



International exploration & production

## **Management's Discussion & Analysis**

**Three Months Ended June 30, 2011 and 2010**

## MANAGEMENT'S DISCUSSION AND ANALYSIS – September 12, 2011

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 accompanying notes for the three months ended June 30, 2011 and the audited Consolidated Financial Statements and accompanying notes for the years ended March 31, 2011 and 2010.

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 in Canadian dollars as well as the currencies of each country in which the Company operates. The Company reports financial results in Canadian dollars.

## OUTLOOK

The Company entered the second fiscal quarter of 2012 with a very strong balance sheet showing approximately \$37.6 million in cash, no debt and a balanced portfolio of exploration and development drilling opportunities on its extensive land base in Australia and India. The price the Company receives for all of its oil sales in Australia is based on the Dated Brent reference price which is currently trading at approximately US \$25 premium to WTI.

### AUSTRALIA – Onshore

In the Cooper Basin of Australia, the Cuisinier light oil discovery and follow up development wells are contributing steady growth in net operating income which has now surpassed general and administrative costs in the quarter for the first time. Field level analysis of the economics of the Cuisinier project shows finding and development costs for the prior year (including future development costs) of \$10.59 per barrel based on the change in the Cuisinier property proved and probable reserves from March 31, 2010 to March 31, 2011, as evaluated by the Company's independent reserves evaluators. Field level operating netbacks for Cuisinier averaged \$50.50 per barrel over the year ended March 31, 2011. This allows the calculation of a very satisfactory Recycle Ratio of 4.8 for the project (Finiding & Development costs divided by field netback - \$50.50/\$10.49). Field level operating netbacks for the current quarter increased by \$21.02 to \$71.52 per barrel.

Additional drilling and 3D seismic are in the planning stages for the latter portion of this year and next.

Also in the Cooper Basin, formal grant of Bengal's operated permit ATP 732P has been received and exploration efforts have commenced with 400 kilometers of 2D and 50 square kilometers of 3D to be shot during September and October. Bengal has already defined numerous leads and prospects on the permit and a drilling campaign is planned for early 2012.

### Australia – Offshore – Timor Sea

Bengal and its partner will drill the Kingtree well on a well defined, fault bound structure identified from 3D seismic on offshore permit AC/P24 in the Timor Sea of North West Australia. The exploration drilling location lies northeast and on trend with the formerly productive Challis-Cassini oil field (60MM bbls cumulative oil with peak production of 43,000 bopd). The intent will be to vertically drill Kingtree 1 using a semi-submersible rig to a depth of 1,500 meters from 110 meters water depth. As is normal practice in the Timor Sea, the plans are to evaluate the reservoir with logs and wireline testing and then plug and abandon the test well until such time as a full development plan can be derived. The prospect sits as a separate structure approximately 15 kilometres southeast from Bengal's Katandra oil discovery. Success with Kingtree 1 could in some circumstances enable joint development of Katandra. The operator expects to spud Kingtree 1 in mid October 2011. The well is scheduled to take 18 days to drill and evaluate and

Bengal has a 10% working interest in the project. Elsewhere in the Timor Sea, Bengal has acquired two regional seismic lines across its 100% operated permit AC/P47. Previously announced independent resource estimates indicate this could be a very material exploration permit. The new 2D seismic was acquired to assist in the design of and planning for a 750 km<sup>2</sup> 3D program that is anticipated late in 2011. Bengal continues its efforts to seek either a JV partner or potential farmee to assist the Company with accelerating both the seismic program and seeing nearer term drilling activity on permit AC/P47.

#### **INDIA – Offshore**

Evaluation work continues on the large (340,000 acre) 100% owned and operated Production Sharing Agreement CY-OSN-2009/1 in India's offshore Cauvery basin. The first year work program includes reprocessing all available seismic records and acquiring certain 2D and 3D regional surveys previously recorded by other operators. Data retrieval from government sources is ongoing with completion expected in late in 2011.

#### **INDIA – Onshore**

On Bengal's 30% working interest, 233,000 gross acre Production Sharing Agreement CY-ONN-2005/1, work is well underway on the first year work program. Reprocessing of existing seismic data has been completed and a contractor has been engaged for the acquisition of 700 km<sup>2</sup> of 3D seismic data. The acquisition program will take place after the monsoon season in December and early in 2012. Airborne magnetometry work will also commence in 2011. The increased 3D seismic acquisition is intended to help the joint venture to accelerate the drilling of exploration wells on the permit (3 exploration wells were planned for the minimum work program) which, subject to the seismic results, could be drilled in late 2012 at the earliest.

#### **SUMMARY**

The Company believes it is sufficiently capitalized to undertake its nearer term accelerated exploration plans and fulfill most near-term work program commitments for the large acreage position the Company holds. The Company has an attractive and large portfolio of both lower-risk and high-impact drilling opportunities. Recent drilling success at Cuisinier and on the Barta permit should drive near term and increasingly positive operating income for the Company and set the stage for future development. Potential near-term exploration success from high-impact plays at offshore permit AC/P24 and onshore permit ATP 732P, planned this year and early 2012 respectively, should create further momentum. Longer term plays in India and in the Timor Sea could begin to add value possibly as early as 2013. The Company will continue to evaluate accretive production acquisition, exploration and corporate transaction opportunities, as and where they arise, within and around the Company's core areas.

**HIGHLIGHTS**

\$000s except per share, volumes and netback amounts	Three Months Ended		
	06/30/11	06/30/10	03/31/11
Revenue			
Natural gas	\$ 92	\$ 125	\$ 125
Natural gas liquids	16	21	17
Oil	1,211	202	549
Total	1,319	349	691
Royalties	121	28	67
% of revenue	9.2	8.1	9.7
Operating & transportation	522	179	295
Netback <sup>(1)</sup>	676	142	328
Cash flow used in operations:	(1,371)	(570)	(746)
Per share (\$) (basic & diluted)	(0.03)	(0.03)	(0.02)
Funds from (used in) operations <sup>(2)</sup> :	7	(546)	(690)
Per share (\$) (basic & diluted)	0.00	(0.03)	(0.02)
Net (loss):	(1,061)	(722)	(889)
Per share (\$) (basic & diluted)	(0.02)	(0.04)	(0.03)
Capital expenditures	\$ 1,933	\$ 93	\$ 1,879
Volumes			
Natural gas (mcf/d)	249	381	348
Natural gas liquids (boe/d)	2	4	3
Oil (bbl/d)	108	27	56
Total (boe/d @ 6:1)	152	94	117
Netback <sup>(1)</sup> (\$/boe)			
Revenue	\$ 95.46	\$ 40.92	\$ 65.49
Royalties	8.77	3.31	6.38
Operating & transportation	37.77	20.96	27.97
Total	\$ 48.92	\$ 16.65	\$ 31.13

(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 IFRS measure is cash flow from operations. A reconciliation of the two measures can be found in the table on page 5.

**Basis of Presentation** - The financial statements and data presented herein were prepared in accordance with International Accounting Standard 34 ("IAS 34"), Interim Financial Reporting, as issued by the International Accounting Standards Board. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles referred to herein as previous GAAP.

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 abbreviations are used in this MDA: boe/d means barrels of oil equivalent per day; bbl/d means barrels per day and mcf/d means thousand cubic feet of natural gas per day.

This MD&A and accompanying financial statements and notes are for the three-month period ended June 30, 2011. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from April 1, 2011 through June 30, 2011. The term "prior year's quarter" is used throughout the MD&A for comparative purposes and refers to the period from April 1, 2010 through June 30, 2010. The term "prior quarter" refers to the three months ended March 31, 2011.

The fiscal year for the Company is the 12-month period ended March 31, 2012. The terms "fiscal 2012," "current year" and "the year" are used in the MD&A and in all cases refer to the period from April 1, 2011

through March 31, 2012. The terms "previous year," "prior year" and "fiscal 2011" are used in the MD&A for comparative purposes and refer to the period from April 1, 2010 through March 31, 2011.

**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 do not have any standardized meaning under IFRS and previous GAAP 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 (loss) 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 IFRS. 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		
	06/30/11	06/30/10	03/31/11
Cash flow used in operations	(1,371)	(570)	(746)
Changes in non-cash working capital	1,378	24	56
Funds from (used in) operations	7	(546)	(690)

**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:

- Oil and natural gas production levels;
- The size of the oil and natural gas reserves;
- Projections of market prices and costs;
- 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 and estimates of costs;
- Expectations that Bengal's future realized gas and oil prices will coincide with the B.C Station 2 and Brent daily index prices;
- Funding of working capital requirements, commitments and other planned expenses will be by cash on hand, cashflows, farm-outs, joint ventures or share issues and funds will be sufficient to meet requirements;

- Continuation of exploration and development activities on Block CY-ONN-2005/1 and whether identified play types on this Block will be prospective;
- Commencement of exploration and development activities on Block CY-OSN-2009/1;
- Continuation of exploration, development activities on Permit AC/P 47 offshore Australia and whether a farm-out partner will be found on acceptable terms to the Company and if not, whether the Company will shoot seismic on this permit;
- That drilling of the Kingtree well will occur on AC/P 24 offshore Australia;
- Obtaining Native Title Agreement on ATP 934P in Australia and commencement of exploration activities;
- That seismic activities will occur on ATP 732P and that the seismic will be followed by drilling;
- That there will be additional drilling and seismic activity on ATP 752P and that Cuisinier wells 2 and 3 will commence production and that production from these two wells and Cuisinier 1 will continue as expected and that transportation of the oil will occur.

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;
- Unable to meet commitments due to inability to raise funds or complete farm-outs;
- 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;
- The risk that Bengal may not be successful in raising funds by an equity issue; 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 on these and other factors that could affect Bengal's operations and financial results are included in reports on file with Canadian securities authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) and at Bengal's website ([www.bengalenergy.ca](http://www.bengalenergy.ca)).

These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be.

## RESULTS OF OPERATIONS

### Production

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

Production	Three Months Ended		
	06/30/11	06/30/10	03/31/11
Natural gas (mcf/d)	249	381	348
NGLs (boe/d)	2	4	3
Oil (bbls/d)	108	27	56
Total (boe/d)	152	94	117

For the three months ended June 30, 2011, total oil, natural gas and natural gas liquids (NGLs) production averaged 152 boe/d, an increase of 62% from the 94 boe/d produced in the prior year comparable quarter.

The increase in production is due to having Cuisinier 1 on production for a full quarter in the current year (the well commenced production in May of 2010). Also, prior to the current quarter, the Cuisinier well experienced approximately 50% downtime due to restricted truck access due to flooding. In the current quarter the well experienced production uptime of greater than 90%.

The Cuisinier 2 and 3 wells were production tested in July 2011 and brought on stream at the end of August. Initial production estimates from the Operator prior to start-up are in excess of 250 barrels per day for Cuisinier 2 and 3 in total (63 b/d net). Bengal will release actual production numbers after the wells demonstrate sustained production rates.

Gas and NGL volumes declined in the current quarter due to the shut-down of the McMahon Facility at the Company's Oak British Columbia property for maintenance for most of June.

The increase in production volumes in the current quarter compared to the quarter ended March 31, 2011 is due to the improved production uptime for the Cuisinier 1 well.

### Pricing

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

Prices and Marketing	Three Months Ended		
	06/30/11	06/30/10	03/31/11
<b>Average Benchmark Prices</b>			
AECO 30 day firm (\$/mcf)	\$ 3.74	\$ 3.77	\$ 3.77
Dated Brent oil (\$US/bbl)	116.01	81.34	105.32
Number of CAD\$ for 1 AUD\$	1.03	0.91	0.99
Number of CAD\$ for 1 USD\$	0.97	1.03	0.99
WTI oil (\$US/bbl)	\$ 102.55	\$ 77.99	\$ 94.17
<b>Bengal's Realized Price (\$ CAD)</b>			
Natural gas (\$/mcf)	\$ 4.07	\$ 3.60	\$ 3.96
Oil (\$/bbl)	123.27	83.66	109.06
NGLs (\$/bbl)	72.22	65.83	60.40
Total (\$/boe)	\$ 95.46	\$ 40.92	\$ 65.49

Bengal's total realized price on a boe basis increased for the three months ended June 30, 2011 compared to the prior year quarter by \$54.54 due to higher oil and gas prices. Current quarter prices increased by \$29.97 compared to the prior quarter due to higher oil prices and an increased proportion of sales from higher priced oil volumes Vs gas in the total sales mix.

Bengal's realized price for its Australian oil production had been based on the Asia Petroleum Price Index (APPI) Tapis Crude benchmark price. Effective January 1, 2011 the price received for Bengal's Australian oil sales is based on Dated Brent quotes as published by Platts Crude Oil Marketwire for the month in which

the Bill of Lading occurs plus a Platts Tapis premium. Brent typically has traded at a premium to West Texas Intermediate (WTI) and the Platts Tapis premium has averaged US \$4.65/bbl premium to Brent since January 1, 2011.

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.

### 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		
	06/30/11	06/30/10	03/31/11
Natural gas	\$ 92	\$ 125	\$ 125
NGLs	16	21	17
Oil	1,211	203	549
Total	\$ 1,319	\$ 349	\$ 691

Petroleum and natural gas sales for the first quarter of the 2012 fiscal year were 278% or \$970,000 higher than the prior year comparable period. Increased oil volumes contributed \$616,000 to the increase in revenues while \$389,000 of the increase is due to higher oil prices. These changes were offset by minor changes in gas volumes and prices.

Revenue in the current quarter increased 91% or \$628,000, from the fourth quarter of fiscal 2011. The increase is due to higher oil production from the Cuisinier well which had improved production uptime as trucking access is no longer restricted due to flooding.

### 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 British Columbia, royalties are calculated based on average daily production from a well multiplied by a reference price. Bengal also pays a gross overriding royalty ("GORR") to the landholder of between 7.5% and 10% on its Oak, British Columbia gas wells.

In Australia, oil royalties are based on a government-established rate of 10% plus a Native Title royalty which is typically 1%. 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 10%.

Royalties by Type (\$000s)	Three Months Ended		
	06/30/10	06/30/10	03/31/11
Canada Crown	\$ 6	\$ 3	\$ 12
Canada gross overriding	6	6	8
Australian Government	109	19	47
Total	\$ 121	\$ 28	\$ 67
\$/boe	8.77	3.31	6.38
% of revenue	9.2	8.1	9.7

Royalties by Commodity	Three Months Ended		
	06/30/11	06/30/10	03/31/11
Natural gas			
\$000s	\$ 9	\$ 5	\$ 16
\$/mcf	0.38	0.15	0.50
% of revenue	9.4	4.3	12.7
Oil			
\$000s	\$ 109	\$ 19	\$ 47
\$/bbl	11.09	7.81	9.43
% of revenue	9.0	9.3	8.6
NGLs			
\$000s	\$ 3	\$ 4	\$ 4
\$/bbl	15.55	12.10	13.92
% of revenue	21.5	18.4	23.1

For the first quarter of the 2012 fiscal year, royalties were 332%, or \$93,000 higher than the previous comparable period due to higher production volumes and product prices. Royalties as a percentage of revenue and per boe increased as there was a \$14,000 Crown Royalty credit included in the prior year figures.

Royalties increased on a per boe in the current quarter compared to the three months ended March 31, 2011 due an increase in the portion of oil volumes compared to total volumes as oil has a higher per boe royalty charge than gas.

### Operating & Transportation Expenses

Operating and transportation expenses in the first quarter of the 2012 fiscal year increased \$343,000 to \$522,000 compared to \$179,000 in the prior year comparable quarter. The increase is due to higher oil volumes in Australia and a facility turnaround at the Company's Oak B.C property. Operating costs increased by \$16.81 per boe in the current quarter compared the prior year quarter. The increase is due to higher cost Cuisinier oil volumes which are trucked and Oak costs were higher while production was lower due to facility turnaround.

Operating and transportation costs increased by \$227,000 (\$9.80 per boe) in the current quarter compared to the prior quarter due to a facility turnaround at the Oak B.C property.

Transportation costs in Australia are incurred to transport Bengal's oil production through pipelines from various processing facilities to the centralized Moomba facility which accepts production from 115 gas fields and 39 oil fields through approximately 5,600 kilometres of pipelines. The oil is then sent through a pipeline to Port Bonython, South Australia.

Operating Expenses (\$000s)	Three Months Ended		
	06/30/11	06/30/10	03/31/11
Australia			
Operating	\$ 226	\$ 50	\$ 119
Transportation	173	38	87
	399	88	206
Canada – Operating costs	123	91	89
Total	\$ 522	\$ 179	\$ 295
Australia			
Operating - \$/boe	23.07	20.37	23.70
Transportation - \$/boe	17.58	15.73	17.21
Canada - \$/boe	30.67	14.93	16.14
Total (\$/boe)	\$ 37.77	\$ 20.96	\$ 27.97

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

In the first quarter of fiscal 2012, G&A expenses increased by 14%, or \$92,000 over the prior fiscal year's quarter. Expenses in the current quarter are higher due to recruitment agency costs incurred to hire senior technical personnel.

G&A expenses decreased by 31%, or \$340,000 in the current quarter compared to the prior quarter. The decrease in expenses is due to the prior quarter including consulting costs for preparation of resource reports on certain of the Company's properties.

General and Administrative Expenses (\$000s)	Three Months Ended		
	06/30/11	06/30/10	03/31/11
G&A	\$ 762	\$ 670	\$ 1,102

### Stock-Based Compensation

The Company uses the Black-Scholes pricing model to estimate the fair value of the options on the date of grant and amortizes the estimated expense over the vesting period with a corresponding increase to contributed surplus.

Bengal recognized stock-based compensation ("SBC") expense of \$277,000 for the current quarter compared to \$93,000 in the comparable prior year's period. The increase is due to new option grants in the current quarter a third of which vested immediately compared to the prior year period when a number of employee options had become fully vested.

Stock-based compensation in the three months ended June 30, 2011 increased from the March 31, 2011 quarter due to for the same reasons noted above.

Stock Based Compensation (\$000s)	Three Months Ended		
	06/30/10	06/30/10	03/31/11
SBC - options	\$ 277	\$ 73	\$ 79
SBC - warrants	-	20	11
<b>Stock-based compensation</b>	<b>\$ 277</b>	<b>\$ 93</b>	<b>\$ 90</b>

In June 2011, 750,000 stock options were granted to employees, directors and consultants. 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 \$1.32 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 estimated to be \$597,000 using the Black-Scholes option pricing model.

During the current quarter 172,000 options expired with an average exercise price of \$3.74 per option.

In the period from June 30, 2011 up to the date of this report, 150,000 options were forfeited and 200,000 stock options were granted at an exercise price of \$1.05. These options vest one-third immediately and one-third on each of the next two anniversaries of the grant date and expire five years from the grant date.

Stock-based compensation related to outstanding warrants is NIL for the three months ended June 30, 2011 as the warrants are fully amortized (June 30, 2010 - \$20,000). The warrants expired on August 13, 2011.

### Depletion and Depreciation

Depletion and depreciation increased by \$17,000 for the three months ended June 30, 2011 over the comparable prior year's period. The decrease in Canada is due to lower gas volumes due to a facility turnaround at the Company's Oak B.C. gas property and the increase in Australia is due to higher Cuisinier production volumes. Depletion per boe declined due to the addition of probable reserves on the Company's Cuisinier property in the March 31, 2011 reserve report.

DD&A Expenses (\$000s)	Three Months Ended		
	06/30/11	06/30/10	03/31/11
DD&A – Australia	\$ 63	\$ 28	\$ 34
DD&A – Canada	34	51	44
Total	\$ 97	\$ 79	\$ 78
\$/boe – Australia	6.34	11.61	6.74
\$/boe – Canada	8.53	7.42	7.90
\$/boe – Total	\$ 7.02	\$ 9.32	\$ 7.35

At June 30, 2011 the company reported a \$702,000 impairment loss against exploration and evaluation assets. The impairment relates to drilling costs charged by the operator in the current quarter for the dry and abandoned Hudson well which was drilled in 2008.

### Funds from (used in) Operations and Net Loss

For the three months ended June 30, 2011 funds from operations increased to \$7,000 or \$0.00 per basic and diluted share compared to funds used in operations of \$546,000 or \$0.03 per basic and diluted share in the prior comparable period. The increase in funds from operations is due to higher net operating income primarily as a result the increased production uptime for the Cuisinier 1 well and higher oil prices.

For the three months ended June 30, 2011 cash flow used in operations increased to \$1,371,000 or \$0.03 per basic and diluted share compared to cash flow used in operations of \$570,000 or \$0.03 per basic and diluted share in the prior comparable period. The increase in funds used is mainly due to higher accounts receivable for oil sales.

The loss for the three months ended June 30, 2011 was \$1,061,000 or \$0.02 per basic and diluted share compared to a loss of \$722,000 or \$0.04 per basic and diluted share in the prior fiscal year. The higher loss is due to an Exploration and Evaluation impairment charges of \$0.7 million partially offset by higher net operating income in the current quarter.

### CAPITAL EXPENDITURES

Drilling expenditures of \$702,000 in the current quarter related to late charges from the operator for the Hudson well which was drilled in 2008. These costs were written off as an impairment charge in the current quarter as the well was plugged and abandoned in 2008. Completion costs of \$1,049,000 in the current quarter are to complete and equip Cuisinier 2, 3 and Barta North 1 and to tie-in Cuisinier 2 and 3.

Subsequent to the end of the current quarter, the operator of ATP 752P (Wompi Block) plugged and abandoned the Sampdoria well. This well was fully funded by the operator as part of their farm-in work and therefore Bengal incurred no cost to drill this well.

Capital Expenditures (\$000s)	Three Months Ended		
	06/30/11	06/30/10	03/31/11
Geological and geophysical	\$ -	\$ -	\$ 991
Geological and geophysical	182	93	251
Drilling	702	-	637
Completions	1,049	-	-
Total capital expenditures	1,933	93	1,879
Exploration & evaluation expenditures	\$ 1,937	\$ 93	\$ 1,859
Development & production expenditures	(4)	-	20
Total net expenditures	\$ 1,937	\$ 93	\$ 1,879

## SHARE CAPITAL

Bengal has an unlimited number of common shares authorized for issuance. On September 12, 2011 there are 51,961,349 common shares issued and outstanding.

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.

At September 12, 2011, there were 2,798,667 employee stock options outstanding with an average exercise price of \$1.19 per share. Of these, 1,716,337 are exercisable at an average price of \$1.12 per share. These options expire between 2011 and 2016 with an average remaining life of 2.9 years.

Trading History	Three Months Ended		
	06/30/11	06/30/10	03/31/11
High	\$ 2.06	\$ 1.72	\$ 2.33
Low	1.03	1.02	1.22
Close	\$ 1.15	\$ 1.22	\$ 1.95
Volume (000s)	4,714	711	14,266
Shares outstanding			
Basic and diluted	51,961	18,238	37,795
Weighted average shares outstanding			
Basic and diluted	49,782	18,225	35,532

## LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2011 the Company had working capital of \$35.7 million, including cash and short term deposits of \$37.6 million and restricted cash of \$0.1 million, compared to working capital of \$14.1 million, including cash and short term deposits of \$14.6 million and restricted cash of \$1.2 million at March 31, 2011.

The Company currently has sufficient funds to meet its portion of expenditure obligations as per the approved fiscal 2012 work programs. The Company's current working capital position may not provide it with sufficient capital resources to meet its minimum work obligations for all exploration periods under the various permits the Company holds and for general corporate purposes. To finance its future acquisition, exploration, development and operating costs, Bengal most likely will require financing from external sources, including issuance of new shares or executing working interest farmout arrangements. The Company is actively marketing the opportunity for interested parties to farm in to its operated oil and gas permits offshore India and Australia but there is no assurance these efforts will be successful. There can be no assurance that such financing will be available to the Company or, if available, that it will be offered on terms acceptable to Bengal.

## CONTRACTUAL ARRANGEMENTS

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\$) <sup>(1)</sup>
Offshore Australia – AC/P47	750km <sup>2</sup> 3D seismic	March 2, 2012	\$6.2
Offshore Australia – AC/P24	Drill 1 exploration well	February 7, 2012	\$1.5
Onshore India – CY-ONN-2005/1	625km <sup>2</sup> 3D seismic + 75km <sup>2</sup> high resolution 3D seismic + 3 wells	March 3, 2014	\$6.6
Offshore India – CY-OSN-2009/1	310km 2D seismic & 81km <sup>2</sup> 3D seismic	August 15, 2014	\$3.0
Onshore Australia – ATP 752	Drill 1 development well. Tie-in and connect 3 wells.	July 31, 2014	\$2.6
Onshore Australia – ATP 732	Shoot 456km <sup>2</sup> of 2D and 50km <sup>2</sup> of 3D seismic. Drill 1 exploration well.	March 31, 2015	\$7.2
Onshore Australia – ATP 934P	Awaiting completion of Native Title before granting of ATP <sup>(2)</sup>	4 years after grant of ATP	\$12.1

<sup>(1)</sup> Translated at June 30, 2011 exchange rate of US \$1.00 = CAD \$ 0.9765 and AUD \$1.00 = CAD \$1.0346

<sup>(2)</sup> 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 500km of 2D seismic and up to seven wells.

### Guarantees – India Permits

(\$000s) CAD	Quarter ended	Year ended
	June 30, 2011	March 31, 2011
	03/31/11	03/31/10
CY-ONN-2005/1 – Onshore India – year 1	\$ -	\$ 485
CY-OSN-2005/1 – Onshore India – year 2	1,077	1,077
CY-OSN-2009/1 – Offshore India	152	152
<b>Total Guarantees</b>	<b>\$ 1,299</b>	<b>\$ 1,714</b>

These performance guarantees are not reflected in the balance sheet as they are supported by Export Development Canada.

The Company also has \$135,000 in restricted cash held by its bank to secure Company credit cards.

### Other

At March 31, 2011, the contractual obligations for which the Company is responsible for are as follows:

Contractual Obligations (\$000s)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Office lease	\$ 95	\$ 95	\$ -	\$ -	\$ -
Asset retirement obligations	161	33	14	12	102
<b>Total contractual obligations</b>	<b>\$ 256</b>	<b>\$ 128</b>	<b>\$ 14</b>	<b>\$ 12</b>	<b>\$ 102</b>

**RELATED PARTY TRANSACTIONS**

The Company paid \$33,000 in consulting fees and travel costs to a director of the Company and to a company controlled by a director. The fees were paid in the ordinary course of business based on market rates and were for international consulting services. At June 30, 2011, the Company has an accounts payable balance of \$12,600 (March 31, 2011 - \$41,328) payable to this director.

**SELECTED QUARTERLY INFORMATION**

(000s, except per share amounts)	Quarter Ended							
	06/30/11	03/31/11	12/31/10	09/30/10	06/30/10	03/31/10 Note 2	12/31/09 Note 2	09/30/09 Note 2
Petroleum and natural gas sales	\$ 1,319	\$ 691	\$ 430	\$ 383	\$ 349	\$ 280	\$ 413	\$ 505
Cash flow used-in operations	(1,371)	(746)	(681)	(455)	(570)	(493)	(264)	(263)
Per share								
Basic and diluted	(0.03)	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)	(0.01)	(0.01)
Funds from (used in) operations <sup>(1)</sup>	7	(690)	(808)	(467)	(546)	(626)	(347)	(295)
Per share								
Basic and diluted	0.00	(0.02)	(0.03)	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)
Net loss	\$ (1,061)	\$ (889)	\$ (1,094)	\$ (634)	\$ (722)	\$ (1,396)	\$ (885)	\$ (1,848)
Per share								
Basic and diluted	(0.02)	(0.03)	(0.04)	(0.04)	(0.04)	(0.08)	(0.05)	(0.10)
Additions to capital assets, net	\$ 1,933	\$ 1,879	\$ 1,797	\$ 174	\$ 93	\$ 553	\$ 1,120	\$ (426)
Working capital	35,691	14,063	8,571	11,019	631	1,272	2,501	3,970
Total assets	51,072	25,829	17,799	17,538	6,693	7,413	8,928	9,159
Shares outstanding								
Basic and diluted	51,961	37,795	30,262	30,238	18,238	18,213	18,213	18,213
Operations								
Average daily production								
Natural gas (mcf/d)	249	348	327	366	381	377	422	787
Oil and NGLs (bbls/d)	110	59	39	41	31	12	30	53
Combined (boe/d)	152	117	94	102	94	75	100	184
Netback (\$/boe)	\$ 48.92	\$ 31.31	\$ 22.69	\$ 13.33	\$ 16.65	\$ 18.67	\$ 21.39	\$ 11.77

<sup>(1)</sup> See "Non-GAAP Measurements" on page 2 of this MD&A.

<sup>(2)</sup> Fiscal 2010 comparatives were those derived under Previous GAAP and have not been restated to IFRS.

From September 30, 2009 to March 31, 2010 volumes and revenues had been on a declining trend due to natural reservoir declines and lower commodity prices and the sale of the Kaybob gas wells in September, 2009. Beginning in the quarter ended June 30, 2010 and continuing through to the current quarter, oil volumes started increasing due to commencement of production from the Cuisinier well in the Cooper Basin of Australia in May 2010. Oil production increased in the quarter ended June 30, 2011 due to improvement in truck access to the Cuisinier 1 well which had been restricted due to flooding.

In the quarter ended September 30, 2009 the net loss was increased by a loss on the disposal of oil and gas assets of \$943,000. The net loss in the quarter ended March 31, 2010 includes an undeveloped property impairment charge of \$0.5 million and the loss in the quarter ended June 30, 2011 includes an impairment charge of \$702,000 related to exploration and evaluation assets in Australia.

## FINANCIAL INSTRUMENTS

Financial instruments comprise cash, restricted 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.

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 by the Company to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. The Company does not use derivative instruments at this time.

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

### Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that material information required to be disclosed by Bengal is accumulated and communicated to the appropriate members of management to allow timely decisions regarding required disclosure. 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

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 ("ICFR") 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 internal controls or weaknesses during the three months ended June 30, 2011 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;
- 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 and non-routine financial accounting issues and tax matters 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 complex financial accounting issues and for tax planning, tax provision and compilation of corporate tax returns.

These material weaknesses in internal controls over financial reporting result in a reasonable possibility that a material misstatement will not be prevented or detected on a timely basis. 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 3 to the audited Consolidated Financial Statements for the years ended June 30, 2011 and 2010. 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 helps assess the likelihood of materially different results being reported is disclosed in the March 31, 2011 Annual Management Discussion and Analysis.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies used by Bengal are disclosed in Note 2 to the June 30, 2011 unaudited consolidated interim financial statements. Preparing financial statements in accordance with IFRS requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on the Company's financial statements and financial position.

### Transition to International Financial Reporting Standards ("IFRS")

On April 1, 2011, Bengal adopted International Financial Reporting Standards ("IFRS") for financial reporting purposes, using the transition date of April 1, 2010. The financial statements for the three months ended June 30, 2011, including required comparative information, have been prepared in accordance with IAS 34, Interim Financial Reporting. Note 2 to Bengal's unaudited consolidated interim financial statements as at and for the three months ended June 30, 2011 outlines the Company's IFRS accounting policies and Note 16 provides details of the Company's IFRS 1 elections and reconciliations between Canadian GAAP and IFRS.

The adoption of IFRS has not had an impact on the Company's operations, strategic decisions, key performance indicators and cash flow from operations. The Company noted a significant impact of IFRS conversion to its Property and Equipment. IFRS does not prescribe specific oil and gas accounting guidance other than for costs associated with the exploration and evaluation phase.

### NEW ACCOUNTING STANDARDS AND PRONOUNCEMENTS

The following describes new accounting pronouncements that have been issued but are not yet effective:

#### *IFRS 9, Financial Instruments*

IFRS 9 was issued in November 2009 and reflects the first phase of the IASB's work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 applies to the classification and measurement of financial assets and liabilities as defined in IAS 39 and is effective for annual reporting

periods beginning on or after January 1, 2013. The adoption of IFRS 9 is not expected to have a significant impact on the consolidated financial statements.

#### *IFRS 10, Consolidated Financial Statements*

IFRS 10 was issued in May 2011 and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces SIC-12 *Consolidation – Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements* and is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

#### *IFRS 11, Joint Arrangements*

IFRS 11 was issued in May 2011 and focuses on the rights and obligations of a joint arrangement, rather than its legal form (as is currently the case). To address reporting inconsistencies, the standard requires a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* and is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

#### *IFRS 12, Disclosure of Interests in Other Entities*

IFRS 12 was issued in May 2011 and is a new and comprehensive standard and applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

#### *IFRS 13, Fair Value Measurements*

IFRS 13 was issued in May 2011 and defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

The Company is currently evaluating the impact of adopting all of the newly issued and amended standards.

### **RISK FACTORS**

There are a number of risk factors facing companies that participate in the International oil and gas industry. A complete list of risk factors are provided in Bengal's Annual Information Form dated July 12, 2011 filed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **ADDITIONAL INFORMATION**

Additional information relating to Bengal is filed on SEDAR and can be viewed at [www.sedar.com](http://www.sedar.com). Information can also be obtained by contacting the Company at Bengal Energy Ltd, Suite 100, 736 – 6<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3T7, by email to [info@bengalenergy.ca](mailto:info@bengalenergy.ca) or by accessing Bengal's website at [www.bengalenergy.ca](http://www.bengalenergy.ca).

## 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 Iradesso • Calgary, Canada

### DIRECTORS

Richard A.N. Bonnycastle

Chayan Chakrabarty

Richard N. Edgar

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

Richard A.N. Bonnycastle

James B. Howe (Chairman)

Robert Steele

### RESERVES COMMITTEE

Richard N. Edgar

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