Bengal Energy Ltd.

International exploration & production

# Management's Discussion & Analysis

## Three and Six Months Ended September 30, 2016 and 2015

## FIRST QUARTER FISCAL 2017 HGHLIGHTS

### Financial Highlights:

- **Sales Revenue** – Crude oil sales revenue before hedging gains was $2.3 million in the second quarter of fiscal 2017, which is 32% less than the $3.4 million recorded in the second quarter of fiscal 2016 and 8% lower than the preceding quarter.

- **Hedging in place through June 2017** – the Company has approximately 88,000 barrels of production hedged with a floor price of US $80 per barrel through to June 2017. From July 2017 through to December 2018, the Company has hedged approximately 133,000 barrels of production at a floor price of US $47 per barrel. During the quarter ended September 30, 2016, realized gains of derivative financial instruments was $1.3 million.

- **Funds Flow from Operations[(1)]** – Bengal generated funds flow from operations of $1.8 million in the quarter ended September 30, 2016 a 38% increase from the $1.3 million generated in the preceding quarter and in the second quarter of fiscal 2016.

- **Net Income** – Bengal reported a net income of $0.3 million for the quarter compared to a net loss of $2.7 million in the preceding quarter, and net income of $1.2 million in the second quarter of fiscal 2016. Excluding the impact of unrealized foreign exchange and unrealized hedging gains and losses, adjusted net earnings[1] was $1.1 million for the second quarter of fiscal 2017 compared to an adjusted net loss of $0.3 million in the second quarter of fiscal 2016 and $0.6 million during the preceding quarter.

### Operational Highlights:

- **Cuisinier 2016 drilling program –** During the quarter, five wells were drilled in the Cuisinier oil field. All of these wells were successful in locating oil bearing sands and have been suspended as future oil producers to be connected during the first half of calendar 2017, which is expected to increase the Company production. The drilling program included three development wells, one appraisal well ("Cuisinier-22") and one exploration well ("Shefu-1"). Successful drilling of the appraisal and exploration locations are expected to materially impact the Company's reserves once tested.

- **Credit Facility Update** - On August 26, 2016 Company extended the credit facility by 18 months to December 2018 with a borrowing base of US $15 million.

- **Production Volumes** – Production in the second quarter of fiscal 2017 averaged 386 barrels of oil equivalent per day ("boepd"), a 35% and 10% decrease from the previous quarter and fiscal Q2 2016 respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS – November 10, 2016

Bengal's producing assets are situated in Australia's Cooper Basin, a region featuring large hydrocarbon pools. The Company's core Australian assets, Cuisinier and Tookoonooka, are situated within an area of the Cooper Basin. Still in early stages, in terms of appraisal and development, Bengal believes these assets offer attractive upside potential. Australia features a stable political, fiscal and economic environment in which to operate, with a favourable royalty regime for oil and gas production.

---

[1] See non-IFRS measurements section on page 5 of this MD&A

## OUTLOOK

### AUSTRALIA

#### ATP 752 Barta Block Cuisinier

Following the success of the 2016 drilling campaign, the Joint Venture plans to complete and tie-in these wells as well as fracture stimulate up to five additional locations during the first half of calendar 2017.

The drilling program included three development locations in the central/south part of PL 303 targeting the Murta D70 sandstone directly offsetting existing Murta oil producers. One appraisal well, Cuisinier 22, is located approximately 790m north of the Cuisinier North-1 well, a Murta oil well drilled in 2012 and supports multiple follow-up development locations.

The near field exploration well Shefu-1 confirms a westerly extension of the Cuisinier pool within PL303 and oil pay was found to occur structurally lower than what has been encountered in previous rounds of appraisal drilling at Cuisinier, therefore lowering the "lowest known oil" for the area. Bengal's internal estimates suggest that this Shefu-1 result has the potential to materially increase the Cuisinier area oil in place and reserves, given that the Murta reservoir in the Shefu-1 area is well outside of Bengal's currently booked 1P, 2P and 3P reserves areas.

The joint venture continues to evaluate the results of its successful 2015 fracture stimulation program and has identified a number of additional fracture stimulation targets which will be considered once sufficient production history data are available from the 2016 fracture stimulated wells.

The joint venture is also in the preliminary stages of planning for a 3D seismic program in the Barta West area, immediately west of Cuisinier PL303. The exact size and timing will be finalized in the coming months.

#### ATP 934 Barrolka

Bengal has completed reprocessing of 500+ line kilometers of 2D seismic over the permit and interpretation of this data is now complete. The most favorable areas have been high-graded for additional detailed geophysical work that may include the acquisition of 3D seismic in 2017. The Company is encouraged by recent natural gas discoveries near the Barrolka permit, which suggest the presence of a basin centered gas play in the region, as well as significant conventional potential for natural gas occurrence in the Permian Toolachee and Patchawarra sandstone reservoirs. Bengal is operator with a 71% working interest in this permit and has held preliminary discussions with third parties who may have an interest in farming in on this block

#### ATP 732 Tookoonooka Block

The Tookoonooka Permit (ATP 732 – 100% WI effective January 28, 2016) is located in the emerging East Flank oil fairway of the Cooper Basin. Beach Energy Ltd. ("Beach") completed the acquisition of 300 sq. km 3D seismic in Tookoonooka in February 2014 and subsequently relinquished its interest in the permit; Bengal was fully carried for the cost of this seismic program. While there are no outstanding commitments on this permit, Bengal is currently studying the Permian gas potential along the northern flank of the permit as well as the largely unexplored oil potential in the southern part of the permit closer to the producing Jackson/Jackson South Field which has produced 49.4 million barrels of oil to date.

### ATP 752 Wompi

The Nubba-1 well encountered multiple oil shows within the Jurassic, as well as up to 6 metres of Permian Toolachee gas. Pressure testing, as well as logging, suggests that this Toolachee gas well could be part of a gas column that may be up to 70 metres in height. This suggests the prospective gas pay extends down dip of the Nubba well where seismic indicates the Toolachee section thickens. A Potential Commercial Area (PCA) will be applied for which will allow for commercialization. The produced natural gas would likely be pipeline connected to the nearest gas transmission line in the area, which is approximately 5 kilometres from the Nubba-1 well. Wompi offers Bengal moderate risk exploration in a well-established, oil-producing fairway with multi-zone potential and the joint venture is currently evaluating the appropriate timing to continue the development of this discovery.

### Business Development

The Company, encouraged by increased deal flow in Australia's Cooper Basin, continues to examine potential transactions targeting complementary asset bases to increase reserves, production and cash flows per share.

## OPERATING HIGHLIGHTS

| **$000s except per share, volumes and netback amounts** | **Three Months Ended September 30** | | | **Six Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| Oil sales revenue | **$2,301** | $ 3,392 | (32) | **$4,790** | $ 7,096 | (33) |
| Realized gain on financial instruments | **$1,316** | $ 735 | 79 | **$2,592** | $ 1,169 | 122 |
| Royalties | **$34** | $ 235 | (86) | **$181** | $ 489 | (63) |
| % of revenue | **1** | 7 | (86) | **4** | 7 | (43) |
| Operating & transportation | **$1,190** | $ 1,879 | (37) | **$2,607** | $ 3,574 | (27) |
| Operating netback(1) | **$2,393** | $ 2,013 | 19 | **$4,594** | $ 4,202 | 9 |
| Cash from operations | **$1,982** | $ 2,318 | (15) | **$2,938** | $ 2,967 | (1) |
| Funds from operations:(2) | **$1,797** | $ 1,282 | 40 | **$3,145** | $ 2,504 | 26 |
| Per share ($) (basic & diluted) | **0.03** | 0.02 | 50 | **0.05** | 0.04 | 25 |
| Net income (loss) | **$325** | $ 1,167 | (72) | **$(2,411)** | $ (89) | 2,609 |
| Per share ($) (basic & diluted) | **0.00** | 0.02 | (100) | **(0.04)** | 0.00 | - |
| Adjusted net income (loss)(3) | **$1,086** | $ (283) | (484) | **$1,651** | $ (462) | (457) |
| Per share ($) (basic & diluted) | **0.00** | (0.00) | - | **0.02** | (0.01) | (300) |
| Capital expenditures | **$3,320** | $ 596 | 457 | **$3,703** | $ 1,704 | 117 |
| Oil Volumes (bopd) | **386** | 592 | (35) | **409** | 556 | (26) |
| Netback(1) ($/boe) | | | | | | |
| Revenue | **$64.72** | $ 62.31 | 4 | **$64.05** | $ 69.71 | (8) |
| Realized gain on financial instruments | **37.01** | 13.50 | 174 | **34.66** | 11.48 | 202 |
| Royalties | **0.96** | 4.32 | (78) | **2.42** | 4.80 | (50) |
| Operating & transportation | **33.47** | 34.52 | (3) | **34.86** | 35.11 | (1) |
| Netback/boe | **$67.30** | $ 36.97 | 82 | **$61.43** | $ 41.28 | 49 |

(1) Operating netback is a non-IFRS measure and includes realized gain on financial instruments. Netback per boe is calculated by dividing revenue (including realized gain on financial instruments) less royalties, operating and transportation costs by the total production of the Company measured in boe.
(2) Funds from operations is a non-IFRS measure. The comparable IFRS measure is cash from operations. A reconciliation of the two measures can be found in the table on page 5.
(3) Adjusted net (loss) is a non-IFRS measure. The comparable IFRS measure is net income (loss). A reconciliation of the two measures can be found in the table on page 5
(4)

(5) .

## Basis of Presentation

This MD&A and accompanying financial statements and notes are for the three and six months ended September 30, 2016 and 2015. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from July 1, 2016 through September 30, 2016. The terms "prior year's quarter" and "2016 quarter" are used throughout the MD&A for comparative purposes and refer to the period from July 1, 2015 through September 30, 2015. The terms "prior quarter", "preceding quarter" and "previous quarter" refer to the three months ended June 30, 2016.

The fiscal year for the Company is the twelve-month period ended March 31, 2017. The terms "fiscal 2017," "current year" and "the year" are used in the MD&A and in all cases refer to the period from April 1, 2016 through March 31, 2017. The terms "previous year," "prior year" and "fiscal 2016" are used in the MD&A for comparative purposes and refer to the period from April 1, 2015 through March 31, 2016. The term YTD means year-to-date.

The following abbreviations are used in this MD&A: boepd means barrels of oil equivalent per day; bpd means barrels per day; mcfpd means thousand cubic feet of natural gas per day; $/boe means Canadian dollars per boe; and NGL means natural gas liquids.

## Non-IFRS Measurements

Within the MD&A references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks do not have any standardized meaning under IFRS and are referred to as non-IFRS measures. Funds from operations represents cash from operating activities as presented in the consolidated statement of cash flows and adding back changes in non-cash working capital and the settlement of decommissioning liabilities. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income (loss) per share. Netbacks equal total revenue (including realized gain on financial instruments) 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 from operations or other measures of financial performance calculated in accordance with IFRS. Funds from operations, commonly referred to as cash flow by research analysts, is used to value and compare oil and gas companies and is frequently included in published research when providing investment recommendations.

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

| | Three Months Ended September 30 | | | Six Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| **$000s** | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| Cash flow from (used in) operating activities | **1,982** | 2,318 | (14) | **2,938** | 2,967 | (1) |
| Changes in non-cash working capital | **(185)** | (1,036) | (82) | **207** | (463) | (145) |
| Funds from operations | **1,797** | 1,282 | 40 | **3,145** | 2,504 | 26 |

Adjusted net earnings is a non-IFRS measure, which should not be considered an alternative to "Net income (loss)" as presented in the consolidated statement of income (loss) and comprehensive income (loss), and is presented in the Company's financial reports to assist management and investors in analyzing financial performance net of gains and losses outside of management's immediate control. Adjusted net earnings equal net income (loss) less unrealized losses/gains on foreign exchange and unrealized losses/gains on financial instruments. Adjusted net earnings per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of earnings (loss) per share.

The following table reconciles net income (loss) to adjusted net earnings (loss), which is used in the MD&A:

| $000s | Three Months Ended September 30 2016 | 2015 | % Change | Six Months Ended September 30 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| Net income (loss) | **325** | 1,167 | (72) | **(2,411)** | (89) | 2,609 |
| Unrealized loss (gain) on financial Instruments | **1,205** | (3,185) | (138) | **3,977** | (2,139) | (286) |
| Unrealized foreign exchange (gain) loss | **(444)** | 1,735 | (126) | **85** | 1,766 | (95) |
| Adjusted net earnings (loss) | **1,086** | (283) | (484) | **1,651** | (462) | (457) |

## RESULTS OF OPERATONS - AUSTRALIA

### Netbacks

| Production | Three Months Ended September 30 2016 | 2015 | % Change | Six Months Ended September 30 2016 | 2015 | % Change |
|---|---|---|---|---|---|---|
| Oil Production (bpd) | **386** | 592 | (35) | **409** | 556 | (26) |
| ($000s) | | | | | | |
| Oil sales | **2,301** | 3,392 | (32) | **4,790** | 7,096 | (32) |
| Realized loss (gain) on financial instruments | **1,316** | 735 | 79 | **2,592** | 1,169 | 122 |
| Royalties | **34** | 235 | (86) | **181** | 489 | (63) |
| Operating and transportation expenses | **1,190** | 1,872 | (36) | **2,607** | 3,565 | (27) |
| Netback ($000s) | **2,393** | 2,020 | 18 | **4,594** | 4,211 | 9 |
| | | | | | | |
| Oil sales ($/bbl) | **64.72** | 62.31 | 4 | **64.05** | 69.71 | (8) |
| Realized gain on financial instruments ($/bbl) | **37.01** | 13.50 | 174 | **34.66** | 11.48 | 202 |
| Royalties ($/bbl) | **0.96** | 4.32 | (78) | **2.42** | 4.80 | (50) |
| Operating and transportation expenses ($/bbl) | **33.47** | 34.38 | (3) | **34.86** | 35.02 | - |
| Netback ($/bbl) | **67.30** | 37.10 | 81 | **61.43** | 41.37 | 48 |

### Production, Commodity Pricing and Sales

#### Production

Crude oil production decreased 9% and 35% compared to the prior quarter and fiscal Q2 2016 respectively. This decrease is due to natural declines at the Cuisinier field as well as the impact of several planned shut-ins of previously fracture stimulated wells in order to evaluate the previous stimulation program. The impact of these planned outages was approximately 25 bopd net to Bengal.

#### Pricing

The price received for Bengal's Australian oil sales is benchmarked on Dated Brent quotes as published by Platts Crude Oil Marketwire for the month in which the Bill of Lading occurs, plus a Platts Tapis premium. Brent typically has traded at a premium to West Texas Intermediate (WTI) and the Platts Tapis premium received has averaged US $1.24/bbl over Brent for the six months ended September 30, 2016 (2015 – US $2.18).

Realized crude oil prices increased 2% and 4% compared to the prior quarter and fiscal Q2 2016 respectively. Increases from the prior quarter were due to corresponding increased benchmark pricing. Realized prices increased compared to fiscal Q2 2016 despite a decrease in average benchmark prices, due to the impact of approximately 28,000 barrels of oil sales that were shipped but not priced during the quarter. These barrels were priced at a value of US $50.11 based on October pricing, which is 10% higher than average benchmark pricing for the quarter. During fiscal Q2 2016, there were approximately 31,000 barrels of un-priced oil sales valued at 6% less than averaged benchmark pricing for the quarter.

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

| **Prices and Marketing** | **Three Months Ended September 30** | | | **Six Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| **Average Benchmark Price** | **2016** | 2015 | % Change | 2016 | 2015 | % Change |
| Bengal realized crude oil price before realized gain on financial instruments($CAD/bbl) | **$ 64.72** | $ 62.31 | 4 | $ 64.05 | $ 69.71 | (8) |
| Realized gain on financial Instruments ($CAD/bbl) | **37.01** | 13.50 | 174 | 34.66 | 11.48 | 202 |
| Dated Brent oil ($CAD/bbl) | **58.74** | 65.67 | (11) | 59.26 | 71.14 | (17) |
| Dated Brent oil ($US/bbl) | **45.57** | 50.26 | (9) | 45.71 | 56.09 | (19) |
| Number of CAD$ for 1 AUS$ | **0.99** | 0.95 | 4 | 0.97 | 0.95 | 2 |
| Number of CAD$ for 1 US$ | **1.30** | 1.31 | (1) | 1.30 | 1.27 | 2 |

**Risk Management Activities**

Bengal has entered into financial commodity contracts as part of its risk management program to manage commodity price fluctuations related to its primary producing assets being the Cuisinier field in Australia's Cooper Basin.

With respect to financial contracts, which are derivative financial instruments, management has elected not to use hedge accounting and consequently records the fair value of its crude oil financial contracts on the statement of financial position at each reporting period with the change in fair value being classified as unrealized gains and losses in the consolidated statement of loss.

The company has the following derivative contracts:

| **Time Period** | **Type of Contract** | **Quantity Contracted (bbls)** | **Price Floor (US$/bbl)** | **Price Ceiling (US$/bbl)** |
|---|---|---|---|---|
| October 1, 2016 – May 31, 2017 | Oil - Swap | 48,276 | 80.00 | 80.00 |
| October 1, 2016 – May 31, 2017 | Oil – Put option | 44,314 | 80.00 | - |

| **Time Period** | **Type of Contract** | **Quantity Contracted (bbls)** | **Price Floor (US$/bbl)** | **Price Ceiling (US$/bbl)** |
|---|---|---|---|---|
| July 1, 2017 – December 31, 2018 | Oil - Swap | 67,373 | 47.00 | 47.00 |
| July 1, 2017 – December 31, 2018 | Oil – Put option | 67,373 | 47.00 | - |

The fair value of the financial contracts outstanding as at September 30, 2016 is an estimated asset of $3.0 million. The fair value of these contracts is based on an approximation of the amounts that would have been paid or received from counterparties to settle the contracts outstanding at the end of the period having regard to forward prices and market values provided by independent sources. Due to the inherent volatility in commodity prices, actual amounts realized may differ from these estimates.

For the three months ended September 30, 2016, the derivative commodity contracts resulted in a realized gain of $1.3 million (fiscal Q2 2015 - $0.7 million gain) and an unrealized loss of $1.2 million (fiscal Q2 2016 - $3.2 million gain). During fiscal Q2 2017 the Company contracted approximately 31,000 bbls compared to 20,000 barrels during fiscal Q2 2016, while benchmark commodity prices were 9% lower, resulting in a 70% increase in realized hedging gains. The Company recognized unrealized losses due to increased Brent forward strip pricing at September 30, 2016 compared to March 31, 2016 as well as the implementation of new derivative contracts with a lower floor price.

### Royalties

| Royalties ($000s) | Three Months Ended September 30 | | | Six Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| Royalty Expense | **34** | 235 | (87) | **181** | 489 | (63) |
| $/bbl | **0.96** | 4.32 | (78) | **2.42** | 4.80 | (50) |
| % of revenue | **1** | 7 | (86) | **4** | 7 | (43) |

In Australia, oil royalties are based on a government-established rate of 10% plus a Native Title royalty which is typically 1%. The royalty rate is applied to gross revenues after deducting an allowance for allowable capital, transportation and operating costs, resulting in an effective rate of less than 10%.

Royalties per barrel have decreased 78% compared to Q2 2016 and decreased 74% compared to the previous quarter. Royalties as a percentage of revenues have significantly decreased compared to both the preceding quarter and Q2 2016 due to the addition of allowable capital deductions against gross royalties.

### Operating & Transportation Expenses

| Operating & trans. expenses ($000s) | Three Months Ended September 30 | | | Six Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| Operating | **106** | 311 | (66) | **293** | 624 | (53) |
| Transportation | **1,084** | 1,561 | (31) | **2,314** | 2,941 | (21) |
| | **1,190** | 1,872 | (36) | **2,607** | 3,565 | (27) |
| Operating - $/boe | **2.98** | 5.71 | (48) | **3.92** | 6.13 | (36) |
| Transp. - $/boe | **30.49** | 28.67 | 6 | **30.94** | 28.89 | 7 |
| | **33.47** | 34.38 | (3) | **34.86** | 35.02 | - |

Operating costs per barrel decreased by 48% compared to Q2 2016 and decreased by 38% compared to the prior quarter. The Company and its Joint Venture continue to focus on cost reductions at Cuisinier as well as overhead costs allocated to the field, resulting in decreased operating expenses per barrel compared to the prior year.

Transportation costs on a boe basis have increased 6% compared to Q2 2016 and decreased 3% compared to the prior quarter. Transportation costs include processing and handling fees which have increased over the past year due to increased water production at the Cuisinier field.

### General and Administrative (G&A) Expenses and Share-based Compensation ("SBC")

| G&A Expenses and SBC ($000s) | Three Months Ended September 30 | | | Six Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| Net G&A | **650** | 650 | - | **1,369** | 1,324 | 3 |
| Capitalized G&A | **83** | 83 | - | **172** | 161 | 7 |
| Total G&A | **733** | 733 | - | **1,541** | 1,485 | 4 |
| Expensed share-based compensation | **14** | 24 | (42) | **25** | 48 | (48) |
| Capitalized share-based compensation | **3** | 3 | - | **6** | 7 | (14) |
| Total share-based compensation | **17** | 27 | (37) | **31** | 55 | (44) |

The 4% increase in total G&A expenditures compared to Q2 2016 and nil % increase compared to the prior quarter reflects increased overhead burden associated with the Cuisinier 2016 drilling campaign.

The Company uses the Black-Scholes pricing model to estimate the fair value of options on the date of grant and amortizes the estimated expense over the vesting period with a corresponding charge to contributed surplus. Options expire three to five years from the grant date; they vest one-third on the grant date and one-third on each of the following two annual anniversaries. Options granted in July of 2015 vest conditionally based on certain performance criteria on their first, second and third anniversaries. The decrease in share-based compensation expense reflects a lack of option grants during the quarter ended September 30, 2016.

### Depletion and Depreciation (DD&A)

| DD&A Expenses ($000s) | Three Months Ended September 30 | | | Six Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| PNG – Australia | **624** | 1,429 | (56) | **1,285** | 2,675 | (52) |
| PNG – Canada | **5** | 6 | (17) | **10** | 13 | (23) |
| Total | **629** | 1,435 | (56) | **1,295** | 2,688 | (52) |
| $/boe – PNG Australia | **17.55** | 26.25 | (33) | **17.18** | 26.28 | (35) |
| $/boe – PNG Canada | **-** | - | - | **-** | - | - |
| $/boe – Total PNG | **17.69** | 26.36 | (33) | **17.32** | 26.41 | (34) |

Decreased depletion per barrel resulted from a 9% increase in the Company's 2P reserve values compared to the prior year as well as a material decrease in the expected future costs associated with developing these reserves.

### Finance Income/Expenses

| Finance Income/Expenses ($000s) | Three Months Ended September 30 | | | Six Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| Interest income | **2** | 2 | - | **3** | 5 | (40) |
| Accretion expense on decommissioning liabilities | **(9)** | (8) | 13 | **(17)** | (16) | 6 |
| Change in FV of VARs | **-** | 12 | (100) | **-** | (1) | (100) |
| Letter of credit charges | **(7)** | - | - | **(55)** | 14 | (493) |
| Interest on notes credit facility | **(251)** | (326) | (23) | **(513)** | (630) | (19) |
| Total | **(265)** | (320) | (17) | **(582)** | (628) | (7) |

Interest on the credit facility is based on US dollar Libor + 3.2% margin.

## CAPITAL EXPENDITURES

| Capital Expenditures ($000s) | Three Months Ended September 30 | | | Six Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| Geological and geophysical | **205** | 433 | (53) | **456** | 791 | (42) |
| Drilling | **2,969** | (35) | (8,583) | **2,969** | (55) | (5,498) |
| Completions | **146** | 197 | (26) | **278** | 857 | (68) |
| Cuisinier working interest purchase | **-** | 1 | (100) | **-** | 111 | (100) |
| Total expenditures | **3,320** | 596 | 457 | **3,703** | 1,704 | 117 |
| Exploration & evaluation expenditures | **109** | 225 | (52) | **241** | 492 | (51) |
| Development & production expenditures | **3,211** | 371 | 765 | **3,462** | 1,212 | 186 |
| Total net expenditures | **3,320** | 596 | 457 | **3,703** | 1,704 | 117 |

Development expenditures during the quarter related primarily to the Cuisinier 2016 drilling program.

## CREDIT FACILITY

In October 2014, Bengal closed its US $25.0 million secured credit facility with Westpac Institutional Bank and placed an initial draw on November 12, 2014 of US $14.0 million. On August 26, 2016 following a US $1.5 million repayment, the Company extended the credit facility by 18 months to December 2018 with a borrowing base of US $15 million. The facility is secured by the Company's producing assets in the Cuisinier field in Australia's Cooper Basin, has a three-year term and carries an interest rate of US Libor plus 3.2%.

The credit facility is structured as a reserves-based revolving facility under a predetermined reduction schedule, to be evaluated based on existing reserves at each calculation date. In the event that the facility is not further extended, the reduction schedule would commence on December 31, 2017 and occur every six months thereafter until December 31, 2018 with a nominal reduction of $5 million to the facility limit at each calculation date based on the Company's existing reserve profile. The facility limit at September 30, 2016 is US $15 million, of which US $12.5 million is currently drawn.

The credit facility's covenants include a debt service coverage ratio (cash available for debt payments divided by mandatory debt repayments) as well as a loan life coverage ratio (net present value of future cash available for debt service divided by the available facility). These covenants impact the Company's available facility limit, and therefore the ability to secure its debt as a percentage of reserve forecasts and are evaluated at each calculation date. These covenants are calculated using inputs as prescribed by Westpac, and a default event triggered by a breach of covenants may result in a full redemption of all outstanding borrowings under the terms of the credit facility. There are no financial covenants associated with this credit facility. The Company was in compliance with the stated covenants at September 30, 2016.

## SHARE CAPITAL

At November 10, 2016, there were 68,177,796 common shares issued and outstanding, together with 3,587,500 outstanding options.

| **Trading History** | **Three Months Ended September 30** | | | **Six Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % Change | **2016** | 2015 | % Change |
| High | **$ 0.23** | $ 0.26 | (12) | **$ 0.23** | $ 0.32 | (28) |
| Low | **$ 0.16** | $ 0.14 | 14 | **$ 0.11** | $ 0.14 | (21) |
| Close | **$ 0.18** | $ 0.15 | 20 | **$ 0.18** | $ 0.15 | 20 |
| Volume (000s) | **1,364** | 652 | 109 | **5,163** | 5,805 | (11) |
| Shares outstanding (000s) | **68,178** | 68,178 | - | **68,178** | 68,178 | - |
| Weighted average shares outstanding (000s) | | | | | | |
| Basic & Diluted | **68,178** | 68,178 | - | **68,178** | 68,178 | - |
| Diluted | **68,257** | 68,220 | - | **68,178** | 68,178 | - |

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity risk is the risk that the Company will not be able to meet its financial obligations, including work commitments, as they are due. The Company's existing cash and cash equivalents and operating cash flows combined with the available credit described above are expected to be sufficient to meet all of its working capital requirements for at least the next twelve months and its commitments under its capital program (see Commitments below).

At September 30, 2016 the Company had working capital of $4.4 million, including cash and short-term deposits of $1.7 million and restricted cash of $0.1 million, compared to a working capital deficiency of $0.4 million at March 31, 2016 and working capital of $5.8 million at September 30, 2015. The Company has an additional US $2.5 million of available undrawn debt under its Westpac credit facility.

The majority of the Company's oil sales are benchmarked on dated Brent prices which averaged US $45.71/bbl for the six months ended September 30, 2016. The Company incurs most of its expenditures in Australian dollars whereas the Company generates most of its revenues in US dollars. To mitigate the net impact of low crude prices, the Company is acting with its joint venture partners to reduce discretionary spending and focus capital towards lower risk projects with near-term cash flow upside. The Company has also entered into derivative commodity contracts to reduce the impact of price volatility.

Bengal will continue to monitor trends in commodity prices to ensure its financial obligations are met, while continuing to grow its asset base where appropriate. Under the current commodity price environment, the Company has no plans to use its internal source of cash to fund exploration activates. These are expected to be financed through farm-out or alternative financing sources.

The table below indicates the payment schedule for the credit facility:

| **Credit facility (US$000s)** | |
|---|---|
| Fiscal year 2018 | 2,500 |
| Fiscal year 2019 | 10,000 |
| | **12,500** |

## COMMITMENTS

The Queensland Government regulatory authority granted the Company the Authority to Prospect 934 ("**ATP 934**") under a revised work program on March 1, 2015. The Company acquired an additional 21.43 % working interest and received ministerial approval for the acquisition on August 11, 2015. Currently, the Company holds a 71.43% operating interest in this permit. Work program consists of 200 kilometers of 3D seismic and up to three wells, which would require a capital spend of $2.1 million in 2017 and a further $2.1 million in 2018 net to Bengal.

AFE commitments are reflected where the Company has agreed with partners to proceed with activities (e.g. onshore Australia ATP 752 Cuisinier). The costs of these activities are based on minimum work budgets included in bid documents and agreements among joint venture parties, and have not been provided for in the financial statements. Actual costs will vary from budget.

| Country and Permit | Work Program | Obligation Period Ending | Estimated Expenditure (net) (millions CAD$)(1) |
|---|---|---|---|
| Onshore Australia – ATP 934P | 200 km$^2$ of 2D seismic and up to three wells | March 2021 | $16.7 |

(1) Translated at September 30, 2016 at an exchange rate of AUS $1.00 = CAD $1.0032.

## OTHER

At September 30, 2016, the contractual obligations for which the Company is responsible are as follows:

| Contractual Obligations ($000s) | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
|---|---|---|---|---|---|
| Office lease | $ 133 | $ 133 | $ - | $ - | $ - |
| Decommissioning obligations | 1,733 | - | 245 | 121 | 1,367 |
| Total contractual obligations | $ 1,866 | $ 133 | $ 245 | $ 121 | $ 1,367 |

## OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

## SELECTED QUARTERLY INFORMATION

**($000s, except per share amounts)**

| | **Sep. 30 2016** | Jun. 30 2016 | Mar. 31 2016 | Dec.31 2015 | Sep. 30 2015 | Jun. 30 2015 | Mar. 31 2015 | Dec. 31 2014 |
|---|---|---|---|---|---|---|---|---|
| Fiscal quarter | **Q2 2017** | Q1 2017 | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 |
| Petroleum and natural gas sales | **2,301** | 2,489 | 2,253 | 1,838 | 3,392 | 3,704 | 3,378 | 3,944 |
| Cash from (used in) operations | **1,982** | 956 | 1,496 | 935 | 2,318 | 649 | 978 | 1,144 |
| Funds from (used in) operations[(1)] | **1,797** | 1,348 | 1,439 | 105 | 1,282 | 1,222 | 939 | 1,318 |
| Per share | | | | | | | | |
| Basic and diluted | **0.03** | 0.02 | 0.02 | 0.00 | 0.02 | 0.02 | 0.01 | 0.02 |
| Net income (loss) | **325** | (2,736) | (11,704) | 1,413 | 1,167 | (1,256) | (1,052) | (1,293) |
| Per share | | | | | | | | |
| Basic and diluted | **0.00** | (0.04) | (0.17) | 0.02 | 0.02 | (0.02) | (0.02) | (0.02) |
| Capital expenditures | **3,320** | 383 | 332 | 1,311 | 596 | 1,108 | 2,410 | 4,489 |
| Working capital (deficiency) | **4,421** | (9,171) | (420) | (1,487) | 5,775 | 3,087 | 5,221 | 4,931 |
| Total assets | **55,552** | 54,108 | 58,903 | 72,353 | 66,583 | 62,926 | 65,679 | 66,229 |
| Shares outstanding (000s) | **68,178** | 68,178 | 68,178 | 68,178 | 68,178 | 68,178 | 68,178 | 64,692 |
| Operations | | | | | | | | |
| Average daily production | | | | | | | | |
| Natural gas (mcfpd) | **-** | - | - | - | - | - | 114 | 181 |
| Oil and NGLs (bpd) | **386** | 431 | 469 | 439 | 592 | 520 | 506 | 548 |
| Combined (boepd) | **386** | 431 | 469 | 439 | 592 | 520 | 525 | 578 |
| Netback ($/boe) | **67.30** | 56.09 | 58.75 | 72.03 | 36.97 | 46.23 | 45.86 | 36.79 |

(1) See "Non-IFRS Measurements" on page 5 of this MD&A.

Production over the last eight quarters peaked during Q2 2016 as all wells from the Company's 2014/2015 drilling campaign were on stream. Natural declines were partially offset during Q4 2016 as incremental production from the 2016 fracture stimulation program came on stream. Variances in net income have been impacted by unrealized gains/losses on foreign exchanges and derivative contracts as well as material impairments recorded in Q4 fiscal 2016.

Fluctuations in netbacks have been primarily driven by volatile benchmark crude prices as royalties and operating/transportation costs have remained consistent.

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

### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and includes controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the Company's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

The Chief Executive Officer and Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are not effective due to the material weaknesses identified in internal controls over financial reporting as noted below. The Chief Executive Officer and Chief Financial Officer have individually signed certifications to this effect.

### Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Bengal are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting ("ICFR") or causing them to be designed and operating effectively under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Bengal's certifying officers have assessed the design and operating effectiveness of internal controls over financial reporting and concluded that the Company's ICFR were not effective at September 30, 2016 due to the material weaknesses noted below.

No changes in internal controls over financial reporting were identified during the period that have materially affected or are reasonably likely to materially affect the Company's 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;
- Bengal does not have full-time in-house personnel to address all complex and non-routine financial accounting issues and tax matters that may arise. It is not deemed as economically feasible at this time to have such personnel. Bengal relies on external experts for review and advice on complex financial accounting issues and for tax planning, tax provision and compilation of corporate tax returns.

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

## APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates, which are reviewed on an ongoing basis. A full discussion of the Company's critical judgments and accounting estimates is included in its 2016 annual Management's Discussion and Analysis.

## NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

Standards that are issued but not yet effective and that the Company reasonably expects to be applicable at a future date are listed below.

Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". It replaces existing revenue recognition guidance and provides a single, principles-based five-step model to be applied to all contracts with customers. Retrospective application of this standard was to be effective for fiscal years beginning on or after January 1, 2017, with earlier application permitted. On May 19, 2015, the IASB published the expected exposure draft aimed at deferring the effective date of IFRS 15 “Revenue from Contracts with Customers” to January 1, 2018. The Company is currently assessing the impact of this standard.

Financial instruments: recognition and measurement

In July 2014, IFRS 9 “Financial Instruments” was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this standard.

Leases

On January 13, 2016 the IASB issued IFRS 16 “Leases”. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 “Revenue from Contracts with Customers” at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 “Leases”. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## RISK FACTORS

There are a number of risk factors facing companies that participate in the oil and gas industry. A complete list of risk factors are provided in Bengal’s Annual Information Form dated June 22, 2016 filed on SEDAR at www.sedar.com.

Bengal monitors and updates its cash projection models on a regular basis which assists in the timing decision of capital expenditures. Farm outs 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.

## ADDITIONAL INFORMATION

Additional information relating to Bengal is filed on SEDAR and can be viewed at www.sedar.com. Information can also be obtained by contacting the Company at Bengal Energy Ltd., Suite 1810, 801 6th Avenue SW., Calgary, Alberta T2P 3W2, by email to info@bengalenergy.ca or by accessing Bengal’s website at www.bengalenergy.ca.

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

*In particular, this Management's Discussion and Analysis, and the documents incorporated by reference, contain forward-looking statements pertaining to the following:*

- *Oil and natural gas production levels;*
- *The size of the oil and natural gas reserves;*
- *The expected timing of the completion and tie-ins of the successful 5 well at Barta Block Cuisinier*
- *Timing of the finalization of the credit facility extension*
- *Projections of market prices and costs;*
- *Expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;*
- *The Company expects netbacks to remain above $35/bbl under current market conditions;*
- *Treatment under governmental regulatory regimes and tax laws;*
- *Capital expenditures programs and estimates of costs;*
- *Funding of working capital requirements, commitments and other planned expenses will be by cash on hand, cash flows, farm-outs, joint ventures or share issues and funds will be sufficient to meet requirements; and*

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

*The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Management's Discussion and Analysis:*

- *Volatility in market prices for oil and natural gas;*
- *Liabilities inherent in oil and natural gas operations;*
- *Uncertainties associated with estimating oil and natural gas reserves;*
- *Competition for, among other things: capital, acquisitions of reserves, undeveloped lands and skilled personnel;*
- *Incorrect assessment of the value of acquisitions;*
- *Unable to meet commitments due to inability to raise funds or complete farm-outs;*
- *Geological, technical, drilling and processing problems;*
- *Changes in income tax laws or changes to royalty and environmental regulations relating to the oil and gas industry;*
- *The risk that Bengal may not be successful in raising funds by an equity issue; and*
- *Counter-party credit risk, stock market volatility and market valuation of Bengal's stock.*

*Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, which the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward-looking statements contained in this document speak only as of the date of this document and Bengal does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws. Additional information on these and other factors that could affect Bengal's operations and financial results are included in reports on file with Canadian securities authorities and may be accessed through the SEDAR website (www.sedar.com) and at Bengal's website (www.bengalenergy.ca).*

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

# CORPORATE INFORMATION

## AUDITORS

KPMG LLP • Calgary, Canada

## LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP • Calgary, Canada
Johnson Winter Slattery • Brisbane, Australia

## BANKERS

Royal Bank of Canada • Calgary, Canada
WestPac • Sydney, Australia
ICICI Bank Ltd. • Calgary, Canada and Mumbai, India

## REGISTRAR AND TRANSFER AGENT

Computershare • Toronto, Canada

## INVESTOR RELATIONS

5 Quarters Investor Relations, Inc. • Calgary, Canada

## DIRECTORS

Chayan Chakrabarty
Peter D. Gaffney
James B. Howe
Dr. Brian J. Moss
Robert D. Steele
Ian J. Towers (Chairman)
W.B. (Bill) Wheeler

## DISCLOSURE COMMITTEE

*All Directors are members of the Committee*

## AUDIT COMMITTEE

James B. Howe (Chairman)
Robert D. Steele
W.B. (Bill) Wheeler

## RESERVES COMMITTEE

Peter D. Gaffney (Chairman)
Dr. Brian J. Moss

## GOVERNANCE AND COMPENSATION COMMITTEE

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

## OFFICERS

Chayan Chakrabarty, President & Chief Executive Officer
Richard N. Edgar, Executive Vice President
Jerrad Blanchard, Chief Financial Officer
Gordon R. MacMahon, Vice President, Exploration
Bruce Allford, Secretary

## STOCK EXCHANGE LISTING – TSX: BNG

# Condensed Consolidated Interim Financial Statements (unaudited)

## Three and Six Months Ended September 30, 2016 and 2015

# BENGAL ENERGY LTD.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Thousands of Canadian dollars)

(unaudited)

| As at | Notes | September 30, 2016 | March 31, 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | **$ 1,733** | $ 3,010 |
| Restricted cash | | **140** | 140 |
| Accounts receivable | | **2,636** | 3,187 |
| Prepaid expenses and deposits | | **159** | 155 |
| Fair value of financial instruments | **9** | **3,260** | 5,806 |
| | | **7,928** | 12,298 |
| Non-current assets: | | | |
| Exploration and evaluation assets | **3** | **20,052** | 19,626 |
| Petroleum and natural gas properties | **4** | **27,572** | 24,875 |
| Fair value of financial instruments | **9** | **-** | 1,294 |
| | | **47,624** | 45,795 |
| **Total assets** | | **$ 55,552** | $ 58,093 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | **$ 3,507** | $ 2,669 |
| Current portion of credit facility | **5** | **-** | 10,049 |
| | | **3,507** | 12,718 |
| Non-current liabilities: | | | |
| Decommissioning liability | **6** | **1,733** | 1,422 |
| Credit facility | **5** | **16,167** | 7,816 |
| Fair value of financial instruments | **9** | **214** | - |
| | | **18,114** | 9,238 |
| Shareholders' equity: | | | |
| Share capital | | **94,151** | 94,151 |
| Contributed surplus | | **7,640** | 7,442 |
| Warrants | | **-** | 167 |
| Accumulated other comprehensive income | | **1,509** | 1,335 |
| Deficit | | **(69,369)** | (66,958) |
| | | **33,931** | 36,137 |
| **Total liabilities and shareholders' equity** | | **$ 55,552** | $ 58,093 |

Commitments (note 11)

See accompanying notes to the condensed consolidated interim financial statements.

# BENGAL ENERGY LTD.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Thousands of Canadian dollars, except per share amounts)

(unaudited)

| | Notes | Three months ended September 30, 2016 | Three months ended September 30, 2015 | Six months ended September 30, 2016 | Six months ended September 30, 2015 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Petroleum and natural gas revenue | | **$ 2,301** | $ 3,392 | **$4,790** | $ 7,096 |
| Royalties | | **(34)** | (235) | **(181)** | (489) |
| | | **2,267** | 3,157 | **4,609** | 6,607 |
| Realized gain on financial instruments | | **1,316** | 735 | **2,592** | 1,169 |
| Unrealized (loss) gain on financial instruments | | **(1,205)** | 3,185 | **(3,977)** | 2,139 |
| | | **2,378** | 7,077 | **3,224** | 9,915 |
| **Operating expenses** | | | | | |
| General and administrative | | **650** | 650 | **1,369** | 1,324 |
| Operating and transportation | | **1,190** | 1,879 | **2,607** | 3,574 |
| Depletion and depreciation | 4 | **629** | 1,435 | **1,295** | 2,688 |
| Share-based compensation | | **14** | 24 | **25** | 48 |
| | | **2,483** | 3,988 | **5,296** | 7,634 |
| **Operating (loss) income** | | **(105)** | 3,089 | **(2,072)** | 2,281 |
| **Other (expenses)** | | | | | |
| Other | | **316** | - | **316** | - |
| Finance (expenses) | 8 | **(265)** | (320) | **(582)** | (628) |
| Foreign exchange gain (loss) | | **379** | (1,602) | **(73)** | (1,742) |
| | | **430** | (1,922) | **(339)** | (2,370) |
| **Net income (loss)** | | **325** | 1,167 | **(2,411)** | (89) |
| Exchange differences on translation of foreign operations | | **1,284** | 209 | **174** | (998) |
| **Total comprehensive income (loss) for the period** | | **$ 1,609** | $ 1,376 | **$ (2,237)** | $ (1,087) |
| **Earnings (loss) per share** | 7 | | | | |
| - Basic & diluted | | **$ 0.00** | $ 0.02 | **$ (0.04)** | $ 0.00 |
| **Weighted average number of shares outstanding (000s)** | 7 | | | | |
| - Basic | | **68,178** | 68,178 | **68,178** | 68,178 |
| - Diluted | | **68,257** | 68,220 | **68,178** | 68,178 |

See accompanying notes to the condensed consolidated interim financial statements.

# BENGAL ENERGY LTD.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Thousands of Canadian dollars)

(unaudited)

| | Shares outstanding | Share capital | Warrants | Contributed surplus | Accumulated other comprehensive income | Deficit | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance at April 1, 2015 | 68,177,796 | $ 94,151 | $ 167 | $ 7,341 | $ (130) | $ (56,578) | $ 44,951 |
| Net loss for the period | - | - | - | - | - | (89) | (89) |
| Comprehensive loss for the period | - | - | - | - | (998) | - | (998) |
| Share-based compensation – expensed | - | - | - | 48 | - | - | 48 |
| Share-based compensation – capitalized | - | - | - | 7 | - | - | 7 |
| Balance at September 30, 2015 | 68,177,796 | $ 94,151 | $ 167 | $ 7,396 | $(1,128) | $ (56,667) | $ 43,919 |
| | | | | | | | |
| **Balance at April 1, 2016** | **68,177,796** | **$ 94,151** | **$ 167** | **$ 7,442** | **$ 1,335** | **$ (66,958)** | **$ 36,137** |
| Net loss for the period | **-** | **-** | **-** | **-** | **-** | **(2,411)** | **(2,411)** |
| Comprehensive income for the period | **-** | **-** | **-** | **-** | **174** | **-** | **174** |
| Expiry of warrants | **-** | **-** | **(167)** | **167** | **-** | **-** | **-** |
| Share-based compensation – expensed | **-** | **-** | **-** | **25** | **-** | **-** | **25** |
| Share-based compensation – capitalized | **-** | **-** | **-** | **6** | **-** | **-** | **6** |
| **Balance at September 30, 2016** | **68,177,796** | **$ 94,151** | **$ -** | **$ 7,640** | **$ 1,509** | **$ (69,369)** | **$ 33,931** |

See accompanying notes to the condensed consolidated interim financial statements.

# BENGAL ENERGY LTD.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Thousands of Canadian dollars)

(unaudited)

| | Notes | Three Months Ended September 30, 2016 | 2015 | Six Months Ended September 30, 2016 | 2015 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net income (loss) for the period | | **$ 325** | $ 1,167 | **$ (2,411)** | $ (89) |
| Depletion and depreciation | | **629** | 1,435 | **1,295** | 2,688 |
| Accretion on decommissioning liability | | **9** | 8 | **17** | 16 |
| Accretion on credit facility | | **59** | 98 | **157** | 214 |
| Share-based compensation | | **14** | 24 | **25** | 48 |
| Unrealized loss (gain) on financial instruments | | **1,205** | (3,185) | **3,977** | (2,139) |
| Unrealized foreign exchange (gain) loss | | **(444)** | 1,735 | **85** | 1,766 |
| | | **1,797** | 1,282 | **3,145** | 2,504 |
| Change in non-cash working capital | **10** | **185** | 1,036 | **(207)** | 463 |
| **Net cash from operating activities** | | **1,982** | 2,318 | **2,938** | 2,967 |
| **Investing activities** | | | | | |
| Exploration and evaluation expenditures | **3** | **(109)** | (225) | **(241)** | (492) |
| Petroleum and natural gas properties | **4** | **(3,211)** | (371) | **(3,462)** | (1,212) |
| Changes in non-cash working capital | **10** | **1,512** | (294) | **1,498** | (620) |
| **Net cash used in investing activities** | | **(1,808)** | (890) | **(2,205)** | (2,324) |
| **Financing activities** | | | | | |
| Repayment of debt | | **(1,984)** | - | **(1,984)** | - |
| Facility extension fees | | **(130)** | - | **(130)** | - |
| Changes in non-cash working capital | **10** | **(16)** | (132) | **87** | (43) |
| **Net cash used in financing activities** | | **(2,130)** | (132) | **(2,027)** | (43) |
| Impact of foreign exchange on cash and cash equivalents | | **98** | (23) | **17** | (56) |
| **Net (decrease) increase in cash and cash equivalents** | | **(1,858)** | 1,273 | **(1,277)** | 544 |
| Cash and cash equivalents, beginning of period | | **3,591** | 1,020 | **3,010** | 1,749 |
| Cash and cash equivalents, end of period | | **$ 1,733** | $ 2,293 | **$1,733** | $ 2,293 |

See accompanying notes to the condensed consolidated interim financial statements.

## 1. REPORTING ENTITY

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 and production of oil and gas reserves in Australia, India and Canada. The condensed consolidated interim financial statements (the "financial statements") of the Company are comprised of the Company and its wholly-owned subsidiaries Bengal Energy International Inc., Bengal Energy Australia (Pty) Ltd., Avery Resources (Northern Ireland) Ltd. and Northstar Energy Pty Ltd. which are incorporated in Canada and Australia respectively. The Company conducts many of its activities jointly with others; these financial statements reflect only the Company's proportionate interest in such activities.

Bengal's principal place of business and registered office is located at 1810, 801 6$^{th}$ Ave SW, Calgary, Alberta, Canada, T2P 3W2.

## 2. BASIS OF PREPARATION

### a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements are stated in Canadian dollars and have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended March 31, 2016.

The disclosures provided below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company's annual filings for the year ended March 31, 2016.

The condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on November 10, 2016.

### b) Basis of measurement

These condensed consolidated financial statements have been prepared on a historical cost basis, except for commodity contracts, which are recognized at fair value.

### c) Functional and presentation currency

The Company's presentation currency is Canadian dollars. The functional currency of the Canadian parent entity is Canadian dollars, the functional currency of the Indian subsidiary is US dollars and the functional currency of the Australian subsidiary is Australian dollars.

## 3. EXPLORATION AND EVALUATION ASSETS (E&E ASSETS)

| ($000s) | Exploration and Evaluation Expenditures |
|---|---|
| Balance at April 1, 2015 | 28,245 |
| Additions | 651 |
| Acquisition | 110 |
| Capitalized share-based compensation | 4 |
| E&E impairment loss | (10,475) |
| Exchange adjustments | 1,091 |
| Balance at March 31, 2016 | 19,626 |
| Additions | **241** |
| Capitalized share-based compensation | **3** |
| Exchange adjustments | **182** |
| **Balance at September 30, 2016** | **20,052** |

Exploration and evaluation assets consist of the Company's exploration projects in Australia which are pending the determination of proved or probable reserves. Costs primarily consist of acquisition costs, geological & geophysical work, seismic and drilling and completion costs until the drilling of wells is complete and the results have been evaluated.

A summary of E&E assets is shown in the table below:

| **($000s)** | **Australia** |
|---|---|
| ATP 732P – Tookoonooka | $ 16,163 |
| ATP 752P | 1,243 |
| Other[(1)] | 2,220 |
| **March 31, 2016 ($000)** | $ 19,626 |
| | **Australia** |
| ATP 732P – Tookoonooka | $ 16,318 |
| ATP 752P | 1,254 |
| Other[(1)] | 2,480 |
| **September 30, 2016 ($000)** | **$ 20,052** |

(1) Other includes ATP 934P, capitalized G&A, share-based compensation and foreign exchange effects on these assets denominated in foreign currencies.

## 4. PETROLEUM AND NATURAL GAS PROPERTIES

| $000s | Petroleum and Natural Gas Properties | Corporate Assets | Total |
|---|---|---|---|
| *Cost:* | | | |
| Balance at April 1, 2015 | 38,701 | 342 | 39,043 |
| Additions | 2,586 | - | 2,586 |
| Capitalized share-based compensation | 6 | - | 6 |
| Change in decommissioning obligation | (95) | - | (95) |
| Exchange adjustments | 622 | 2 | 624 |
| Balance at March 31, 2016 | 41,820 | 344 | 42,164 |
| Additions | **3,462** | **-** | **3,462** |
| Capitalized share-based compensation | **3** | **-** | **3** |
| Change in decommissioning obligation | **278** | **-** | **278** |
| Exchange adjustments | **324** | **-** | **324** |
| **Balance at September 30, 2016** | **45,887** | **344** | **46,231** |

| $000s | Petroleum and Natural Gas Properties | Corporate Assets | Total |
|---|---|---|---|
| *Accumulated depletion, depreciation and impairment losses:* | | | |
| Balance at April 1, 2015 | 11,678 | 243 | 11,921 |
| Depletion and depreciation charge | 4,519 | 24 | 4,543 |
| Impairment | 748 | - | 748 |
| Exchange adjustments | 75 | 2 | 77 |
| Balance at March 31, 2016 | 17,020 | 269 | 17,289 |
| Depletion and depreciation charge | **1,285** | **10** | **1,295** |
| Exchange adjustments | **75** | **-** | **75** |
| **Balance at September 30, 2016** | **18,380** | **279** | **18,659** |
| *Net carrying value* | | | |
| **At March 31, 2016** | 24,800 | 75 | 24,875 |
| **At September 30, 2016** | **27,507** | **65** | **27,572** |

The calculation of depletion for the quarter ended September 30, 2016 included $83.6 million for estimated future development costs associated with proved and probable reserves in Australia (March 31, 2016 - $83.6 million).

## 5. CREDIT FACILITY

| **Facility Agreement – Issued November 12, 2014 ($000s)** | | |
|---|---|---|
| Gross proceeds | | 15,364 |
| Total cash fees | | (844) |
| | | 14,520 |
| Unrealized foreign exchange loss | | 2,747 |
| | | 17,267 |
| Accretion | | 598 |
| **Balance at March 31, 2016** | | **17,865** |
| Repayment | | **(1,984)** |
| Additional borrowing costs | | **(130)** |
| Unrealized foreign exchange loss | | **259** |
| Accretion | | **157** |
| **Balance at September 30, 2016** | | **16,167** |
| | **September 30, 2016** | **March 31, 2016** |
| **Current portion of credit facility** | **-** | 10,049 |
| **Non-current portion of credit facility** | **16,167** | 7,816 |

In October 2014, Bengal closed its US $25.0 million secured credit facility with Westpac Institutional Bank and placed an initial draw on November 12, 2014 of US $14.0 million. On August 26, 2016 following a US $1.5 million repayment, the Company extended the credit facility by 18 months to December 2018 with a borrowing base of US $15 million. The facility is secured by the Company's producing assets in the Cuisinier field in Australia's Cooper Basin, has a three-year term and carries an interest rate of US Libor plus 3.2%.

The credit facility is structured as a reserves-based revolving facility under a predetermined reduction schedule, to be evaluated based on existing reserves at each calculation date. In the event that the facility is not further extended, the reduction schedule would commence on December 31, 2017 and occur every six months thereafter until December 31, 2018 with a nominal reduction of $5 million to the facility limit at each calculation date based on the Company's existing reserve profile. The facility limit at September 30, 2016 is US $15 million, of which US $12.5 million is currently drawn.

The credit facility's covenants include a debt service coverage ratio (cash available for debt payments divided by mandatory debt repayments) as well as a loan life coverage ratio (net present value of future cash available for debt service divided by the available facility). These covenants impact the Company's available facility limit, and therefore the ability to secure its debt as a percentage of reserve forecasts and are evaluated at each calculation date. These covenants are calculated using inputs as prescribed by Westpac, and a default event triggered by a breach of covenants may result in a full redemption of all outstanding borrowings under the terms of the credit facility. There are no financial covenants associated with this credit facility. The Company was in compliance with the stated covenants at September 30, 2016.

## 6. DECOMMISSIONING AND RESTORATION LIABILITY

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

Changes to decommissioning and restoration obligations were as follows:

| ($000s) | September 30, 2016 | March 31, 2016 |
|---|---|---|
| Decommissioning liabilities, beginning of period | **1,422** | 1,454 |
| Revision | **-** | (95) |
| Decommissioning expenditures | **-** | - |
| Additions | **278** | - |
| Accretion | **17** | 33 |
| Exchange adjustments | **16** | 30 |
| **Decommissioning liabilities, end of period** | **1,733** | 1,422 |

The Company's decommissioning liabilities result from ownership interests in petroleum and natural gas properties. The Company estimates the total inflation-adjusted undiscounted amount of cash flows required to settle its decommissioning and restoration costs at September 30, 2016 is approximately $2.2 million (March 31, 2016 – $1.9 million) which will be incurred between 2019 and 2044. An inflation factor of 1.5% - 1.7% and a risk-free discount rate ranging between 1.23% and 2.49% have been applied to the decommissioning liability at September 30, 2016.

## 7. SHARE CAPITAL

### (a) Authorized:

Unlimited number of common shares with no par value.

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

### (b) Share-based compensation – stock options:

A summary of stock option activity is presented below:

| | Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding at March 31, 2016 | 4,357,500 | $ 0.72 |
| Granted | **-** | **-** |
| Forfeited | **-** | **-** |
| Expired | **(770,000)** | **1.30** |
| Exercised | **-** | **-** |
| **Outstanding at September 30, 2016** | **3,587,500** | **$ 0.59** |
| **Exercisable at September 30, 2016** | **2,815,500** | **$ 0.73** |

### (c) Per share amounts:

Loss per share is calculated based on net loss and the weighted-average number of common shares outstanding.

| | Three months ended September 30, | | Six months ended September 30, | |
|---|---|---|---|---|
| ($000s) | **2016** | 2015 | **2016** | 2015 |
| **Income (loss) for the period** | **$ 325** | $1,167 | **$ (2,411)** | $ (89) |
| Weighted average number of common shares (basic) | **68,178** | 68,178 | **68,178** | 68,178 |
| Weighted average number of common shares (diluted) | **68,257** | 68,220 | **68,178** | 68,178 |
| **Basic & diluted income (loss) per share** | **$ 0.00** | $ 0.02 | **$ (0.04)** | $ 0.00 |

For the three and six months ended September 30, 2016, there were 2,515,000 and 3,587,500 (March 31, 2016 – 4,357,000) options considered anti-dilutive.

## 8. FINANCE INCOME/EXPENSES

| ($000s) | Three months ended September 30, 2016 | 2015 | Six months ended September 30, 2016 | 2015 |
|---|---|---|---|---|
| Interest income | **2** | 2 | **3** | 5 |
| Accretion on decommissioning obligations | **(9)** | (8) | **(17)** | (16) |
| Letter of credit charges | **(7)** | - | **(55)** | 14 |
| Interest on credit facility | **(251)** | (326) | **(513)** | (630) |
| Change in fair value of VARs | **-** | 12 | **-** | (1) |
| **Finance income (expenses)** | **(265)** | (320) | **(582)** | (628) |

## 9. FINANCIAL RISK MANAGEMENT

The Company has exposure to credit, liquidity and market risk from its use of financial instruments. This note presents information about the Company's exposure to these risks, the Company's objectives and policies and processes for measuring and managing risk.

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

### (a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bengal's cash calls paid to joint venture partners and receivables from petroleum and natural gas marketers. As at September 30, 2016, Bengal's receivables consisted of $2.1 million (March 31, 2016 - $2.6 million) from joint venture partners and $0.5 million (March 31, 2016 - $0.6 million) of other trade receivables of which $2.0 million has been subsequently collected.

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

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

The Company had no accounts considered past due at September 30, 2016, (March 31, 2016- $nil million). Past due is considered greater than 90 days outstanding.

The carrying amount of accounts receivable and cash and cash equivalents and fair value of financial instruments represents the maximum credit exposure. Bengal establishes an allowance for doubtful accounts as determined by management based on their assessment of collection. Bengal does not have an allowance for doubtful accounts as at September 30, 2016 and did not provide for any doubtful accounts, nor was it required to write-off any receivables during the six months ended September 30, 2016. Exposure to the carrying value of its financial instruments relates to the Company's commodity-based derivatives held by Westpac Banking Corporation, which carries a Standard & Poor's credit rating of AA-. Management considers the credit risk of these instruments to be adequately mitigated by the credit stating of their holder; therefore, no allowance has been established.

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

**(b) Liquidity risk:**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations, including work commitments, as they are due. Bengal prepares an annual budget and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due.

Bengal's financial liabilities consist of accounts payable and accrued liabilities, financial instrument liability, and credit facility and amounted to $19.7 million at September 30, 2016 (March 31, 2016 - $20.6 million).

At September 30, 2016 the Company had working capital of $4.4 million, including cash and short-term deposits of $1.7 million and restricted cash of $0.1 million, compared to a working capital deficiency of $0.4 million at March 31, 2016 and working capital of $5.8 million at September 30, 2015. The Company has an additional US $2.5 million of available undrawn debt under its Westpac credit facility.

The majority of the Company's oil sales are benchmarked on dated Brent prices which averaged US $45.71/bbl for the six months ended September 30, 2016. The Company incurs most of its expenditures in Australian dollars whereas the Company generates most of its revenues in US dollars. To mitigate the net impact of low crude prices, the Company is acting with its joint venture partners to reduce discretionary spending and focus capital towards lower risk projects with near-term cash flow upside. The Company has also entered into derivative commodity contracts to reduce the impact of price volatility.

Bengal will continue to monitor trends in commodity prices to ensure its financial obligations are met, while continuing to grow its asset base where appropriate. Under the current commodity price environment, the Company has no plans to use its internal source of cash to fund exploration activities. These are expected to be financed through farm-out or alternative financing sources.

The table below indicates the current payment schedule for the credit facility:

| **Credit facility (US$000s)** | |
|---|---|
| Fiscal year 2018 | 2,500 |
| Fiscal year 2019 | 10,000 |
| | **12,500** |

**(c) Market risk:**

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

*Foreign Currency Risk*

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Bengal receives Canadian dollars for sales in Canada, U.S. dollars for Australian oil sales and incurs expenditures in Australian, Canadian and U.S. currencies. Having sales and expenditures denominated in three currencies spreads the impact of individual currency fluctuations.

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

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

| As at September 30, 2016 ($000s) | CAD | AUD | USD | Total |
|---|---|---|---|---|
| Cash and short-term deposits | 337 | 819 | 577 | 1,733 |
| Restricted cash | 140 | - | - | 140 |
| Accounts receivable | 50 | 2,586 | - | 2,636 |
| Accounts payable and accrued liabilities | (245) | (3,248) | (14) | (3,507) |
| Credit facility | - | - | (16,167) | (16,167) |
| Fair value of financial instruments | - | - | 3,046 | 3,046 |
| | 282 | 157 | (12,558) | |

*Commodity Price Risk*

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of a change in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. Australian oil prices are based on the Dated Brent reference price, which trades at a premium to WTI.

At September 30, 2016, the following derivative contracts were outstanding and recorded at estimated fair value:

| **Time Period** | **Type of Contract** | **Quantity Contracted (bbls)** | **Price Floor (US$/bbl)** | **Price Ceiling (US$/bbl)** |
|---|---|---|---|---|
| October 1, 2016 – May 31, 2017 | Oil - Swap | 48,276 | 80.00 | 80.00 |
| October 1, 2016 – May 31, 2017 | Oil – Put option | 44,314 | 80.00 | - |
| **($000s)** | | **Oil - swap** | **Oil – put** | **Total** |
| Current fair value of financial instruments | | 1,804 | 1,485 | 3,289 |
| Non-current fair value of financial instruments | | - | - | - |
| **Total** | | **1,804** | **1,485** | **3,289** |

| **Time Period** | **Type of Contract** | **Quantity Contracted (bbls)** | **Price Floor (US$/bbl)** | **Price Ceiling (US$/bbl)** |
|---|---|---|---|---|
| July 1, 2017 – December 31, 2018 | Oil - Swap | 67,373 | 47.00 | 47.00 |
| July 1, 2017 – December 31, 2018 | Oil – Put option | 67,373 | 47.00 | - |
| **($000s)** | | **Oil - swap** | **Oil – put** | **Total** |
| Current fair value of financial instruments | | (89) | 60 | (29) |
| Non-current fair value of financial instruments | | (583) | 369 | (214) |
| **Total** | | **(672)** | **429** | **(243)** |

A US$1.00 increase in the future crude oil price per barrel would result in an approximate $227,000 decrease in the fair value of financial instruments at September 30, 2016 while a $US 1.00 decrease would result in an increase of approximately US$227,000 in the fair value of the instruments.

*Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate risk on its cash and cash equivalents at September 30, 2016 as the funds are not invested in an interest-bearing instrument. The Company's credit facility carries a floating interest rate based on quoted US dollar LIBOR rates. The Company had no interest rate derivatives at September 30, 2016.

For the six months ended September 30, 2016, a 1% increase in US Libor would increase interest expense by $81.

## 10. CHANGES IN NON-CASH WORKING CAPITAL

| **Six months ended ($000s)** | **September 30, 2016** | September 30, 2015 |
|---|---|---|
| Accounts receivable | **551** | (901) |
| Prepaid expenses and deposits | **(4)** | 101 |
| Accounts payable and accrued liabilities | **838** | 657 |
| Impact of foreign exchange | **(7)** | (57) |
| Total | **1,378** | (200) |
| Relating to: | | |
| Operating | **(207)** | 463 |
| Financing | **87** | (43) |
| Investing | **1,498** | (620) |
| Total | **1,378** | (200) |

The following represents the cash interest paid and received in each period.

| **Six months ended ($000s)** | **September 30, 2016** | September 30, 2015 |
|---|---|---|
| **Cash interest paid** | **356** | 613 |
| **Cash interest received** | **3** | 2 |

## 11. COMMITMENTS

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

The Queensland Government regulatory authority granted the Company Authority to Prospect 934 ("ATP 934") under a revised work program on March 1, 2015. The Company acquired an additional 21.43% working interest and received ministerial approval for the acquisition on August 11, 2015. Currently the Company holds a 71.43% operating interest in this permit. Work program consists of 200 kilometers of 3D seismic and up to three wells, which would require a capital spend of $2.1 million in 2017 and a further $2.1 million in 2018 net to Bengal.

| Country and Permit | Work Program | Obligation Period Ending | Estimated Expenditure (net) (millions CAD$)(1) |
|---|---|---|---|
| Onshore Australia – ATP 934P | 200 $km^2$ of 3D seismic and up to three wells | March 2021 | $ 16.7 |

(1) Translated at September 30, 2016 at an exchange rate of AUS $1.00 = CAD $1.0032.

At September 30, 2016 the Company had the following lease commitment for office space in Canada.

| ($000s) | | | | | |
|---|---|---|---|---|---|
| October 2016 to March 2017 | **Total** | **Less than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 Years** |
| Office lease | **133** | **133** | **-** | **-** | **-** |

## 12. SEGMENTED INFORMATION

As at September 30, 2016, the Company has three reportable operating segments being the Australian, Canadian and India oil and gas operations.

Revenue reported below represents revenue generated from external customers. There were no inter-segment sales in any of the reported periods.

The accounting policies of the reportable segments are the same as the group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

| For the six months ended September 30, 2016 ($000s) | | | | |
|---|---|---|---|---|
| | **Australia** | **Corporate** | **India** | **Total** |
| Revenue | 4,790 | - | - | 4,790 |
| Interest revenue | 3 | - | - | 3 |
| Interest expense | 513 | - | - | 513 |
| Depletion and depreciation | 1,285 | 10 | - | 1,295 |
| Net earnings (loss) | (1,646) | (605) | (160) | (2,411) |
| Exploration and evaluation expenditures | 241 | - | - | 241 |
| Petroleum and natural gas property expenditures | 3,462 | - | - | 3,462 |
| Impairment losses (recovery) | - | - | - | - |
| | | | | |
| Petroleum and natural gas properties | | | | |
| Cost | 41,594 | 4,638 | - | 46,232 |
| Accumulated impairment loss | (796) | (310) | - | (1,106) |
| Accumulated depletion and depreciation | (13,292) | (4,262) | - | (17,554) |
| Net book value | 27,506 | 66 | - | 27,572 |
| Exploration and evaluation assets | 29,299 | - | 8,297 | 37,596 |
| Accumulated impairment losses | (9,247) | - | (8,297) | (17,544) |
| Net book value | 20,052 | - | - | 20,052 |
| **For the six months ended September 30, 2015 ($000s)** | | | | |
| | Australia | Corporate | India | Total |
| Revenue | 7,096 | - | - | 7,096 |
| Interest income | 5 | - | - | 5 |
| Interest expense | 630 | - | - | 630 |
| Depletion and depreciation | 2,675 | 13 | - | 2,688 |
| Net income (loss) | 730 | (659) | (160) | (89) |
| Exploration and evaluation expenditures | 472 | - | 20 | 492 |
| Petroleum and natural gas property expenditures | 1,212 | - | - | 1,212 |
| Impairment losses (recovery) | - | - | - | - |
| **As at September 30, 2015 ($000s)** | | | | |
| Petroleum and natural gas properties | | | | |
| Cost | 34,704 | 4,637 | - | 39,341 |
| Accumulated impairment losses | (796) | (310) | - | (1,106) |
| Accumulated depletion and depreciation | (9,335) | (4,241) | - | (13,576) |
| Net book value | 24,573 | 86 | - | 24,659 |
| Exploration and evaluation assets | 32,065 | - | 8,467 | 40,532 |
| Accumulated impairment losses | (10,928) | - | (1,265)` | (12,193) |
| Net book value | 21,137 | - | 7,202 | 28,339 |

| For the three months ended September 30, 2016 ($000s) | | | | |
|---|---|---|---|---|
| | **Australia** | **Corporate** | **India** | **Total** |
| Revenue | **2,301** | **-** | **-** | **2,301** |
| Interest revenue | **2** | **-** | **-** | **2** |
| Interest expense | **251** | **-** | **-** | **251** |
| Depletion and depreciation | **624** | **5** | **-** | **629** |
| Net income (loss) | **620** | **(263)** | **(32)** | **325** |
| Exploration and evaluation expenditures | **109** | **-** | **-** | **109** |
| Petroleum and natural gas property expenditures | **3,211** | **-** | **-** | **3,211** |
| Impairment losses (recovery) | **-** | **-** | **-** | **-** |

| For the three months ended September 30, 2015 ($000s) | | | | |
|---|---|---|---|---|
| | **Australia** | **Corporate** | **India** | **Total** |
| Revenue | 3,392 | - | - | 3,392 |
| Interest revenue | 2 | - | - | 2 |
| Interest expense | 326 | - | - | 326 |
| Depletion and depreciation | 1,429 | 6 | - | 1,435 |
| Net earnings (loss) | 1,574 | (326) | (81) | 1,167 |
| Exploration and evaluation expenditures | 207 | - | 18 | 225 |
| Petroleum and natural gas property expenditures | 371 | - | - | 371 |
| Impairment losses (recovery) | - | - | - | - |

# CORPORATE INFORMATION

## AUDITORS

KPMG LLP • Calgary, Canada

## LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP • Calgary, Canada
Johnson Winter Slattery • Brisbane, Australia

## BANKERS

Royal Bank of Canada • Calgary, Canada
WestPac • Sydney, Australia
ICICI Bank Ltd. • Calgary, Canada and Mumbai, India

## REGISTRAR AND TRANSFER AGENT

Computershare • Toronto, Canada

## INVESTOR RELATIONS

5 Quarters Investor Relations, Inc. • Calgary, Canada

## DIRECTORS

Chayan Chakrabarty
Peter D. Gaffney
James B. Howe
Dr. Brian J. Moss
Robert D. Steele
Ian J. Towers (Chairman)
W.B. (Bill) Wheeler

## DISCLOSURE COMMITTEE

*All Directors are members of the Committee*

## AUDIT COMMITTEE

James B. Howe (Chairman)
Robert D. Steele
W.B. (Bill) Wheeler

## RESERVES COMMITTEE

Peter D. Gaffney (Chairman)
Dr. Brian J. Moss

## GOVERNANCE AND COMPENSATION COMMITTEE

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

## OFFICERS

Chayan Chakrabarty, President & Chief Executive Officer
Richard N. Edgar, Executive Vice President
Jerrad Blanchard, Chief Financial Officer
Gordon R. MacMahon, Vice President, Exploration
Bruce Allford, Secretary

## STOCK EXCHANGE LISTING – TSX: BNG