Ended September 30, 2010.	Three Months			Six Months		
	CDN GAAP	Adj	IFRS	CDN GAAP	Adj	IFRS
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Petroleum and natural gas	383	-	383	732	-	732
Royalties	(40)	-	(40)	(68)	-	(68)
Revenue	343	-	343	664	-	664
Operating expenses						
General and administrative	571	(2)	569	1,258	(19)	1,239
Operating and transportation	220	-	220	399	-	399
Depletion and depreciation	121	(29)	92	219	(48)	171
Pre-licensing and impairment	-	5	5	-	7	7
Share-based compensation	111	(17)	94	215	(28)	187
Total expenses	1,023	(43)	980	2,091	(88)	2,003
Operating loss	(680)	43	(637)	(1,427)	88	(1,339)
Other income (expenses)						
Interest income	-	-	-	-	-	-
Finance and accretion	-	(1)	(1)	-	(19)	(19)
Foreign exchange gain (loss)	(4)	8	4	(8)	10	2
	(4)	7	3	(8)	(9)	(17)
Net Loss	(684)	50	(634)	(1,435)	79	(1,356)
Exchange differences on translation of foreign operations						
	-	36	36	-	(12)	(12)
Total comprehensive loss for the period	(684)	86	(598)	(1,435)	(67)	(1,368)

** For the six months ended September 30, 2010 letter of credit charges of \$17,000 (three months ended September 30, 2011 \$1,000) have been reclassified as finance expenses.

A. Changes in functional currency

Under IAS 21 - The Effects of Changes in Foreign Exchange Rates, the method of determining functional currency takes into account a broader range of factors than under GAAP. This has resulted in the functional currency of Avery Resources Australia (Pty) Ltd. changing from the Canadian dollar to the Australian dollar and the functional currency of Bengal Energy International Inc. (India) from the Canadian dollar to the U.S. dollar.

As such the value of a number of balance sheet accounts have been revalued with the resulting impact for the six months ended September 30, 2010 is as follows: decrease in prepaid expenses and deposits of \$3,000 and an increase in D&P and E&E assets of \$96,000 and \$51,000 respectively offset by a decrease to deficit of \$143,000.

Differences arising from the translation of financial statements that are prepared under a currency other than the presentation currency of the consolidated financial statements are recognized as a separate component of equity. The Company has made use of the exemption in IFRS 1 that such translation differences may be deemed zero at the date of transition.

For the three and six month periods ended September 30, 2010, IFRS transition differences resulted in an exchange gain on translation of foreign operations of \$36,000 and an exchange loss of \$12,000, respectively.

B. Exploration and evaluation assets (“E&E”) (Note the changes in this section must be added to the changes identified in Note A in order to reconcile to the table on page 16)

IFRS 1 – Deemed Cost. The Company applied the IFRS 1 exemption whereby the value of its opening plant, property and equipment at April 1, 2010 was deemed to be equal to the net book value as determined under Canadian GAAP and the corresponding Cash Generating Units (“CGU’s”) were tested for impairment. The Company chose to allocate its costs to its CGU’s based on proved plus probable reserve volumes.

Under Canadian GAAP the Company followed the full cost method of accounting for oil and gas properties whereby all costs associated with the exploration for and the development of oil and gas reserves were capitalized in country-based cost centers. Under IFRS, pre-exploration costs are recognized in the statement of operations as incurred. Costs incurred after the legal right to explore has been obtained and before technical feasibility and commercial viability have been determined are capitalized as E&E assets. Once an exploration area has been deemed to be technically feasible and commercially viable, E&E costs are reclassified to development and production assets, a separate category of property and equipment.

The following reclassifications were made from property, plant and equipment under Canadian GAAP:

For the six months ended September 30, 2010, a reduction in D&P assets of \$3,704,000 with a corresponding increase in E&E assets of \$3,698,000 and 7,000 charged to the statement of operations and loss for pre-licensing costs.

Depletion and depreciation:

Upon transition to IFRS, the Company adopted a policy of depleting and depreciating oil and natural gas interests on a unit of production basis over proved plus probable reserves taking into account the future development costs required to bring those reserves into production. The depletion and depreciation policy under Canadian GAAP was based on unit of production over proved reserves.

There was no impact of this difference on adoption of IFRS at April 1, 2010 as a result of the IFRS 1 exemption taken. For the six months ended September 30, 2010 the use of proved plus probable reserves resulted in a decrease to depletion of \$44,000 (three months ending September 30, 2010 \$27,000) with a corresponding increase to D&P assets.

C. Decommissioning liabilities

Consistent with IFRS, decommissioning obligations (asset retirement obligations under Canadian GAAP) were measured under Canadian GAAP based on the estimated cost of the decommissioning, discounted to their net present value upon initial recognition. Under Canadian GAAP, asset retirement obligations were discounted at a credit adjusted risk free rate of seven to ten percent. Under IFRS, the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted; therefore the provision is discounted at a risk free rate of four percent. Decommissioning obligations are also required to be re-measured based on changes in estimates including discount rates.

At September 30, 2010, using a risk free rate of four percent, the Company increased its decommissioning obligations by \$20,000 from the previous GAAP amount offset by an increase to deficit of \$20,000.

The change in accretion expense under IFRS compared with GAAP was not significant. Under IFRS, accretion of the discount is included in finance expenses whereas under GAAP it is included in depletion and depreciation.

D. Share-based payment transactions

The Company issues certain share-based awards in the form of stock options that vest one-third on the grant date and one-third on each of the next two anniversaries of the grant date. Under IFRS, the fair value of each instalment of the award is considered a separate grant based on the vesting period with the fair value of each instalment determined separately and recognized as compensation expense over the term of its respective vesting period ("graded vesting"). Accordingly, this will result in the amounts of each grant being recognized in income at a faster rate than under GAAP.

Under GAAP, the Company accounts for forfeited stock options in the period in which the forfeiture occurred. Under IFRS, the Company estimated forfeitures at the grant date with revised estimates reflected in each subsequent reporting period. Accordingly, this will result in the amounts of each grant being recognized in income at a slower rate than under GAAP partially offsetting the impact of the graded vesting discussed above.

IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") provides an elective exemption which does not require first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has used this election.

As a result of this election an increase of \$19,000 has been made to contributed surplus with an offsetting increase in the deficit at April 1, 2010.

Share based compensation decreased by \$28,000 for the six months ended September 30, 2010 (\$17,000 for the three months ended September 30, 2010). An increase of \$40,000 in share based compensation expense is offset by a decrease in warrant amortization of \$68,000 for the six months ended September 30, 2010. For the three months ended September 30, 2010, share based compensation increased by \$17,000 offset by a reduction in warrant amortization of \$34,000. These adjustments were offset by a \$28,000 decrease to contributed surplus at September 30, 2010 (\$11,000 at June 30, 2010).

E. Cash flow statement

The transition from Canadian GAAP to IFRS did not have a material impact on the consolidated statement of cash flows.

CORPORATE INFORMATION

AUDITORS

KPMG LLP • Calgary, Canada

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP • Calgary, Canada
Allens Arthur Robinson • Brisbane, Australia

BANKERS

Royal Bank of Canada • Calgary, Canada
West Pac Bank • Brisbane, Australia
Commonwealth Bank • Brisbane, Australia
ICICI Bank Ltd. • Calgary, Canada and Mumbai, India

REGISTRAR AND TRANSFER AGENT

Valiant Trust Corporation • Calgary, Canada

INVESTOR RELATIONS

Bryan Mills Iradeso • Calgary, Canada

DIRECTORS

Chayan Chakrabarty
Peter D. Gaffney
James B. Howe
Robert Steele
Ian J. Towers (Chairman)

GOVERNANCE AND DISCLOSURE COMMITTEE

All Directors are members of the Committee

AUDIT COMMITTEE

James B. Howe (Chairman)
Robert Steele
Ian J. Towers

RESERVES COMMITTEE

Peter D. Gaffney (Chairman)
Ian J. Towers

COMPENSATION COMMITTEE

Peter D. Gaffney
Robert Steele (Chairman)
Ian J. Towers

OFFICERS

Chayan Chakrabarty, President & Chief Executive Officer
Richard N. Edgar, Executive Vice President
Bryan Goudie, Chief Financial Officer
D. Garrett Wilson, Vice President, Engineering and Operations
Gordon R. MacMahon, Vice President, Exploration
Bruce Allford, Secretary

STOCK EXCHANGE LISTING

TSX: BNG