International Exploration and Production

Bengal
ENERGY LTD.

Annual Report | 2009

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LETTER TO SHAREHOLDERS

Management re-aligned Bengal Energy in fiscal 2009 from a focus on the onshore Cooper Basin in Australia towards a broader international view with India as its centerpiece. Although India is the largest and fastest growing democracy in the world, the country imports 75 percent of its energy needs. Bengal's corporate strategy has been designed to define, discover, exploit and acquire hydrocarbon resources to meet the insatiable demand for energy resources that exists and will continue to arise over the next decade in Asia in general and in India in particular.

To that strategic end, management acquired its first Indian acreage in the established producing Cauvery Basin of the East Coast of the country. The CY-ONN-2005/1 block acquired is in a light oil and gas prone area with 26 producing oil and gas fields, two of which offset the block. Particular knowledge of the definition and exploitation of successful granite wash oil fields in Western Canada led Bengal to focus on this block. In an effort to build strategic partnerships with key Indian partners, Bengal partnered on CY-ONN-2005/1 with two key Indian national oil companies — GAIL (India) Limited and Gujurat State Petroleum Corporation. Bengal's new association with these large Indian energy companies is expected to reap rewards for years.

Bengal also acquired exploration permit AC/P47 in the Timor Sea offshore Australia in fiscal 2009. This block by itself doubled Bengal's exploration lands to over 1.5 million net acres. Production from the Australian Northwest is exported to Asia and numerous Asian energy companies including those from India have taken up acreage positions on Australia's offshore Northwest Shelf. To demonstrate the value of Permit AC/P47 to its shareholders, Bengal arranged for an independent appraisal of this new Timor Sea acquisition. Independent engineers assessed permit AC/P47 as containing a probabilistic range of prospective oil resources with a mean average of 736 million barrels recoverable oil with 90 million barrels recoverable oil on a fully risked basis. The permit sits west of the established oil producing Vulcan sub-graben and Bengal's existing Katandra oil discovery.

The expansion into a wider Asian strategy will not impede or dilute Bengal's focus on its existing quality assets. Through its Australian subsidiary, Bengal retains an average working interest of 34 percent in 1.93 million gross acres in the Cooper/Eromanga Basin of onshore Australia which it continues to aggressively pursue. The company continues to believe that many parts and numerous play types in the Cooper/Eromanga Basin are under-exploited and can generate significant upside to a patient explorer.

Operations

In fiscal 2009, Bengal generated $1.8 million from existing production in Canada and Australia, averaged almost 200 barrels of oil equivalent per day and yet replaced 267 percent of production on a proved plus probable basis. The company drilled a successful appraisal well on its Oak property in Canada which is already tied-in and producing. More importantly, the company participated in what is believed to be a promising new light oil discovery on the Barta sub-block of its Australian Permit ATP752P with Cuisinier 1. This new discovery well flowed 52 API crude from a new zone in the region and is expected to be tied-in and producing by July 2009. With further appraisal work, the new discovery may be potentially demonstrated to exist across a drilling fairway greater than 33 sq. km.

Additional drilling with at least five new wells is expected on Permit ATP752P in late 2009 and early 2010 following assessment of new large 3D seismic surveys acquired under the joint venture farm-in terms. Bengal will be fully carried for three of the five wells that will be planned. Native Title Resolution is anticipated on two large blocks representing nearly 1.3 million gross acres of exploration lands, which will enable commencement of seismic acquisition on exploration permits ATP934P and ATP732P in the Cooper/Eromanga basin, onshore Australia.

Bengal retains a large inventory of high-impact international oil and gas properties in stable political and favourable fiscal environments that will prove central to the energy needs and growth in Asia and particularly India in the coming decades.

With its extensive international oil and gas experience, the veteran management and technical team at Bengal is well positioned to expand, evaluate and appropriately manage the risks and rewards of international exploration for the value creation of Bengal shareholders. The company has proven its ability to acquire significant new and attractive international assets, develop new partnerships and open new doors with key national oil companies. These efforts are expected to lead to exponential growth for Bengal shareholders in the coming years.

Sincerely,

Bradley Johnson
Chairman and CEO

Chayan Chakrabarty
President

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 22, 2009

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Bengal Energy Ltd. ("Bengal" or the "Company") (formerly Avery Resources Inc. – see paragraph on Share Capital) should be read in conjunction with the Audited Consolidated Financial Statements and accompanying notes for the years ended March 31, 2009 and 2008. Additional information relating to the Company, including a detailed reserve analysis, will be included in our Annual Information Form, which may be found on SEDAR at www.sedar.com.

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

Basis of Presentation - The financial data presented throughout the MD&A has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The reporting and measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet ("Mcf") of natural gas equal to one barrel ("bbl") of oil unless otherwise stated. Boe may be misleading, particularly if used in isolation. A boe conversion ration of 1bbl:6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

The periods reported on in this MD&A and accompanying financial statements and notes are the three-month and twelve-month periods ending March 31, 2009. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from January 1, 2009 through March 31, 2009. The terms "prior year's quarter" and "2008 quarter" are used throughout the MD&A for comparative purposes and refer to the period from January 1, 2008 through March 31, 2008.

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

Non-GAAP Measurements – Within the Management's Discussion & Analysis references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks are not defined by GAAP in Canada and are referred to as non-GAAP measures. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Netbacks equal total revenue less royalties and operating and transportation expenses calculated on a boe basis. Management utilizes these measures to analyze operating performance. Funds from operations is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net income, cash flow from operations or other measures of financial performance in accordance with Canadian GAAP. Funds from operations is commonly referred to as cash flow by research analysts and 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 ("boe/d") 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:

	Three Months Ended			Twelve Months Ended	
$000's	**03/31/09**	**03/31/08**	**12/31/08**	**03/31/09**	**03/31/08**
Cash flow from operations	**(85)**	(527)	303	**1,773**	(486)
Changes in non-cash working capital	**(7)**	301	(332)	**(680)**	293
Funds from operations	**(92)**	(226)	(29)	**1,093**	(193)

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

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

- *the performance characteristics of Bengal's oil and natural gas properties;*
- *oil and natural gas production levels;*
- *the size of the oil and natural gas reserves;*
- *projections of market prices and costs;*
- *supply and demand for oil and natural gas;*
- *expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;*
- *treatment under governmental regulatory regimes and tax laws;*
- *the impact of the New Royalty Framework on the Company's future royalties;*
- *capital expenditures programs;*
- *expectation that Bengal's future realized gas and oil prices will coincide with the AECO and TAPIS daily index price;*
- *funding of working capital requirements, commitments and other planned expenses will be by cash on hand;*
- *sufficiency of funds to meet working capital requirements, commitments and planned expenditures;*
- *commencement of exploration and development activities on Block CY-ONN-2005/1 in India with Bengal's share of the first year budget is $355,000;*
- *commencement of exploration and development activities on Permit AC/P47 offshore Australia with Bengal's share of the first year budget is $253,000;*
- *estimates of production levels in the Cooper Basin of Queensland, Australia and in Canada;*
- *suggested pay sands and production start date of the Cuisinier well; and*
- *future amount and timing of activity to be carried out by the Santos Joint Venture.*

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

- *volatility in market prices for oil and natural gas;*

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

HIGHLIGHTS

$000's except per share, volumes and netback amounts	Three Months Ended			Twelve Months Ended	
	03/31/09	**03/31/08**	**12/31/08**	**03/31/09**	03/31/08
Revenue					
Natural gas	**$ 357**	$ 394	$ 516	**$ 2,110**	$ 978
Natural gas liquids	**62**	89	67	**473**	373
Oil	**248**	776	242	**2,343**	2,223
Total	**667**	1,259	825	**4,926**	3,574
Royalties	**143**	192	125	**882**	491
% of revenue	**21.4**	15.3	15.2	**17.9**	13.7
Operating & transportation	**283**	194	211	**1,145**	587
Netback	**241**	873	489	**2,899**	2,496
Cash flow from operations:	**(85)**	(527)	303	**1,773**	(486)
Per share ($) (basic & diluted)	**(0.00)**	(0.03)	0.02	**0.10**	(0.03)
Funds from operations:	**(92)**	(226)	(29)	**1,093**	(193)
Per share ($) (basic & diluted)	**(0.01)**	(0.01)	(0.00)	**0.06**	(0.01)
Net (loss):	**(839)**	(632)	(6,196)	**(8,198)**	(3,645)
Per share ($) (basic & diluted)	**(0.05)**	(0.04)	(0.34)	**(0.45)**	(0.23)
Capital expenditures	**$ 254**	$ 575	$ 1,096	**$ 6,724**	$ 1,583
Volumes					
Natural gas (mcf/d)	**712**	542	842	**724**	385
Natural gas liquids (boe/d)	**19**	13	19	**19**	15
Oil (bbl/d)	**44**	80	46	**58**	64
Total (boe/d @ 6:1)	**182**	183	205	**198**	143
Netback ($/boe)					
Revenue	**$ 40.81**	$ 75.35	$ 43.69	**$ 68.20**	$ 68.01
Royalties	**8.72**	11.50	6.63	**12.21**	9.35
Operating & transportation	**17.23**	11.60	11.16	**15.84**	11.16
Total	**$ 14.86**	$ 52.25	$ 25.90	**$ 40.15**	$ 47.50

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

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

RESULTS OF OPERATIONS

Production

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

Production	Three Months Ended			Twelve Months Ended	
	03/31/09	03/31/08	12/31/08	03/31/09	03/31/08
Natural Gas (mcf/d)	**712**	542	842	**724**	385
NGLs (bbls/d)	**19**	13	19	**19**	15
Oil (bbls/d)	**44**	80	46	**58**	64
Total (boe/d)	**182**	183	205	**198**	143

For the year ended March 31, 2009, total oil, natural gas and natural gas liquids (NGL's) production averaged 198 boe/d, an increase of 38% from the 143 boe/d produced in the prior fiscal year. The increase in production is mainly due to the acquisition of the Oak, British Columbia gas property effective February 13, 2008 and drilling the Oak 1-30 gas well in October 2008 (42% net to Bengal). In the three month period ending March 31, 2009 total production averaged 182 boe/d, essentially unchanged over the prior year period of 183 boe/d as natural declines in production are offset by a full three months of Oak production in the current quarter. The decrease from Q3-2009 production of 205 boe/d to 182 boe/d in Q4-2009 is due to a payout adjustment for the Oak 5-30 Baldonnel zone reducing the Company's interest from 49% to 41%.

Oil production averaged 58 bbl/d in fiscal 2009, down 9% from 64 bbl/d in the prior fiscal year as a result of natural decline of the Company's Toparoa well in Australia. Prior year production was affected by a couple of months where the well was shut in for facility workover and ESP pump installation. The decline from Q4-2008 of 80 bbl/d to 44 bbl/ d in the Q4-2009 is due to reservoir decline which has now stabilized.

Natural gas production averaged 724 mcf/d during the current fiscal year, an increase of 88% over the prior fiscal year average of 385 mcf/d. For the three months ending March 31, 2009 gas production averaged 712 mcf/d, an increase of 31% over the prior year's period of 542 mcf/d. Gas production has increased due to the Oak acquisition on February 13, 2008 and the drilling and tie-in of a new well at Oak, B.C. in October 2008.

Pricing

Bengal markets its Kaybob, Alberta natural gas under one year contracts with pricing based on the AECO Daily Index (5A) less transport and fuel costs (approximately $0.10/mcf) and therefore Bengal expects its future realized gas prices to coincide with the AECO Daily Index price. Oak, British Columbia gas sales are marketed by the operator and the price received is based on the reference price at British Columbia's Station 2 plus $0.03 per mcf.

Bengal's realized price for its Australian oil production is based on the Tapis Crude benchmark price. Tapis is the main regional reference price for light sweet crude oils in South East Asia and is used as the reference price for Australian oil producers. Bengal's oil price is calculated using the Tapis reference price with the Toparoa crude traditionally receiving a quality premium. Tapis historically trades at a premium to West Texas Intermediate ("WTI") which over the past year was US $4.76.

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

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

Prices and Marketing	Three Months Ended			Twelve Months Ended	
	03/31/09	**03/31/08**	**12/31/08**	**03/31/09**	**03/31/08**
Average Benchmark Prices					
AECO 30 day firm ($/mcf)	**$ 5.62**	$ 7.12	$ 6.78	**$ 7.79**	$ 6.52
TAPIS oil ($US/bbl)	**49.03**	101.97	60.73	**91.28**	87.54
Cdn/Aus exchange rate	**0.83**	0.91	0.80	**0.88**	0.89
WTI oil ($US/bbl)	**$ 43.21**	$ 97.92	$ 58.71	**$ 86.52**	$ 82.23
Bengal's Realized Price ($ CAD)					
Natural gas ($/mcf)	**$ 5.58**	$ 7.99	$ 6.66	**$ 7.98**	$ 6.95
Oil ($/bbl)	**61.91**	106.22	56.71	**110.01**	94.47
NGLs ($/bbl)	**37.17**	75.49	39.30	**68.92**	66.98
Total ($/boe)	**$ 40.81**	$ 75.35	$ 43.69	**$ 68.20**	$ 68.01

Bengal's total realized price on a boe basis remained relatively flat year over year even though realized prices for both oil and gas increased. This is a result of a higher proportion of the Company's total sales coming from gas which when converted to boe's at 6 to 1 has a lower equivalent price per unit than oil.

Petroleum and Natural Gas Sales

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

Petroleum and Natural Gas Sales ($000's)	Three Months Ended			Twelve Months Ended	
	03/31/09	**03/31/08**	**12/31/08**	**03/31/09**	**03/31/08**
Natural Gas	**$ 357**	$ 394	$ 516	**$ 2,110**	$ 978
NGLs	**62**	89	67	**473**	373
Oil	**248**	776	242	**2,343**	2,223
Total	**$ 667**	$ 1,259	$ 825	**$ 4,926**	$ 3,574

Revenue for the 2009 fiscal year was 38% higher than the prior fiscal year due to increased overall production as well as higher average commodity prices realized over the period.

Revenue in the current quarter decreased 19% from the 3rd quarter due to lower gas production and prices and 47% from the prior year's quarter due to lower oil and gas prices.

Royalties

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

In Alberta, royalties on natural gas and NGL's are charged by the government based on an established monthly reference price. Gas cost allowance and custom processing credits reduce the effective royalty rate. Bengal's effective Crown royalty rate on Alberta production is 21.6% for the year ended March 31, 2009. Bengal also pays a 7.5% Gross Overriding Royalty ("GORR") on two of its Kaybob gas wells to the landholder.

In British Columbia, royalties are calculated based on average daily production from a well multiplied by a reference price. The reference price is the greater of the Producer Price and the Posted Minimum Price. The Ministry of Energy, Mines and Petroleum Resources calculates and publishes a Posted Minimum Price ("PMP") each month for each processing plant. The royalty rate is reduced by a Producer Cost of Service ("PCOS") allowance for the producers' field costs for gathering, dehydration and compression of the royalty share. Bengal's effective Crown royalty rate on B.C. production is 16.0% for the year ended March 31, 2009. Bengal also pays a GORR to the landholder on two of its Oak gas wells ranging from 7.5% to 10%.

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

For the 2009 fiscal year royalties were 80% or $391,000 higher than the previous fiscal year due to increased production of gas and also due to higher average commodity prices during the year. Royalties per boe increased as a larger proportion of Bengal's production was gas which incurs higher royalty rates than oil. Royalties paid in the current quarter increased 13% from the prior quarter due to an adjustment related to a prior period for Australian royalties of $38,000 in the current quarter. Royalties were 26% lower than the prior year's quarter due to lower commodity prices.

Royalties by Type ($000's)	Three Months Ended			Twelve Months Ended	
	03/31/09	**03/31/08**	**12/31/08**	**03/31/09**	**03/31/08**
Canada Crown	**$ 73**	$ 93	$ 86	**$ 485**	$ 244
Canada Gross overriding	**8**	41	15	**148**	72
Australian Government	**62**	58	24	**249**	175
Total	**$ 143**	$ 192	$ 125	**$ 882**	$ 491
$/boe	**8.72**	11.50	6.63	**12.21**	9.35
% of revenue	**21.4**	15.3	15.20	**17.9**	13.7

Royalties by Commodity	Three Months Ended			Twelve Months Ended	
	03/31/09	**03/31/08**	**12/31/08**	**03/31/09**	**03/31/08**
Natural Gas					
$000's	**$ 62**	$ 99	$ 81	**$ 493**	$ 181
$/mcf	**0.94**	2.01	1.05	**1.86**	1.28
% of revenue	**16.9**	25.1	15.7	**23.3**	18.5
Oil					
$000's	**$ 62**	$ 58	$ 24	**$ 249**	$ 175
$/bbl	**15.53**	8.00	5.68	**11.72**	7.45
% of revenue	**25.1**	7.5	10.0	**10.6**	7.9
NGLs					
$000's	**$ 19**	$ 35	$ 20	**$ 140**	$ 135
$/bbl	**11.96**	29.32	11.58	**20.42**	24.33
% of revenue	**32.2**	38.8	29.5	**29.6**	36.3

New Royalty Framework

On October 25, 2007, the Alberta Government announced its intent to increase crown royalties through the New Royalty Framework ("NRF"). The NRF was legislated in November 2008 and took effect January 1, 2009. The NRF calculates royalty rates based on individual wells production, depth and the commodity reference price and eliminates royalty incentives and holiday programs with the exception of specific programs relating to deep oil and natural gas drilling programs. Subsequent to the legislation of the NRF, the Transitional Royalty Plan and other royalty related incentives were introduced by the government in response to the economic downturn and declining commodity prices

Bengal does not anticipate a material impact on its royalty rates paid on Alberta gas production due to any of the legislation described above.

Operating & Transportation Expenses

Operating and transportation expenses in the 2009 fiscal year were 95% higher than the prior fiscal year due to a 38% increase in production, a full year of operating costs for our Oak gas wells and facility as well as annual maintenance costs related to these assets. Operating and transportation costs increased 34% in the current quarter compared to the prior quarter due to increased fuel and maintenance costs required to operate the Canadian gas wells due to unseasonably cold temperatures. Operating and transportation costs increased 45% in the current quarter compared to the prior year quarter due to increases in relatively high cost gas production combined with decreases in lower cost oil production and also due to higher weather related costs in the current quarter to produce gas.

Operating costs per boe for the 2009 fiscal year are 42% higher than the prior fiscal year due to a full year of higher cost gas production at Oak B.C. which requires compression and sweetening compared to only two months of Oak costs in the prior period. Also, higher boe costs resulted from workovers required to restart production of two of the Oak gas wells after they were shut in for a plant turnaround in the second quarter of fiscal 2009. Australian operating costs increased on a boe basis as declining production caused fixed costs per barrel to increase. On a boe basis operating and transportation costs increased by 54% in the current quarter compared to the prior quarter due the effect of fixed costs on lower production volumes and higher weather related costs in the current quarter. Australian costs per boe increased due to a one time compressor charge in the current quarter.

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

Operating Expenses ($000's)	**Three Months Ended**			**Twelve Months Ended**	
	03/31/09	**03/31/08**	**12/31/08**	**03/31/09**	**03/31/08**
Australia					
Operating	**$ 24**	$ 23	$ 12	**$ 82**	$ 61
Transportation	**51**	94	51	**276**	292
	75	117	63	**358**	353
Canada – operating costs	**208**	77	148	**787**	234
Total	**$ 283**	$ 194	$ 211	**$ 1,145**	$ 587
Australia					
Operating - $/boe	**6.00**	3.18	2.90	**3.86**	2.59
Transportation - $/boe	**12.80**	12.92	12.01	**12.96**	12.40
Canada - $/boe	**16.72**	8.11	10.07	**15.43**	8.06
Total ($boe)	**$ 17.23**	$ 11.60	$ 11.16	**$ 15.84**	$ 11.16

General and Administration (G&A) Expenses

In fiscal 2009 gross G&A expenses remained basically unchanged over the prior fiscal year while net G&A decreased by 23% over the same periods. For gross G&A, cost savings from closing the Australia office are offset by upgrades to communications systems and software and increased travel costs to India. The decrease in net G&A is due to the prior year included severance payments related to the acquisition of Bengal Energy Inc. Gross G&A expenses decreased 11% in the current quarter compared to the prior quarter and 10% compared to the prior year quarter due to lower office and rent costs.

In the fiscal 2008 Bengal recovered $170,000 for work done by geologists in its Australian office related to the successful bid for Australian Gazettal Block ATP 934.

On a boe basis, current year gross G&A costs declined compared to the prior year due to increased production from the acquired Oak, B.C. gas wells. G&A per boe in the current quarter is similar to the prior quarter and prior year quarter as the effect of declining costs is offset by decreased production volumes.

General and Administrative Expenses ($000's)	Three Months Ended			Twelve Months Ended	
	03/31/09	03/31/08	12/31/08	03/31/09	03/31/08
Gross G&A	**$ 506**	$ 565	$ 570	**$ 2,247**	$ 2,253
Acquisition-related G&A	**–**	839	–	**–**	839
Recoveries	**–**	–	–	**–**	(170)
Net G&A	**$ 506**	$ 1,404	$ 570	**$ 2,247**	$ 2,922

Gross G&A ($/boe)	**$ 30.94**	$ 33.81	$ 30.21	**$ 31.12**	$ 42.87
Acquisition-related G&A ($/boe)	**–**	50.21	–	**–**	15.96
Recoveries ($/boe)	**–**	–	–	**–**	(3.23)
Net G&A ($/boe)	**$ 30.94**	$ 84.02	$ 30.21	**$ 31.12**	$ 55.60

Stock and warrant based compensation

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

Fiscal 2009 stock-based compensation expense is $236,000 compared to $533,000 in the prior comparable period. The lower expense is due to compensation expense on older option grants being fully expensed as well as the current year expense is reduced by $49,000 due to the forfeiture of 231,000 stock options in the year of which 192,000 options had vested. At March 31, 2009 there is $110,000 of stock-based compensation remaining to be amortized over the next two years.

Bengal recognized stock-based compensation expense of $57,000 for the current quarter compared to $124,000 in the comparable prior year's period. The decline in expense is due to the expense related to most option grants has been fully amortized.

In March 2009, 685,000 stock options were granted to employees and directors. The options expire in five years; they vest one-third immediately and one-third on each of the following two annual anniversaries, and have an exercise price of $0.36 per option which was the market price of the Company's shares at the time of the grant. The fair value of the options is $141,000 using the Black-Scholes option pricing model.

The Company recorded warrant amortization expense of $198,000 (2008 - $31,000) for the year ended March 31, 2008 and $43,000 for the three months ended March 31, 2009 (Q4-2008 - $31,000).

Depletion, Depreciation and Accretion (DD&A)

DD&A Expenses ($000's)	Three Months Ended			Twelve Months Ended	
	03/31/09	03/31/08	12/31/08	03/31/09	03/31/08
DD&A – Australia	**$ 227**	$ 22	$ 1,003	**$ 2,776**	$ 1,795
DD&A – Canada	**333**	234	221	**1,127**	536
Sub-total	**560**	256	1,224	**3,903**	2,331
Australia – Ceiling test write down	**–**	–	3,133	**3,133**	600
Total	**$ 560**	$ 256	$ 4,357	**$ 7,036**	$ 2,931
$/boe – Australia	**57.04**	3.01	235.82	**130.38**	76.27
$/boe – Canada	**26.91**	24.87	15.03	**22.12**	18.45
$/boe – Sub-total	**34.27**	15.32	64.79	**54.04**	44.34
$/boe – Australia (Ceiling test)	**–**	–	166.05	**43.39**	11.42
$/boe – Total	**$ 34.27**	$ 15.32	$ 230.84	**$ 97.43**	$ 55.76

DD&A (before the ceiling test write-down) increased for the three and twelve months ended March 31, 2009 over the comparable prior year's periods due to higher production volumes and higher DD&A rate per boe. Consolidated DD&A per boe increased for the year ended March 31, 2009 compared to the prior year due to addition of the Hudson exploration well costs (dry and abandoned) to the depletable cost pool. The current quarter DD&A per boe increased over prior year quarter as an increase in reserves in the prior quarter reduced the rate per boe.

In Q4-2009 DD&A declined 47% or $30.52 per boe from the Q3-2009 as a ceiling test impairment charge recorded at the end of Q3-2009 reduced depletable costs for the Q4 depletion calculation.

Bengal has excluded $3.1 million from the depletion base related to unproved properties at March 31, 2009 compared to $3.2 million in the prior year. Future development costs of $35,000 have been added to the depletion base in fiscal 2009 compared to NIL in fiscal 2008.

Ceiling Test

The Company performs a ceiling test calculation quarterly on each cost center. At December 31, 2008 the ceiling test calculation resulted in the carrying value of oil and gas assets for the Australian cost center exceeding undiscounted cash flows from proved reserves and the cost of unproved properties. Consequently, Bengal performed stage two of the ceiling test assessing whether future cash flows from the production of proved plus probable reserves discounted at 5% plus the carrying cost of unproved properties, net of any impairment allowance, exceeds the carrying value of its petroleum and natural gas properties. As a result of performing this test, a ceiling test impairment loss of $3,133,000 (2008 - $600,000) has been included in DD&A expense in the consolidated statement of earnings and included in accumulated depletion. The impairment charge increased the total fiscal 2009 DD&A rate per boe by $43.39.

At March 31, 2009 a ceiling test calculation was again performed and it was determined that there was no further impairment in the carrying costs of Bengal's oil and gas assets.

Goodwill

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

Due to current economic conditions and the recent decline in the Company's share price, a goodwill impairment test was performed at December 31, 2008. The test compared the fair value of the Canadian reporting unit to its carrying value. Fair value was determined using cash flows discounted at 10% and accounted for the recent price decline received for the Company's oil and natural gas sales. Based on the impairment test, a goodwill impairment charge of $1.8 million was recorded in fiscal 2009.

Funds from Operations and Net Earnings

For the twelve months ended March 31, 2009 funds from operations increased to $1,093,000 or $0.06 per basic and diluted share compared to funds used in operations of $193,000 or $0.01 per basic and diluted share in the prior comparable period (funds from operations is a non-GAAP measure – see page 2). The improvement is due to higher production volumes from Oak B.C. and higher prices and the absence of acquisition costs which reduced funds from operations by $839,000 in the prior year. Cash flow from operating activities in the same period improved from a cash outflow of $486,000 in fiscal 2008 to cash provided by operations of $1,773,000 in fiscal 2009 due to the reasons noted above for funds from operations and due to increased cash provided by changes in working capital.

The loss for the twelve months ended March 31, 2009 was $8,198,000 or $0.45 per basic and diluted share compared to a loss of $3,645,000 or $0.23 per basic and diluted share in the prior fiscal year. The increased loss is due to ceiling test and goodwill impairment charges of $3.1 million and $1.8 million respectively in the current fiscal year compared to a $0.6 million ceiling test impairment charge in the previous year.

CAPITAL EXPENDITURES

During fiscal year 2009, the Company participated in the drilling of one (net 0.5) development and three (net 1.35) exploration wells with a success rate of 50%.

Australia

The exploration well Cuisinier 1 well (Bengal net 16.7%) was drilled by operator Santos as the first earning well on the Barta Block portion of permit ATP 752P under the amended Joint Venture agreement with Santos ("JV"). Though the well did not successfully find the primary target, a secondary, uphole target proved to be oil bearing resulting in what is believed to be a significant, new pool discovery. The well was completed in September 2008 flowing clean light oil. The operator has most recently advised that production should commence from this initial oil well in July, 2009.

The exploration well Hudson 1 (Bengal net 83.3%) was drilled by operator Santos as the second earning well on the Barta Block portion of permit ATP 752P. The second well found reservoir but was not hydrocarbon bearing and was subsequently plugged and abandoned. These two Santos operated exploration wells completed the first two well obligations of Bengal as part of the JV agreement relating to the Barta Block.

The exploration well Subzero 1 (Bengal net 35%) was drilled by operator Stuart Petroleum on PEL 113 (Murturee block) in South Australia. The well penetrated significant gas-bearing coals but the primary objective zones proved wet. The well was initially suspended pending further drilling results by Stuart Petroleum along trend.

Canada

The well Oak 1-30-86-17w6 (Bengal net 42%) was drilled by a third party operator and cased and completed as a Baldonnel zone gas well on the Company's Oak property in British Columbia. Gross production from the well (at rates averaging 980 Mcf/d or 160 boe/d) commenced in October 2008.

Geological and Geophysical ("G&G") expenses relate to seismic acquisition, interpretation and analysis on all of the Company's lands including prospect identification and play development. Other G&G work included the evaluation and bid preparation towards various worldwide exploration offerings throughout the year. These efforts resulted in successful new acquisition of the exploration block CY-ONN-2005/1 (Bengal 30%) in India following the NELP VII bid rounds of June 30th 2008 and the offshore exploration permit AC/P47 (Bengal 100%) in the Timor Sea following the Australian bid rounds of October 9th 2008.

Other

Other costs relate to India and Ireland. Costs for these projects are included in unproved property costs and are discussed in more detail in the Outlook section of this MD&A.

Bengal has access to approximately 1,596,000 net acres of land at March 31, 2009, which includes lands which farm-in commitments have not been completed.

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

Office costs reflect acquisition of a new systems server and telephone system.

Capital Expenditures ($000's)	Three months ended			Twelve Months Ended	
	03/31/09	03/31/08	12/31/08	03/31/09	03/31/08
Land	**$ –**	$ –	$ –	**$ –**	$ 107
Geological and geophysical	**174**	19	368	**1,020**	735
Drilling	**11**	–	428	**5,218**	130
Completions	**19**	542	169	**215**	538
Total oil and gas additions	**204**	561	965	**6,453**	1,510
Office	**50**	14	131	**271**	73
Total expenditures	**$ 254**	$ 575	$ 1,096	**$ 6,724**	$ 1,583

Tax Pools

Bengal has the following tax pools available to deduct against future earnings:

Years ended March 31 ($000's)	2009	2008
Canada		
Canadian exploration expense	**$ 64**	$ 76
Canadian development expense	**522**	852
Canadian oil and gas property expense	**2,012**	1,994
Undepreciated capital cost	**1,299**	1,484
Canadian foreign exploration & development	**2,625**	2,222
Non-capital losses carry forward	**5,594**	4,455
Net capital losses	**5,878**	5,878
Share issue costs	**463**	781
Total Canada	**18,457**	17,742
Australia		
Non-capital losses carry forward	**12,754**	9,555
Undepreciated capital cost	**56**	107
Share issue costs	**50**	78
Total Australia	**12,860**	9,740
Total	**$ 31,317**	$ 27,482

No tax benefit has been reflected in the financial statements as the Company does not meet the future earnings test to utilize the pools and realize the benefit.

At March 31, 2009, the Company had approximately $5.6 million and $12.7 million of non-capital losses in Canada and Australia respectively (2008 - $4.5 million and $9.6 million), available to reduce future taxable income. The Canadian losses expire at various dates from March 31, 2010 to March 31, 2028. The Australian non-capital losses have no expiry provided the shares of the Australian subsidiary are 50% owned by the same persons or corporation throughout the ownership test period or the company carries on the same business in the claim year as it did immediately before the test time. In the year ended March 31, 2009, $0.3 million of Canadian non-capital losses expired (2008 - $0.3 million).

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

The Company has an unlimited number of common shares authorized for issuance. On June 22, 2009 there are 18,212,783 common shares issued and outstanding on a post-consolidation basis.

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

During fiscal 2009 Bengal issued 685,000 stock options, 231,000 options were forfeited, 15,000 options were exercised and 16,007 options expired. At June 22, 2009, there are 1,565,366 employee stock options outstanding with an average exercise price of $1.81 per share – of these, 1,082,705 are exercisable at an average price of $2.43 per share. These options expire between 2009 and 2014 with an average remaining life of 3.4 years.

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

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

Share Information (000's)	**Three months ended**			**Twelve Months Ended**	
	03/31/09	**03/31/08**	12/31/08	**03/31/09**	**03/31/08**
Shares Outstanding					
Basic	**18,213**	18,198	18,213	**18,213**	18,198
Diluted	**18,213**	18,198	18,213	**18,213**	18,198
Weighted average shares outstanding					
Basic	**18,213**	16,846	18,213	**18,212**	15,714
Diluted	**18,213**	16,846	18,213	**18,212**	15,714

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2009 the Company had working capital of $2.2 million, including cash and cash equivalents of $2.7 million, compared to working capital of $8.0 million and cash and cash equivalents of $7.9 million at March 31, 2008. The Company invests surplus cash only in guaranteed investment certificates.

The Company had planned capital expenditures of $6.8 million for fiscal 2009 of which $6.7 million was spent to March 31, 2009. The Company plans to meet its working capital requirements, commitments and other planned capital expenditures with cash on hand.

Work commitments and planned Joint Venture expenditures are currently estimated at $1.6 million for fiscal 2010. Any additional expenditure, subject to Board approval, will be based on project economics, strategic importance, commodity prices, financing capability, general economic conditions, and the Company's financial position. The Company has prepared a budget for the period April 2009 to March 2010 and based on $50 US per bbl WTI and $4.00 CAD AECO gas prices, expects to have sufficient cash remaining in the bank to remain a going concern at March 2010. This budget is based on the expectation that the Cuisinier well in Australia will begin production in July 2009 at approximately 40 bbls per day net to the Company and that the remainder of the Company's production will continue to decline at similar rates as those experienced in the past.

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

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

Trading history	Three months ended			Twelve Months Ended	
	03/31/09	03/31/08	12/31/08	03/31/09	03/31/08
High	**0.60**	2.20	1.00	**2.90**	2.20
Low	**0.21**	1.30	0.17	**0.21**	1.30
Close	**0.28**	2.05	0.32	**0.28**	2.05
Volume (000's)	**220**	1,396	915	**3,439**	3,347

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

RELATED PARTY TRANSACTIONS

In the year ended March 31, 2009 there are no related party transactions.

In the prior year, an $81,000 acquisition related payment was made to an organization of which one of the Company's former directors was a partner. This transaction was conducted under standard business terms and is considered within the normal course of the Company's business activities and operations.

FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of cash and cash equivalents, accounts receivable, cash call advances, and accounts payable and accrued liabilities. As at March 31, 2009 and March 31, 2008, there were no significant differences between the carrying amounts of these instruments and the fair values.

The Company is exposed to fluctuations in the value of its cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities due to changes in foreign exchange rates as these financial instruments are denominated in Canadian dollars, U.S. dollars, Australian dollars, and Indian rupees. This risk is reduced because a portion of the Company's revenue is denominated in U.S. dollars. The Company further manages this risk by converting Canadian held cash to Australian dollars or Indian rupees as required to fund forecast expenditures. The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short periods of maturity. The fair value of cash call advances to joint venture partners is the amount of the funds advanced.

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

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

CONTRACTUAL ARRANGEMENTS

The Company is committed to minimum annual operating lease payments on its premises in Canada in the amount of $125,000 for the year ending March 31, 2010 and $42,000 from April to July, 2010. On October 31, 2008, Bengal's wholly-owned subsidiary did not renew its office lease in Brisbane, Australia.

The Company also has asset retirement obligations with respect to the abandonment and reclamation of wells and facilities owned by the Company. Bengal includes the present value of the estimated liabilities for such costs on its balance sheet. The total estimated undiscounted cost of these liabilities at March 31, 2009 was $301,000 (2008 - $302,000).

Contractual Obligations ($000's)		Total		Less than 1 year		1-3 Years		4-5 Years		After 5 Years
Office lease	$	167	$	125	$	42	$	–	$	–
Asset retirement obligations		179		67		28		15		69
Total Contractual Obligations	$	346	$	192	$	70	$	15	$	69

Bengal has work program commitments on its Cauvery block in India and offshore Australia on the AC/P47 Permit. Commitments will be funded from existing cash balances.

OUTLOOK

As an indication of another significant milestone in Bengal's growth, the Company was awarded in March 2009 a 100% working interest in Exploration Permit AC/P47 ("AC/P47"), a 3,485 square kilometer offshore block located in the Timor Sea on the Northwest Shelf of Australia. AC/P47 has been penetrated by only one well, drilled in 1973 downdip and off-structure of what appears to be a large area of structural closure encompassing high quality Triassic reservoir rocks. Bengal estimates this structure to be up to 90 square kilometers in area and 150 meters thick. As well, additional leads and prospects are evident on this permit, including another structural closure of comparable size. The Vulcan Graben, located some 150 kilometers to the east and where Bengal's AC/P24 offshore permit including the Katandra light oil discovery is situated, is an established producing area where the existence of oil-prone hydrocarbon-source beds is believed responsible for the light oil accumulations in this part of the Northwest Shelf. Based on mapping from a grid of existing seismic data, Bengal believes that there is a reasonable probability of equivalent light oil source strata extending to the flanks of AC/P47. Located on the Ashmore Platform, most of the AC/P47 Permit appears to have water depth of less than 400 meters and varying between 50 meters and 900 meters which is within conventional water drilling depths in this area. AC/P47 will have an initial six-year work program term; the first year of the program involves reprocessing of 985 square kilometers of two-dimensional marine seismic data for an estimated $253,000. At the end of the first year's progress, Bengal will consider, as one of its options, bringing in one or more partners as warranted to optimize the risk-reward balance for Bengal shareholders.

Subsequent to the award of the AC/P47 Permit, the Company received an independent assessment of prospective oil resources on this permit by DeGolyer and MacNaughton ("D&M"), a worldwide petroleum engineering and consulting firm. While, and as stated earlier, existing seismic data on the AC/P47 Permit has clearly showed multiple large structures with closure, D&M at this time assigned prospective resources only to the first prospect identified. D&M determined that a best estimate (P50) of the unrisked prospective oil resource attributable to one prospect identified in the Permit is 590.4 million barrels recoverable, thereby validating the Company's internal view regarding the significant potential of the AC/P47 permit. D&M also estimated the unrisked and the corresponding geologic risk-adjusted mean prospective resources attributable to the assessed prospect identified to be 736.5 million barrels and 90.2 million barrels of recoverable oil, respectively. The D&M resource estimates were prepared in accordance with the requirements of Canadian National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The Company believes that, beyond the first prospect identified in the permit where prospective resources were assigned through D&M's independent assessment, there is potential for several additional comparable-sized prospects within this permit.

In India, Bengal's wholly-owned subsidiary, Bengal Energy International Inc., along with its two joint bidding partners, received the official award of the NELP-VII Block CY-ONN-2005/1 (the "Block") on December 22, 2008 from the Government of India. Following this final award of the block and the signing of the Production Sharing Contract, the granting of Petroleum Exploration License from the state (i.e. provincial) government is expected to occur by June/July 2009, subsequent to which the exploration period will commence. The Block is a 946 square kilometer (233,761 acre) land block located in the Cauvery Basin, a proven producing basin in southeast India. Bengal has a 30% interest in the Block. The operator of the Block, GAIL (India) Limited, holds a 40% interest and Gujarat State Petroleum Corporation holds a 30% interest. In the first year of the initial four year phase of exploration activities in the Block, Bengal and its partners intend to undertake 2,000 kilometers of airborne magnetometry survey, reprocess 1,000 kilometers of existing 2D seismic survey data, and complete the design of 500 square kilometers of 3D seismic survey. Bengal's net cost exposure to this first year's exploration activity is estimated at $356,000. Bengal will be required to submit a bank guarantee of 35% of the first year's estimated expenditure.

On October 17, 2007, Bengal announced that it had signed a formal agreement with Santos Ltd. ("Santos"), a major Australian oil and gas explorer and producer, whereby Bengal and Santos would jointly explore and develop, subject to certain terms and conditions, exploration license ATP 752P within the Cooper/Eromanga Basin of Queensland, Australia. ATP 752P – a large, 868,000 gross acre parcel, divided into northern (Barta area) and southern (Wompi area) blocks – represents some 45% of Bengal's overall gross Cooper/Eromanga Basin acreage. On the northern 631,093-acre Barta Block, the new well Cuisinier-1 was drilled and completed as the first well of the Santos Joint Venture in May 2008. Cuisinier-1 exhibited good hydrocarbon shows in an uphole zone called the Murta Sandstone with open-hole logs initially suggesting minimum 6 meters of pay sands. In September 2008, the entire 13-meter Murta sandstone interval was perforated in the Cuisinier-1 well and flowed clean oil to surface over a 29-hour test period. The oil is a low viscosity, light (52 API gravity), sweet, premium crude. The Cuisinier-1 well will be completed in late second quarter of calendar 2009 with a beam pumping unit and the initial productivity estimate offered from the experience of the operator Santos is between 200-300 barrels of oil per day. In working towards the earliest possible production start-up from Cuisinier-1, Santos has decided to produce the well into a temporary tankage facility at Cuisinier for several months before making a decision on a permanent facility or a flowline to Santos' Cook oilfield battery located approximately 6 kilometres to the east of Cuisinier. Santos has estimated a production start in late June 2009. In addition to the new Murta fairway, the deeper Hutton zone, with established production at the offsetting Cook oilfield, also remains prospective in the Barta/Cuisinier area. To further evaluate the discovery and exploration potential, and as part of the Joint Venture and farm-in terms (at no cost to Bengal), the operator Santos has now acquired 103 Km2 of additional new 3D seismic data over the Cuisinier-1 discovery.

Although the operator has identified a number of follow-up locations to the Cuisinier discovery, the next well to be drilled ("3rd well of the Barta Block") will be determined after the new 3D seismic is processed and evaluated and a partner meeting is held to determine an appropriate development plan for the project. The next well is anticipated to be drilled in the first quarter of 2010. The Company has an earned 17.5% interest in the Barta Block (to reduce to 14.3% following the completion of the seismic activities) but has an option to increase its working interest to a final 25% by funding 55% of the next well to be drilled.

On the southern portion of ATP 752P (the Wompi Block), in ongoing fulfillment of the joint venture and farm-in terms, the operator Santos has completed the acquisition of 206 Km2 of new 3D seismic (again at no cost to Bengal). Following thorough evaluation of the new 3D seismic data, the JV and farm-in agreement allows for Santos to drill up to four new exploration wells. The Company is carried by Santos for the costs of the initial 3 exploration wells but Bengal retains as an option the opportunity to fund 60% of the final exploration well in order to retain its 30% working interest in the Wompi block. Drilling is expected to begin in the third quarter of 2009.

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

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

Bengal holds a 33.3% working interest in 109 square kilometer (26,930 acre) Petroleum Prospecting License PL1/01 and the 5,930 acre Minerals Prospecting License AR01/08 in South Larne, Northern Ireland. Both licenses occupy the same license area. The Petroleum License was originally acquired in order to investigate the possibility of large accumulations of natural gas in the prolific Permo/Triassic age Sherwood Sandstones which are the main productive reservoir in the East Irish Sea region approximately 100 miles to the east and south. The Minerals License is intended to identify salt strata in the license area and determine feasibility of using salt caverns leached from salt deposits for underground storage of natural gas.

The Bengal permits are close to a recently completed natural gas pipeline.

Initial Seismic prospecting indicated the thick layers of basalt at surface made interpretation of the subsurface problematic. Ongoing exploratory work carried out in 2008 included acquisition of additional geophysical data and the HRAM Survey (high resolution aeromagnetic survey) from the Geological Survey of Northern Ireland as well as geochemical sampling and further interpretation. Project costs for 2008 were approximately $500,000 CDN. ($166,000 net to Bengal).

A drill in 2009 or a drop commitment was required by the Department of Energy, Trade and Industry ("DETI") by the end of 2008. The operator, on behalf of the working interest party's, has submitted a request to the DETI to defer that decision until the end of 2009, with any drilling to proceed in 2010. The DETI has not yet made a decision on this request.

Minimum funds will be expended for the work program for 2009. This program will continue to review and interpret the electrical resistivity, gravity and geochemical data and integrate into the geological interpretation in order to select future drilling locations. Budget and Capex decisions for 2010 will be made after consultation with the Ireland Department of Enterprise, Trade and Investment.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table sets forth certain annual information of the Company and has been prepared in accordance with Canadian GAAP.

($000's except per share data and prices)

Year end March 31	2009	2008	2007	2006
Total production volumes (boe/d)	**198**	144	151	25
Natural gas prices ($/mcf)	**7.98**	6.95	6.53	8.82
Oil and liquids prices ($/boe)	**100.00**	89.21	69.02	57.53
Total production revenue	**4,926**	3,574	3,238	488
Net loss	**(8,198)**	(3,645)	(4,899)	(3,596)
Per share – basic and diluted	**(0.45)**	(0.23)	(0.38)	(0.67)
Cash flow from operations	**1,773**	(486)	734	(674)
Per share – basic and diluted	**0.10**	(0.03)	0.06	(0.12)
Funds from operations (1)	**1,093**	(193)	1,643	(1,118)
Per share – basic and diluted	**0.06**	(0.01)	0.13	(0.21)
Total assets	**12,664**	20,410	18,086	11,537
Working capital	**2,189**	8,043	9,117	3,080

(1) See "Non-GAAP Measurements" on the page 2 of this MD&A

SELECTED QUARTERLY INFORMATION

Set out below is selected quarterly information for Bengal for the last eight quarters.

(000's, except per share amounts)	Quarter Ended							
	3/31/09	12/31/08	9/30/08	6/30/08	3/31/08	12/31/07	9/30/07	6/30/07
Petroleum and natural gas sales	**$ 667**	$ 825	$ 1,482	$ 1,952	$1,259	$ 956	$ 732	$ 627
Cash flow from operations	**(85)**	303	1,142	607	(527)	(20)	139	(79)
Per Share- Basic and Diluted	**(0.00)**	0.02	0.06	0.03	(0.03)	(0.00)	0.01	(0.01)
Funds from operations (1)	**(92)**	(29)	367	829	(226)	165	79	(211)
Per Share- Basic and Diluted	**(0.01)**	(0.00)	0.02	0.05	(0.01)	0.01	0.01	(0.01)
Net Earnings (loss)	**$ (839)**	$ (6,196)	$ (812)	$ (351)	$ (632)	$(1,702)	$ (553)	$ (758)
Per Share- Basic and Diluted	**(0.05)**	(0.34)	(0.04)	(0.02)	(0.03)	(0.11)	(0.04)	(0.05)
Additions to capital assets	**$ 254**	$ 1,096	$ 3,842	$ 1,532	$ 575	$ (77)	$ 735	$ 350
Working capital	**2,189**	2,642	3,783	7,224	8,043	8,142	7,900	8,556
Total Assets	**12,664**	13,459	22,812	21,134	20,410	15,327	16,967	16,839
Shares Outstanding Basic and diluted	**18,213**	18,213	18,213	18,213	18,198	15,338	15,338	15,338
Operations								
Average daily production								
Natural gas (Mcf/d)	**712**	842	609	734	542	244	382	372
Oil and NGLs (bbls/d)	**63**	65	84	96	93	93	75	57
Combined (boe/d)	**182**	205	186	218	184	134	138	119
Netback ($/boe)	**$14.86**	$25.90	$ 49.75	$ 59.37	$52.25	$ 57.24	$ 37.79	$ 40.73

(1) Funds from (used in) operations is a non-GAAP measure. The comparable GAAP measure is cash flow used in operations and is equal to $(85,000) in the current quarter.

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

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

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

FINANCIAL INSTRUMENTS

Financial instruments comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying amounts due to their short-term maturities. Bengal has not identified any embedded derivatives in any of its contracts.

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

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Bengal are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting or causing them to be designed and operating effectively under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Bengal's management has assessed the design and operating effectiveness of internal controls over financial reporting.

While Bengal's Chief Executive Officer and Chief Financial Officer believe the Company's internal controls and procedures provide a reasonable level of assurance that they are reliable, an internal control system cannot prevent all errors and fraud. It is management's belief that any control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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

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

These weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of material misstatement; however, management and the Board do not have reasonable assurance that this risk can be reduced to a remote likelihood of a material misstatement.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Bengal are disclosed in Note 3 to the audited Consolidated Financial Statements for the years ended March 31, 2009 and 2008. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates. The following discussion identifies the critical accounting policies and practices of the Company and helps assess the likelihood of materially different results being reported.

Reserves

Under the National Instrument 51-101 ("NI 51-101") "Proved" reserves are defined as those reserves that can be estimated with a high degree of certainty to be recoverable. The level of certainty should result in at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved reserves. It does not mean that there is a 90% probability that the Proved reserves will be recovered; it means there must be at least a 90% probability that the given amount or more will be recovered.

"Proved plus Probable" reserves are the most likely case and are based on a 50 percent certainty that they will equal or exceed the reserves estimated.

These oil and gas reserve estimates are made using all available geological and reservoir data, as well as historical production data. All of the Company's reserves were evaluated and reported on by an independent qualified reserves evaluator. However, revisions can occur as a result of various factors including: actual reservoir performance, changes in price and cost forecasts or a change in the Company's plans. Reserve changes will impact the financial results as reserves are used in the calculation of depletion and are used to assess whether asset impairment occurs. Reserve changes also affect other non-GAAP measurements such as finding and development costs; recycle ratios and net asset value calculations.

Depletion and depreciation

The Company follows the full cost method of accounting for oil and natural gas properties. Under this method, all costs related to the acquisition of, exploration for and development of oil and natural gas reserves are capitalized whether successful or not. Depletion of the capitalized oil and natural gas properties and depreciation of production equipment which includes estimated future development costs less estimated salvage values are calculated using the unit-of-production method, based on production volumes in relation to estimated proven reserves.

An increase in estimated proved reserves would result in a reduction in depletion expense.

Unproved properties

The cost of acquisition and evaluation of unproved properties are initially excluded from the depletion calculation. An impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Ceiling test

The ceiling test is a cost recovery test intended to identify and measure potential impairment of assets. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves and the lower of cost and market of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. An impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment as a result of this ceiling test will be charged to operations as additional depletion and depreciation expense.

Asset retirement obligations

The Company records a liability for the fair value of legal obligations associated with the retirement of petroleum and natural gas assets. The liability is equal to the discounted fair value of the obligation in the period in which the asset is recorded with an equal offset to the carrying amount of the asset. The liability then accretes to its fair value with the passage of time and the accretion is recognized as an expense in the financial statements. The total amount of the asset retirement obligation is an estimate based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total amount of the estimated cash flows required to settle the asset retirement obligation, the timing of those cash flows and the discount rate used to calculate the present value of those cash flows are all estimates subject to measurement uncertainty. Any change in these estimates would impact the asset retirement liability and the accretion expense.

Income taxes

The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. In addition, the Company estimates when its temporary differences are expected to reverse and recognizes its tax assets and liabilities based on the legislated tax rate in those periods. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Stock-based compensation

The Company applies the fair value method for valuing stock option grants and warrants. This method requires the Company to make estimates of expected stock volatility, the expected hold period prior to exercising options, expected forfeitures of options and expected dividends to be declared by the Company. The calculation of the fair value of stock based compensation is not adjusted for the value actually received by the optionees and warrant holders. The stock-based compensation expense will not represent the actual fair value received by the optionees warrant holders as the fair value is estimated at the time of grant and is not adjusted. Due to the time period and the number of estimates involved, it is likely that the actual value of the options and warrants will differ materially from what has been recorded in the financial statements.

Other estimates

The accrual method of accounting requires management to incorporate certain estimates including estimates of revenues, royalties and operating costs as at a specific reporting date, but for which actual revenues and costs have not yet been received. In addition, estimates are made on capital projects which are in progress or recently completed where actual costs have not been received by the reporting date. The Company obtains the estimates from the individuals with the most knowledge of the activity and from all project documentation received. The estimates are reviewed for reasonableness and compared to past performance to assess the reliability of the estimates. Past estimates are compared to actual results in order to make informed decisions on future estimates.

FINANCIAL REPORTING UPDATE

Accounting standards adopted

On April 1, 2008, the Company adopted three new accounting standards: Section 1535, Capital Disclosures, Section 3862, Financial Instruments — Disclosures and Section 3863, Financial Instruments – Presentation. Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital, including: quantitative data about what the entity's considers capital, whether the entity has complied with any capital requirements and the consequences of non-compliance if the entity has not complied. Sections 3862 and 3863 specify standards of presentation and enhanced disclosures on financial instruments. The adoption of these new standards did not impact the amounts reported in the Company's financial statements as they primarily related to disclosures.

Recent pronouncements

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the changeover date to International Financial Reporting Standards ("IFRS") from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Company to apply IFRS prospectively by utilizing its current reserves at the transition date to allocate the Company's full cost pool, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

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

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

In December 2008, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with IFRS.

RISK FACTORS

Companies engaged in the oil and gas industry are exposed to a number of business risks, which can be described as operational, financial and political risks, many of which are outside of the Company's control. More specifically, these include risks of economically finding reserves and producing oil and gas in commercial quantities, marketing the production, commodity prices, environmental and safety risks, and risks associated with the foreign jurisdiction in which the Company operates. In order to mitigate these risks, the Company has an experienced base of qualified technical and financial personnel in both Canada and Australia. Further, the Company has focused its foreign operations, and plans to target future foreign operations, in known and prospective hydrocarbon basins in jurisdictions that have previously established long-term oil and gas ventures with foreign oil and gas companies.

An investment in the shares of the Company should be considered speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas in foreign countries, and its current stage of development. An investor should consider carefully the risk factors set out below and consider all other information contained herein and in the Company's other public filings before making an investment decision. Additional risks and uncertainties not currently known to the management of the Company may also have an adverse effect on Bengal's business and the information set out below does not purport to be an exhaustive summary of the risks affecting Bengal.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, for which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Bengal will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Bengal will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Bengal will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Bengal may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Bengal attempts to minimize exploration, development and production risks by utilizing a high-end technical team with extensive experience and multidisciplinary skill sets to assure the highest probability of success in its drilling efforts. Bengal's collaboration of a team of seasoned veterans in the oil and gas business, each with a unique expertise in the various upstream to downstream technical disciplines of prospect generation to operations, provides the best assurance of competency, risk management and drilling success. A full cycle economic model is utilized to evaluate all hydrocarbon prospects. Detailed geological and geophysical techniques are regularly employed including 3D seismic, petrography, sedimentology, petrophysical log analysis and regional geological evaluation.

Risks Associated with Foreign Operations

International operations are subject to political, economic and other uncertainties, including, among others, risk of war, risk of terrorist activities, border disputes, expropriation, renegotiations or modification of existing contracts, restrictions on repatriation of funds, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes, sudden changes in laws, government control over domestic oil and gas pricing and other uncertainties arising out of foreign government sovereignty over the Company's international operations. With respect to taxation matters, the governments and other regulatory agencies in the foreign jurisdictions in which Bengal operates and intends to operate in future may make sudden changes in laws relating to taxation or impose higher tax rates, which may affect Bengal's operations in a significant manner. These governments and agencies may not allow certain deductions in calculating tax payable that Bengal believes should be deductible under applicable laws or may have differing views as to values of transferred properties. This can result in significantly higher tax payable than initially anticipated by Bengal. In many circumstances, readjustments to tax payable imposed by these governments and agencies may occur years after the initial tax amounts were paid by Bengal, which can result in the Company having to pay significant penalties and fines. Furthermore, in the event of a dispute arising from international operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities have prices determined based on world demand, supply and other factors, all of which are beyond the control of Bengal. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of Bengal's oil and gas reserves. Bengal might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Bengal's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition to establishing markets for its oil and natural gas, Bengal must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by Bengal will be affected by numerous factors beyond its control. The ability of Bengal to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. Bengal will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Substantial Capital Requirements and Liquidity

Bengal's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Bengal may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Bengal to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Bengal's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Bengal's ability to expend the necessary capital to replace its reserves or to maintain its production. If Bengal's funds from operations are not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on terms acceptable to Bengal.

Bengal monitors and updates its cash projection models on a regular basis which assists in the timing decision of capital expenditures. Farmouts of projects may be arranged if capital constraints are an issue or if the risk profile dictates that Bengal wishes to hold a lesser working interest position. Equity, if available and if on favorable terms, may be utilized to help fund Bengal's capital program.

Health, Safety and Environment

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material.

Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge.

Insurance

Bengal's involvement in the exploration for and development of oil and gas properties may result in Bengal becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although Bengal has insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Bengal may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Bengal. The occurrence of a significant event that Bengal is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Bengal's financial position, results of operations or prospects.

Competition

Bengal actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial and personnel resources than Bengal. Bengal's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Bengal's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

ADDITIONAL INFORMATION

Additional information relating to Bengal is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at Bengal Energy Ltd, 1100, 715 5th Ave S.W., Calgary, Alberta T2P 2X6 or by email to info@bengalenergy.ca or by accessing Bengal's website at www.bengalenergy.ca.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended March 31, 2009 and 2008

BENGAL ENERGY LTD.

MANAGEMENT'S RESPONSIBILITY STATEMENT

The consolidated financial statements of Bengal Energy Ltd. and all information in this report are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include amounts that are based on estimates which have been objectively developed by management using all relevant information. All financial and operating data in this report is consistent with the information in the consolidated financial statements.

Bengal Energy Ltd. maintains appropriate systems of internal controls to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or misuse and financial records are properly maintained to provide reliable information for the preparation of financial statements. Bengal Energy Ltd. has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the current requirements of Canadian securities legislation.

KPMG LLP, an independent firm of chartered accountants, has been engaged to examine the financial statements and provide their auditor's report. Their report is presented with the consolidated financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors carries out its responsibility principally through its Audit Committee. The Audit Committee is comprised entirely of independent directors and meets regularly with management and with the Company's external auditors to discuss the results of their audit examination and to review issues related thereto. The external auditors have full access to the Audit Committee with and without the presence of management. The Audit Committee reviews the consolidated financial statements and Management's Discussion and Analysis and recommends their approval to the Board of Directors.

Bradley Johnson
Chief Executive Officer

Bryan Goudie
Chief Financial Officer

Calgary, Alberta
June 22, 2009

BENGAL ENERGY LTD.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Bengal Energy Ltd. as at March 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
June 10, 2009

BENGAL ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

(thousands of dollars)

As at March 31,		**2009**		**2008**
ASSETS				
Current assets				
Cash and short term deposits	$	2,676	$	7,852
Accounts receivable		835		1,481
Prepaid expenses and deposits		118		144
		3,629		9,477
Petroleum and natural gas properties (Note 5)		9,035		9,294
Goodwill (Note 6)		–		1,639
	$	12,664	$	20,410
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	1,440	$	1,434
Asset retirement obligations (Note 7)		179		180
Non-controlling interest		–		9
Shareholders' equity:				
Share capital (Note 8)		43,460		43,438
Warrants (Note 8)		229		31
Contributed surplus (Note 8)		3,577		3,341
Deficit		(36,221)		(28,023)
		11,045		18,787
	$	12,664	$	20,410

Going concern (Note 2)
Commitment (Note 12)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

______________________________Director
Bradley G. Johnson

______________________________Director
James B. Howe

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(thousands of dollars, except per share amounts)

Years ended March 31,	**2009**	**2008**
Revenues		
Petroleum and natural gas sales	$ 4,926	$ 3,574
Royalties	(882)	(491)
Interest income	162	306
	4,206	3,389
Expenses		
General and administrative	2,247	2,922
Operating and transportation	1,145	587
Depletion, depreciation and accretion (Note 5)	7,036	2,931
Stock and warrant based compensation	434	564
Goodwill impairment (Note 6)	1,759	–
Foreign exchange (gain) loss	(208)	68
	12,413	7,072
Loss before non-controlling interest	(8,207)	(3,683)
Non-controlling interest	9	38
Loss and comprehensive loss	(8,198)	(3,645)
Deficit, beginning of year	(28,023)	(24,378)
Deficit, end of year	$ (36,221)	$ (28,023)
Basic and diluted loss per share (Note 8)	$ (0.45)	$ (0.23)

See accompanying notes to the consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of dollars)

Years ended March 31,	2009	2008
Cash provided by (used in):		
Operations		
Loss for the year	$ (8,198)	$ (3,645)
Items not affecting cash		
Depletion, depreciation and accretion	7,036	2,931
Unrealized foreign exchange loss (gain)	74	(43)
Stock and warrant based compensation	434	564
Goodwill impairment	1,759	–
Abandonment expenditures	(12)	–
	1,093	(193)
Changes in non-cash working capital (Note 10)	680	(293)
Cash flow from operations	1,773	(486)
Financing		
Exercise of stock options	22	–
Changes in non-cash working capital (Note 10)	(60)	224
	(38)	224
Investments		
Additions to petroleum and natural gas properties and facilities	(6,724)	(1,583)
Cash acquired on acquisition (Note 6)	–	973
Changes in non-cash working capital (Note 10)	(80)	385
	(6,804)	(225)
Foreign exchange loss on cash held in a foreign currency	(107)	–
Increase (decrease) in cash	(5,176)	(487)
Cash and short term deposits, beginning of year	7,852	8,339
Cash and short term deposits, end of year	$ 2,676	$ 7,852

	2009	2008
Interest received	$ 203	$ 353
Taxes paid	$ –	$ –

See accompanying notes to consolidated financial statements.

1. INCORPORATION:

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

2. GOING CONCERN:

The Company's ability to continue as a going concern is dependent upon obtaining the necessary financing to complete development activities and generate profitable operations from its oil and natural gas interests in the future. The Company's financial statements as of and for the twelve months ended March 31, 2009 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company incurred a net loss of $8.2 million for the twelve months ended March 31, 2009 and had an accumulated deficit of $36.2 million as at March 31, 2009. The Company expects to incur expenditures to further its capital investment programs and the Company's existing cash balance and cash flow from operating activities are sufficient to satisfy its current obligations, and meet its capital investment commitments.

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

3. SIGNIFICANT ACCOUNTING POLICES:

The consolidated financial statements of Bengal Energy Ltd. have been prepared by management in accordance with accounting principles generally accepted in Canada. The reporting currency is the Canadian dollar. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from estimates.

Specifically, the amounts recorded for depletion and depreciation of petroleum and natural gas assets, asset retirement obligations, stock based compensation, and future income taxes are based on estimates. The ceiling test is based on estimates of reserves, production rates, oil and gas prices, future costs and other relevant assumptions. The asset retirement obligation is based on estimates of future costs to abandon and reclaim wells and inflation rates. The amounts for stock-based compensation are based on estimates of risk-free rates, expected option life and volatility. Future income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and it's wholly and majority owned subsidiaries, Avery Resources Australia (Pty) Ltd., Bengal Energy International Inc., Avery Resources (Northern Ireland) Ltd. and Northstar Energy Pty Ltd. respectively. All inter-entity transactions and balances have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents are comprised of cash and all investments with a maturity date of three months or less.

(c) Petroleum and natural gas properties:

(i) Capitalized costs:

The full cost method of accounting is followed for petroleum and natural gas properties whereby all costs relating to the acquisition of, exploration for and development of petroleum and natural gas reserves are capitalized into a cost centre for each respective country in which the Company has operations. Such costs include lease acquisitions, geological and geophysical activities, lease rentals on undeveloped properties, the drilling of productive and non-productive wells, and administration expenses directly related to the acquisition, exploration and development activities.

(ii) Depletion and depreciation:

Total capitalized costs in each cost centre are depleted and depreciated using the unit of production method based on the Company's share of estimated gross proved oil and gas reserves as determined by independent reservoir engineers. For purposes of the depletion and depreciation calculation, proved oil and gas reserves are converted to a common unit of measure on the basis of their approximate relative energy content.

The carrying value of unproved properties, including the cost of remote exploratory test wells, is initially excluded from the depletion calculation. A separate impairment test is performed on these assets to determine whether the carrying value exceeds the fair value. Any excess in carrying value over fair value is impairment. When proved reserves are assigned or a property is considered to be impaired, the cost of the property or the amount of the impairment will be added to the capitalized costs for the calculation of depletion.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized except where the sale results in a change in the rate of depletion and depreciation by 20% or more.

Other assets are depreciated on a declining basis at rates ranging from 20% to 30%.

(iii) Ceiling test:

Petroleum and natural gas assets in each cost centre are evaluated in each reporting period to determine that the carrying amount is recoverable and does not exceed the fair value of the properties.

The carrying amounts are assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the lower of cost and market of unproved properties and the cost of major development projects exceeds the carrying amount of the cost centre. When the carrying amount is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves, the lower of cost and market of unproved properties and the cost of major development projects of the cost centre. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

(d) Asset retirement obligations:

The Company uses the fair value method to provide for asset retirement obligations. The fair value of an asset retirement obligation is recognized in the period in which it is incurred when a reasonable estimate of fair value can be made. The fair value is based on estimated reserve life, inflation and discount rates. The provision is recorded as a long-term liability, with a corresponding increase in the carrying value of the associated asset. The capitalized amount is depleted on a unit-of-production basis. The liability amount is increased each reporting period due to the passage of time with this accretion charged to earnings in the period. Subsequent to the initial measurement of the asset retirement obligations the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The liability amount is decreased for actual abandonment costs incurred.

(e) Foreign currency translation:

The Company translates the accounts of its Australian, Irish and Indian subsidiaries, which are considered to be integrated, using the temporal method whereby monetary assets and liabilities are translated at the rates of exchange at the balance sheet dates, non-monetary assets and liabilities are translated at the rates in effect at the dates the assets or liabilities were acquired and revenues and expenses are translated at the average rates of exchange during the month in which they are recognized. Resulting gains or losses are included in earnings.

(f) Stock-based compensation plans:

The Company uses the fair value method of accounting for stock option grants and warrants. At the date of the grant or issue, the fair value of the stock options and warrants is estimated. This fair value of the options is recorded as an expense over the vesting period of the option with a corresponding increase to contributed surplus. In determining the fair value of the stock options and warrants granted, the Black-Scholes option pricing model is used and assumptions regarding interest rates, underlying volatility of the Company's stock and expected life of the options and warrants are made. Upon the exercise of stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The fair value of the warrants issued is recorded as warrant capital, and upon exercise of the warrants consideration received together with the amount previously recorded in warrant capital is recorded as an increase to share capital.

(g) Per share amounts:

Basic per share amounts are computed by dividing earnings (losses) by the weighted average number of common shares outstanding for the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options or other dilutive instruments were exercised or converted to common shares. The treasury stock method assumes that any proceeds upon the exercise or conversion of dilutive instruments would be used to purchase common shares at the average market price of the common shares during the period.

(h) Income taxes:

The Company uses the asset and liability method of tax allocation accounting. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(i) Flow-through shares:

The resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through shares are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the renounced tax deductions when the expenditures are renounced.

(j) Revenue recognition:

Revenues from the sale of natural gas, natural gas liquids and crude oil owned by the Company are recognized when title passes from the Company to its customers.

(k) Joint operations:

Significant portions of the Company's oil and gas activities are conducted jointly with others and accordingly, these financial statements reflect only the Company's interest in such activities.

(l) Financial Instruments:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including all derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Company has designated its cash and cash equivalents as held for trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. This is determined using the effective interest method. Accounts payable and accrued liabilities are classified as other liabilities which are measured at amortized cost, which is determined using the effective interest method.

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 these derivative instruments at this time.

The Company measures and recognizes embedded derivatives separately from the host contracts when the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, when it meets the definition of a derivative and when the entire contract is not measured at fair value. Embedded derivatives are recorded at fair value.

The Company immediately expenses all transaction costs incurred in relation to the acquisition of a financial asset or liability.

4. CHANGES IN ACCOUNTING POLICY

Effective April 1, 2008, the Company adopted three new accounting standards: Capital Disclosures, Financial Instruments – Disclosures, and Financial Instruments – Presentation. Capital Disclosures requires disclosure of objectives, policies and processes for managing capital, including: quantitative data about the components of capital, whether the Company has complied with any capital requirements and the consequences of non-compliance if the Company has not complied. Financial Instruments – Disclosures, and Financial Instruments – Presentation specify standards of presentation and enhanced disclosures on financial instruments. The adoption of these policies did not impact the measurement of the amounts reported in the Company's financial statements as they primarily relate to disclosures.

Future Accounting Changes

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

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

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

In December 2008, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This section replaces Section 1581, Business Combinations and harmonizes the Canadian standards with IFRS.

5. PETROLEUM AND NATURAL GAS PROPERTIES

($000's)	Cost	Accumulated depletion & depreciation	Net book value
March 31, 2009			
Australia			
Petroleum and natural gas properties	$ 18,389	$ 15,057	$ 3,332
Other assets	56	39	17
Canada			
Petroleum and natural gas properties	6,796	2,176	4,620
Other assets	525	260	265
Other			
Petroleum and natural gas properties	801	–	801
	$ 26,567	$ 17,532	$ 9,035
March 31, 2008			
Australia			
Petroleum and natural gas properties	$ 12,913	$ 9,163	$ 3,750
Other assets	107	45	62
Canada			
Petroleum and natural gas properties	6,170	1,114	5,056
Other assets	300	207	93
Other			
Petroleum and natural gas properties	333	–	333
	$ 19,823	$ 10,529	$ 9,294

Undeveloped property costs of $3.1 million (2008 - $3.2 million) have been excluded from the depletion calculation. Future development costs of proven reserves of $0.1 million (2008 – nil) are included in the depletion calculation.

Ceiling Test

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

The Corporation performed stage one of the ceiling test calculation at March 31, 2009 resulting in undiscounted cash flows from proved reserves and the cost of unproved properties being less than the carrying value of oil and gas assets. Consequently, Bengal performed stage two of the ceiling test assessing whether future cash flows from the production of proved plus probable reserves, discounted at 5%, plus the carrying cost of unproved properties, net of any impairment allowance, exceeds the carrying value of its petroleum and natural gas properties. The second stage of the ceiling test determined that discounted future net revenues from proved plus probable reserves did exceed the Company's carrying value of its oil and gas assets and that there was no impairment in the carrying value of the assets.

The prices used in the ceiling test at March 31, 2009 were from the Degolyer and MacNaughton Canada Limited Price Forecast as of March 31, 2009 and are as follows:

	2009	2010	2011	2012	2013	Percent increase per year to 2020
WTI Cushing Oklahoma ($US/bbl)	$ 54.00	$ 64.38	$ 72.14	$ 76.66	$ 80.81	~ 2.5%
Edmonton Par Price 40° API ($Cdn/bbl)	$ 66.25	$ 75.29	$ 79.67	$ 84.69	$ 89.28	~ 2.5%
Alberta Plantgate - Spot ($Cdn/mcf)	$ 4.33	$ 5.87	$ 6.09	$ 6.58	$ 7.11	~ 2.5%
Tapis ($Cdn/bbl)	$ 72.84	$ 81.62	$ 84.71	$ 90.73	$ 95.34	~ 2.5%

The Corporation performed a ceiling test calculation at December 31, 2008 resulting in undiscounted cash flows from proved reserves and the cost of unproved properties being less than the carrying value of oil and gas assets for the Australian cost center. Consequently, Bengal performed stage two of the ceiling test assessing whether discounted future cash flows from the production of proved plus probable reserves plus the carrying cost of unproved properties, net of any impairment allowance, exceeds the carrying value of its petroleum and natural gas properties. As a result of performing this test, a ceiling test impairment charge of $3.1 million on the Company's Australian cost centre has been included in DD&A expense in the consolidated statement of earnings and included in accumulated depletion.

In the prior year ended March 31, 2008 an impairment charge of $0.6 million is included in DD&A expense in the consolidated statement of earnings and included in accumulated depletion.

6. CORPORATE ACQUISITION

On February 13, 2008, Bengal Energy Ltd. (formerly Avery Resources Inc.) acquired all of the issued and outstanding common shares of Bengal Energy Inc., a company with assets in Oak, British Columbia. The purchase price recorded in Bengal's March 31, 2008 year end financial statements is shown in the table below:

($000's)	
Consideration	
Common shares issued	$ 4,931
	$ 4,931
Net assets received, at estimated fair value	
Property and equipment	$ 2,698
Working capital (including cash of $973)	701
Goodwill	1,639
Asset retirement obligations	(107)
	$ 4,931

Consideration for the transaction of $4,931,000 consisted of 2,860,000 Bengal shares at a price of $1.725 per share plus 940,000 common share purchase warrants as further described in Note 8(c).

The purchase price recorded in Bengal's March 31, 2008 year end financial statements was based on estimates made by management using the information available at that time. An amendment has been recorded in the twelve month period ended March 31, 2009 due to updates to those estimates resulting in a decrease in working capital of $138,000, a decrease in asset retirement obligations of $18,000 and an increase in goodwill of $120,000.

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

7. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from ownership interests in petroleum and natural gas assets. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligations at March 31, 2009 is approximately $301,000 (March 31, 2008 - $302,000) which will be incurred between 2009 and 2024. An inflation factor of 2% has been applied to the estimated asset retirement cost at March 31, 2009 and March 31, 2008. A credit-adjusted risk-free rate of 7% was used to calculate the fair value of the asset retirement obligation up to December 31, 2008. At March 31, 2009 the credit-adjusted risk free rate used to calculate the fair value of new asset retirement obligations increased to 10% due to tightening credit markets.

A reconciliation of the asset retirement obligations is provided below:

($000's)		2009		2008
Balance, beginning of year	$	180	$	85
Revisions		(17)		(20)
Liabilities settled		(12)		–
Liabilities acquired		16		107
Accretion expense		12		8
Balance, March 31	$	179	$	180

8. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares

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

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

($000's)	Number of shares		Amount
Balance March 31, 2007	**15,337,783**	**$**	**38,507**
Issued on acquisitions (Note 6)	2,860,000		4,931
Balance March 31, 2008	**18,197,783**	**$**	**43,438**
Issued on exercise of stock options	15,000		22
Balance March 31, 2009	**18,212,783**	**$**	**43,460**

On July 17, 2008, the Company's shareholders approved the consolidation of the Company's shares on a 5:1 basis and the change of the Company's name from Avery Resources Inc. to Bengal Energy Ltd., effective on the close of business July 21, 2008. The effect of the one-for-five consolidation was to reduce to one-fifth the number of common shares, warrants and stock options outstanding as of the close of business on July 21, 2008. In addition the weighted average exercise prices and fair value per option and warrant have been adjusted to five times the pre-consolidation prices. Both the weighted average number of shares outstanding and the earnings per share for years ended March 31, 2009 and 2008 have been presented as if the one-for-five consolidation had been in effect as of March 31, 2008 and 2007, respectively. All information included in these financial statements is calculated and presented subsequent to the one-for-five consolidation.

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

Of the 2,860,000 Bengal Energy Ltd. common shares issued to Bengal Energy Inc. shareholders, 1,586,001 were issued to Bengal Energy Inc. shareholders who became the new management at Bengal Energy Ltd. The shares received by the new Bengal Energy Ltd. management team have been put in voluntary escrow whereby one-third of the shares were released on August 13, 2008 (i.e. six months from the closing date), one-half of the remaining escrowed shares were released February 13, 2009 and the remaining escrowed shares (that is one-third) will be released on a date that is eighteen months from the closing date.

(c) Common share purchase warrants:

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

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

The Company recorded warrant amortization expense of $198,000 (2008 - $31,000) for the year ended March 31, 2009.

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

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

($000's)	Number of warrants	Amount
Balance March 31, 2007	**1,680,000**	**$ 927**
Expired	(1,680,000)	(927)
Issued for Bengal Acquisition	940,000	31
Balance March 31, 2008	**940,000**	**$ 31**
Amortization of warrant fair value	-	198
Balance March 31, 2009	**940,000**	**$ 229**

(d) Contributed surplus

A reconciliation of contributed surplus is provided below:

($000's) Years ended March 31		2009		2008
Balance, beginning of year	**$**	**3,341**	**$**	**1,881**
Stock-based compensation expense		236		533
Transfer from warrants on expiry of warrants		-		927
Balance, end of year	**$**	**3,577**	**$**	**3,341**

(e) Stock options:

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

A summary of stock option activity is presented below:

	Options		Weighted average exercise price
Outstanding at March 31, 2007	**1,038,373**	**$**	**3.00**
Granted	104,000		1.60
Outstanding at March 31, 2008	**1,142,373**	**$**	**2.90**
Granted	685,000		0.36
Exercised	(15,000)		1.50
Expired	(16,007)		2.08
Forfeited	(231,000)		2.82
Outstanding at March 31, 2009	**1,565,366**	**$**	**1.81**
Exercisable at March 31, 2009	1,082,705	$	2.43

	Options Outstanding			Options Exercisable	
Option price (1)	**Number outstanding**	**Exercise price (2)**	**Remaining life (3)**	**Number exercisable**	**Exercise price (2)**
$ 0.36–0.36	685,000	$ 0.36	4.9	228,339	$ 0.36
$ 1.25–2.25	233,000	$ 2.01	2.3	207,000	$ 2.05
$ 2.30–3.25	345,366	$ 2.94	2.1	345,366	$ 2.93
$ 3.30–4.50	302,000	$ 3.67	2.2	302,000	$ 3.68
Total	**1,565,366**	**$ 1.81**	**3.4**	**1,082,705**	**$ 2.43**

Note 1 – Range of option exercise prices
Note 2 – Weighted average exercise price of options
Note 3 – Weighted average remaining contractual life of options in years

During the year ended March 31, 2009, the Company granted 685,000 (2008–104,000) stock options to employees and directors. The Company recorded stock based compensation expense of $0.2 million (2008 - $0.5 million) for the year ended March 31, 2009. At March 31, 2009 there is $0.1 million of stock based compensation remaining to be amortized over the next two years.

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

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

	2009	2008
Assumptions:		
Risk free interest rate (%)	2.0%	4.1%
Expected life (years)	5 yr	5 yr
Expected volatility (%)	60 %	60 %
Vesting period (years)	2 yr	2 yr
Results:		
Weighted average fair value of options granted	$ 0.19	$ 0.88

The fair value of stock options granted during the year ended March 31, 2009 was estimated to be $0.1 million (2008 - $0.1 million).

(f) Per share amounts:

Per share amounts are calculated using losses and the weighted-average number of common shares outstanding. The Company has recorded a loss in each of the last two years and therefore any addition to basic shares outstanding is anti-dilutive. The weighted average number of shares outstanding at March 31, 2009 is 18,211,883 (2008 – 15,713,896). The average trading price of the Company’s common shares on the TSX for the year ended March 31, 2009 is $1.25 (2008 - $1.75) and the closing price was $0.28. At March 31, 2009, the exercise prices of all 1,565,366 employee stock options are above the closing stock price at March 31, 2009.

9. FINANCIAL RISK MANAGEMENT

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

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

(a) Fair value of financial instruments:

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

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bengal's cash calls paid to joint venture partners in Australia and receivables from petroleum and natural gas marketers. At March 31, 2009, Bengal's receivables consisted of $0.4 million (2008 - $1.0 million) from joint venture partners, $0.1 million (2008 - $0.2 million) of receivables from petroleum and natural gas marketers and $0.3 million (2008 - $0.3 million) of other trade receivables.

In Canada receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. Bengal markets its Kaybob gas production and the Kaybob liquids production through large, public Canadian marketers. Oak production is marketed by the operator. Bengal has contracts with the marketers and has not experienced any collection issues with them or with the operator of the Oak wells.

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

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

At March 31, 2009, the Company had no receivables that were considered past due (past due is considered greater than 90 days outstanding).

Bengal establishes an allowance for doubtful accounts as determined by management based on their assessment of collection therefore the carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. Bengal does not have an allowance for doubtful accounts as at March 31, 2009 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the year ended March 31, 2009 or March 31, 2008.

Cash and short term deposits consist of cash bank balances and guaranteed investment certificates which may be redeemed at any time without penalty. Bengal manages the credit exposure related to guaranteed investments by selecting counterparties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. Bengal prepares an annual budget and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. Bengal's financial liabilities consist of accounts payable and accrued liabilities and amounted to $1.4 million at March 31, 2009. Bengal had $2.7 million in cash and a net working capital surplus of $2.2 million at March 31, 2009.

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

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

(d) Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used to reduce exposure to these risks.

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Bengal receives Canadian dollars for sales in Canada and U.S. dollars for Australian oil sales and incurs expenditures in Australian, Canadian and U.S. currencies. Having sales and expenditures denominated in three currencies spreads the impact of individual currency fluctuations. The Company had no forward exchange rate contracts in place as at March 31, 2009 and March 31, 2008.

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

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

As at March 31, 2009 ($000's)				
	Total	**CAD**	**AUD**	**USD**
				CAD $ Equivalent
Cash and cash equivalents	2,676	1,877	609	190
Accounts receivable	835	181	436	218
Accounts payable	(1,440)	(271)	(1,169)	–
Balance sheet exposure	2,071	1,787	(124)	408

A five percent strengthening of the CAD$ would result in a reduction in earnings of $27,000 dollars (an equal but opposite impact to earnings would result if the CAD$ weakened by five percent).

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of a change in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. Australian oil prices are based on the Tapis reference price which tracks WTI but is also affected by refinery capacity in South East Asia and the US. There were no financial instruments in place to manage commodity prices during the periods ended March 31, 2009 and March 31, 2008. At March 31, 2009 a $5.00 decrease in oil prices and a $0.50 decline in natural gas prices would have caused net earnings to decrease by $222,000 for the 2009 fiscal year.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents that have a floating interest rate. If interest rates had been 100 basis points lower for the twelve months ended March 31, 2009, net income and cash flow would have decreased by $81,000. The Company had no interest rate swaps or hedges at March 31, 2009 and March 31, 2008.

(e) Capital management:

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility which will allow it to execute on its capital investment program, provide creditor and market confidence and to sustain in future development of the business. The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling and commitments inventory, the efficiencies of past investments, the efficiencies of forecasted investments and the timing of such investments, the forecasted cash balances, the forecasted commodity prices and resulting cash flow. The Company currently has no debt.

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

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

10. CHANGES IN NON-CASH WORKING CAPITAL

Years ended March 31 ($000's)		2009		2008
Accounts receivable and prepaid expenses	$	672	$	262
Accounts payable and accrued liabilities		(132)		54
Total	$	540	$	316
Relating to:				
Operating	$	680	$	(293)
Financing		(60)		224
Investing		(80)		385
Total	$	540	$	316

The change in working capital includes adjustments resulting from the Bengal Energy Inc. acquisition on February 13, 2008 (see Note 6).

11. INCOME TAXES

The provision for income taxes differs from the amount obtained in applying the combined Federal and Provincial income tax rates to the loss for the year. The difference relates to the following items:

Years ended March 31 ($000's)	2009	2008
Loss before taxes	$ 8,198	$ 3,645
Corporate tax rate	29.38%	31.45%
Expected income tax recovery	$ 2,409	$ 1,146
Non-deductible Goodwill impairment	(517)	–
Stock & warrant based compensation	(127)	(171)
Effect of tax rate changes & other	(264)	(1,033)
	1,501	(58)
Change in valuation allowance	(1,501)	58
	$ –	$ –

The components of the net future income tax assets (liabilities) are as follows:

Years ended March 31 ($000's)	2009	2008
Future income tax assets:		
Non-capital losses	$ 5,223	$ 3,572
Net capital losses	1,469	1,499
Petroleum and natural gas properties and equipment	(686)	(654)
Share issue costs	131	219
Asset retirement obligations	46	46
Future income tax assets	6,183	4,682
Valuation allowance	(6,183)	(4,682)
	$ –	$ –

At March 31, 2009, the Company had approximately $5.6 million and $12.7 million of non-capital losses in Canada and Australia respectively (2008 - $4.5 million and $9.6 million), available to reduce future taxable income. The Canadian non-capital losses expire at various dates from March 31, 2010 to March 31, 2028. The Australian non-capital losses have no expiry.

12. COMMITMENT

The Company is committed to minimum annual operating lease payments on its premises in Canada as follows:

Years ended March 31 ($000's)	
2010 – April 2009 to March 2010	$ 125
2010 – April to July	42
	$ 167

The Company acquired a flow-through share spending commitment as part of the Bengal Energy Inc. acquisition on February 13, 2008 (see Note 6). The acquired company renounced $1.0 million of qualifying oil and natural gas expenditures effective December 31, 2007 pursuant to a flow-through share offering. Bengal has fulfilled the qualifying expenditure requirement during the year.

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

13. RELATED PARTY TRANSACTIONS

In the year ended March 31, 2009 there are no related party transactions. In the prior year, an $81,000 acquisition related payment was made to an organization of which one of the Company's former directors was a partner. This transaction was conducted under standard business terms and is considered within the normal course of the Company's business activities and operations.

14. SEGMENTED INFORMATION

Year ended March 31, 2009 ($000's)	**Australia**	**Canada**	**Other**	**Total**
Revenue, net of royalties	$ 2,093	$ 1,951	$ –	$ 4,044
Loss for period	(4,757)	(3,342)	(99)	(8,198)
Petroleum and natural gas properties				
Cost	$ 18,445	$ 7,321	$ 801	$ 26,567
Accumulated depletion, depreciation and amortization	(15,096)	(2,436)	–	(17,532)
Net Book Value	$ 3,349	$ 4,885	$ 801	$ 9,035
Petroleum and natural gas property expenditures	$ 5,415	$ 841	$ 468	$ 6,724
Goodwill	$ –	$ –	$ –	$ –

Year ended March 31, 2008 ($000's)	**Australia**	**Canada**	**Other**	**Total**
Revenue, net of royalties	$ 2,048	$ 1,035	$ –	$ 3,083
Loss for period	(1,600)	(2,045)	–	(3,645)
Petroleum and natural gas properties				
Cost	$ 13,020	$ 6,470	$ 333	$ 19,823
Accumulated depletion, depreciation and amortization	(9,208)	(1,321)	–	(10,529)
Net Book Value	$ 3,812	$ 5,149	$ 333	$ 9,294
Petroleum and natural gas property expenditures	$ 907	$ 3,352	$ 4	$ 4,263
Goodwill	$ –	$ 1,639	$ –	$ 1,639

CORPORATE INFORMATION

AUDITORS
KPMG LLP • Calgary, Canada
Allens Arthur Robinson • Brisbane, Australia

LEGAL COUNSEL
Borden Ladner Gervais • Calgary, Canada

BANKERS
Royal Bank of Canada • Calgary, Canada
West Pac Bank • Brisbane, Australia
Commonwealth Bank • Brisbane, Australia

REGISTRAR AND TRANSFER AGENT
Valiant Trust Corporation • Calgary, Canada

INVESTOR RELATIONS
Bryan Mills Iradesso • Calgary, Canada

DIRECTORS
Chayan Chakrabarty
Richard N. Edgar
James B. Howe
Edwin (Ted) S. Hanbury
Bradley G. Johnson
Judith A. Stripling
Ian J. Towers

GOVERNANCE AND DISCLOSURE COMMITTEE
All Directors are Committee members

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

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

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

OFFICERS
Bradley Johnson, Chief Executive Officer
Chayan Chakrabarty, President
James Mott, Vice President, Exploration
Bryan C. Goudie, Chief Financial Officer
Melinda Park, Secretary

STOCK EXCHANGE LISTING
TSX: BNG

ANNUAL GENERAL MEETING
Bengal's annual meeting of shareholders will be held on Wednesday, August 5, 2009 at the Sandman Hotel, Calgary City Centre, 888 7th Avenue SW, Calgary, AB in "Great Room 1&2" at 10:00 a.m. All shareholders are invited to attend the meeting and are encouraged to complete and return their form of proxy to ensure their vote is counted.

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Bengal Energy Ltd.

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