International exploration & production

# Management's Discussion & Analysis

## Three and Nine Months Ended December 31, 2015 and 2014

## THIRD QUARTER FISCAL 2015 HGHLIGHTS

**Operational Highlights:**

- **Production Volumes** – Production in the third quarter averaged 439 barrels of oil equivalent per day ("boepd"), a 26% decrease from the preceding quarter and a decrease of 20% from Q3 2015. Five wells were offline to conduct a hydraulic stimulation campaign that is expected to add incremental production in the fourth fiscal quarter of 2016 as described below. Bengal's average net production from the Cuisinier field in October 2015, before the shut-in of the five programmed wells, was approximately 476 bopd net.
- **Cuisinier Well Stimulation Program Exceed Expectations** – As previously announced, at ATP 752 Barta Block (30.357% W.I.), Bengal and its joint venture parties completed a hydraulic stimulation program. Four of the five wells have been placed back into production demonstrating an aggregate incremental rate of over 200 gross barrels of oil per day ("bopd") or 61 bopd net to Bengal, which represents the increase in post stimulation production compared to average production prior to the commencement of the program.
- **Onshore India Drilling Plan** – At Bengal's onshore India block situated within the Cauvery Basin (CY-ONN-2005/1 – 30% WI), the Company continues to coordinate plans with its partners, Gas Authority of India Ltd. ("GAIL") and Gujarat State Petroleum Corporation, for the drilling of three exploration wells. GAIL, the operator, continues to negotiate with various stakeholders and government bodies that provide the necessary approvals to proceed. Timing of the drilling of the first of three exploration wells remains uncertain at this time. The block is currently under force majeure subject to stakeholder negotiations, which was further extended on February 3, 2016.

**Subsequent Events:**

- **Regains 100% Working Interest at ATP 732 Tookoonooka –** As previously announced, Bengal's farm-in partner on ATP 732 has announced its withdrawal from the farm-in and re-assigned their 50% equity back to Bengal. The farm-in partner drilled one well (Tangalooma-1) and completed the acquisition of 300 km2 of 3D seismic. There are no remaining commitments on this permit until after March of 2017, at which time a Phase 2 work program will be considered.

**Financial Highlights:**

- **Revenue** – Significantly lower year-over-year commodity prices in the third quarter led to Q3 revenues of approximately $1.8 million, down from the $3.4 million delivered in the preceding quarter. Revenues decreased 53% compared to the $3.9 million generated during Q3 2015. Sales prices averaged $45.56/bbl before hedging, compared to average sales prices of $62.31/bbl during the preceding quarter. The Company's reported sales include approximately 18,000 barrels ("bbls") of stockpiled production valued at period end pricing. Prices used to value crude stock decreased by 40% compared to the previous quarter, resulting in further downward pressure on realized prices during this quarter.
- **Hedging Provides Solid Upside** – During the third quarter, Bengal recorded a realized gain of $0.8 million ($20.77/bbl) from its strategic derivative financial instruments. The Company has approximately 178,000 barrels of production hedged with a floor price of US $80 per barrel through to June 2017.
- **Funds Flow from Operations**(1) – Bengal generated funds flow from operations of $0.1 million in the quarter ended December 31, 2015, a 92% decrease from the $1.3 million generated in the

[1] See non-IFRS measurements section on page 5 of the 3rd Qtr. Ended December 31, 2015 MD&A

preceding quarter and a 92% decrease from the $1.3 million recorded in Q3 2015. The decrease is largely the result of significantly lower commodity prices.

- **Earnings (loss)** – Net income was $1.4 million for the quarter compared to $1.2 million in the preceding quarter, and a net loss of $1.3 million in Q3 2015 which included an impairment charge of $4 million. Excluding the impact of unrealized foreign exchange and unrealized hedging gains and losses, adjusted net loss was $1.1 million for the third quarter of 2016 compared to an adjusted net loss of $4.7 million in Q3 2015.

Bengal's producing assets are predominantly 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 favorable royalty regime for oil and gas production.

## OUTLOOK

### AUSTRALIA

#### ATP 752 Barta Block Cuisinier

The Joint Venture continues to focus on cost reductions, production optimization as well as low cost and low risk development opportunities such as the recently completed five well hydraulic stimulation program. The success of this operation has both validated upside available with several existing wells identified as optimal stimulation candidates and further de-risked future development drilling.

As a result of the continued geographical expansion and associated increase in estimated initial oil in place, the joint venture, led by the operator, has commenced the preparation of a field development plan set to optimize field recovery in a cost effective manner.

Given the current crude pricing environment, the Company plans to defer the selection of wells for its next drilling program until the results from the recent fracture stimulation program have been fully evaluated, the field development plan has been completed, and the joint venture has finalized its cost structure review.

#### 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 now reviewing its 3D seismic results and evaluating its options towards further exploration of this large permit.

#### ATP 752 Wompi

The Nubba-1 well, which encountered multiple oil shows within the Jurassic, as well as up to 6 metres of Permian Toolachee gas pay is expected to be evaluated during 2016. 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. With positive test results, a Petroleum Production Lease 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.

**ATP 934 BARROLKA**

Bengal has completed reprocessing of 500+ line kilometers of 2D seismic over the permit and interpretation of this data is underway. Once complete the most favorable areas will be high-graded for additional detailed geophysical work that may include the acquisition of 3D seismic in 2016. The Company is encouraged by recent discoveries near the Barrolka permit, which suggest the presence of a basin centered gas play in the region, which will serve as the basis for internal technical analysis. 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.

## OPERATING HIGHLIGHTS

| $000s except per share, volumes and netback amounts | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Revenue | | | | | | |
| Oil | **$ 1,838** | $ 3,870 | (53) | **$ 8,934** | $ 12,036 | (26) |
| Natural gas | **-** | 63 | (100) | **-** | 223 | (100) |
| Natural gas liquids | **-** | 11 | (100) | **-** | 32 | (100) |
| Total | **$ 1,838** | $ 3,944 | (53) | **$ 8,934** | $ 12,291 | (27) |
| Royalties | **$ 133** | $ 369 | (64) | **$ 622** | $ 855 | (27) |
| % of revenue | **7** | 9 | (22) | **7** | 7 | - |
| Operating & transportation | **$ 1,432** | $ 1,794 | (20) | **$ 5,006** | $ 4,520 | 11 |
| Operating netback[(1)] | **$ 273** | $ 1,781 | (85) | **$ 3,306** | $ 6,916 | (52) |
| Cash from operations: | **$ 935** | $ 1,492 | (37) | **$ 3,902** | $ 5,943 | (34) |
| Funds from operations:[(2)] | **$ 105** | $ 1,318 | (92) | **$ 2,609** | $ 3,703 | (30) |
| Per share ($) (basic & diluted) | **0.01** | 0.02 | (100) | **0.04** | 0.06 | (33) |
| Net income (loss) | **$ 1,413** | $ (1,293) | (209) | **$ 1,324** | $ (2,120) | (163) |
| Per share ($) (basic & diluted) | **0.02** | (0.02) | (200) | **0.02** | (0.03) | (167) |
| Adjusted net (loss) income [(3)] | **(1,123)** | (4,678) | (76) | **(1,585)** | (5,578) | (72) |
| Per share ($) (basic & diluted) | **(0.02)** | (0.02) | - | **(0.02)** | (0.04) | (50) |
| Capital expenditures | **$ 1,311** | $ 4,489 | (71) | **$ 3,015** | $ 11,053 | (73) |
| Volumes | | | | | | |
| Oil (bopd) | **439** | 546 | (20) | **517** | 434 | 19 |
| Natural gas (mcfpd) | **-** | 180 | (100) | **-** | 181 | (100) |
| Natural gas liquids (boepd) | **-** | 2 | (100) | **-** | 1 | (100) |
| Total (boepd @ 6:1) | **439** | 578 | (24) | **517** | 465 | 11 |
| Netback[(1)] ($/boe) | | | | | | |
| Revenue | **$ 45.56** | $ 74.17 | (39) | **$ 62.85** | $ 96.82 | (35) |
| Realized gain on financial instrument | **20.77** | 3.27 | 535 | **14.12** | 1.37 | 931 |
| Royalties | **3.30** | 6.94 | (52) | **4.38** | 6.74 | (35) |
| Operating & transportation | **35.49** | 33.74 | 5 | **35.22** | 35.61 | (1) |
| Corporate Netback/boe | **$ 27.54** | $ 36.76 | (25) | **$ 37.37** | $ 55.34 | (33) |

(1) Operating netback is a non-IFRS measure. Netback per boe is calculated by dividing the revenue and 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 6.
(3) Adjusted net (loss) 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.

## Basis of Presentation

This MD&A and accompanying financial statements and notes are for the three and nine months ended December 31, 2015 and 2014. The terms "current quarter", Q3 2015 and "the quarter" are used throughout the MD&A and in all cases refer to the period from October 1, 2015 through December 31, 2015. The terms "prior year's quarter", Q3 2014 and "2014 quarter" are used throughout the MD&A for comparative purposes and refer to the period from October 1, 2014 through December 31, 2014.

The fiscal year for the Company is the twelve-month period ended March 31, 2016. The terms "fiscal 2016," "current year" and "the year" are used in the MD&A and in all cases refer to the period from April 1, 2015 through March 31, 2016. The terms "previous year," "prior year" and "fiscal 2015" are used in the MD&A for comparative purposes and refer to the period from April 1, 2014 through March 31, 2015. The term YTD means year-to-date.

For the purpose of calculating unit costs, natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one barrel ("bbl") of oil. This conversion ratio of 6:1 is based on an energy equivalency conversion for the individual products, primarily at the burner tip, and is not intended to represent a value equivalency at the wellhead. Such disclosure of boe may be misleading, particularly if used in isolation.

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 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 December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| **$000s** | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Cash flow from (used in) operating activities | **935** | **1,492** | (37) | **3,902** | **5,943** | (34) |
| Changes in non-cash working capital | **(830)** | **(174)** | 377 | **(1,293)** | **(2,240)** | (42) |
| Funds from (used in) operations | **105** | **1,318** | (92) | **2,609** | **3,703** | (30) |

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:

| | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| **$000s** | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Net income (loss) | **1,413** | (1,293) | (209) | **1,324** | (2,120) | (163) |
| Unrealized loss (gain) on financial Instruments | **(1,663)** | (4,522) | (63) | **(3,802)** | (4,522) | (16) |
| Unrealized foreign exchange loss (gain) | **(873)** | 1,137 | (177) | **893** | 1,064 | (16) |
| Adjusted net (loss) earnings | **(1,123)** | (4,678) | (76) | **(1,585)** | (5,578) | (72) |

## RESULTS OF OPERATONS - AUSTRALIA

### Netbacks

| **Production** | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Oil Production (bopd) | **439** | 546 | (20) | **517** | 434 | 19 |
| ($000s) | | | | | | |
| Oil Sales | **1,838** | 3,870 | (53) | **8,934** | 12,036 | (26) |
| Realized gain on financial instrument | **838** | 174 | 382 | **2007** | 174 | 1053 |
| Royalties | **133** | 362 | (63) | **622** | 825 | (25) |
| Operating expenses | **1,429** | 1,728 | (17) | **4,994** | 4,331 | 15 |
| Netback ($000s) | **1,114** | 1,954 | (43) | **5,235** | 7,054 | (26) |
| Oil Sales ($/bbl) | **45.56** | 77.03 | (41) | **62.85** | 100.88 | (38) |
| Realized gain on financial instrument | **20.77** | 3.46 | 500 | **14.14** | 1.46 | 868 |
| Royalties ($/bbl) | **3.30** | 7.21 | (54) | **4.38** | 6.92 | (37) |
| Operating expenses ($/bbl) | 35.42 | 34.40 | 3 | 35.13 | 36.30 | (3) |
| Australian Netback ($/bbl) | 27.61 | 38.88 | (29) | 37.46 | 59.12 | (37) |

### Production, Commodity Pricing and Sales

#### Production

The 20% decrease in production in due in part to natural declines as well as the loss of production from five wells, which were offline during November and December as part of the Cuisinier fracture stimulation program. Preliminary results indicate over 200 bbls of gross incremental production additions from the four wells tested to date. The Company will continue to review post-stimulation results to evaluate performance of the final well in the program as well as the long-term deliverability of the stimulated wells once all of the associated fraccing and completion fluids have been recovered.

**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 $2.03 bbl over Brent for the nine months ended December 31, 2015 (2014 – US $3.63).

Realized crude oil prices in Q3 2015 decreased 41% and 27% compared to Q3 2014 and Q2 2015 respectively due to a corresponding reduction in benchmark pricing. The significant declines in Brent crude prices have been partially offset by foreign exchange gains as the value of Canadian and Australian dollars has decreased relative to U.S. dollars. The Company's reported sales include approximately 18,000 bbls of crude stockpile valued at period end pricing. Prices used to value crude stock decreased by 40% compared to the previous quarter, resulting in further downward pressure on realized prices during this quarter.

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

| **Prices and Marketing** | **Three Months Ended December 31** | | | **Nine Months Ended December 31** | | |
|---|---|---|---|---|---|---|
| **Average Benchmark Price** | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Bengal realized crude oil price before realized gain on financial instruments($CAD/bbl) | **$ 45.56** | $77.03 | (41) | **$ 62.85** | $100.88 | (38) |
| Realized gain on financial Instruments ($CAD/bbl) | **65.26** | 3.46 | 1,786 | **26.75** | 1.46 | 1,732 |
| Dated Brent oil ($CAD/bbl) | **58.33** | 86.62 | (33) | **67.06** | 106.13 | (37) |
| Dated Brent oil ($US/bbl) | **43.69** | 76.27 | (43) | **51.96** | 95.92 | (46) |
| Number of CAD$ for 1 AUS$ | **0.96** | 0.97 | (1) | **0.96** | 1.00 | (4) |
| Number of CAD$ for 1 US$ | **1.34** | 1.14 | (18) | **1.29** | 1.11 | 16 |

(1) Translated at December 31, 2015 at an average quarterly exchange rate of US $1.00 = CAD $1.3351 and 1.2907 for the three and nine months ended December 31, 2015 respectively.

**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 income.

The company has managed the price application to production volumes through the following contracts:

| **Time Period** | **Type of Contract** | **Quantity Contracted (bbls)** | **Price Floor (US$/bbl)** | **Price Ceiling (US$/bbl)** |
|---|---|---|---|---|
| Jan 1, 2016 – May 31, 2017 | Oil - Swap | 107,748 | 80.00 | 80.00 |
| Jan 1, 2016 – May 31, 2017 | Oil – Put option | 88,156 | 80.00 | - |

The fair value of the financial contracts outstanding as at December 31, 2015 is an estimated asset of $6.9 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 nine months ended December 30, 2015, the derivative commodity contracts resulted in realized gains of $2.0 million and unrealized gains of $3.8 million.

**Royalties**

| Royalties ($000s) | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Royalty Expense | **133** | 362 | (63) | **622** | 825 | (25) |
| $/bbl | **3.30** | 7.21 | (54) | **4.38** | 6.92 | (37) |
| % of revenue | **7** | 9 | (22) | **7** | 7 | - |

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

Royalties per barrel decreased 54% compared to Q3 2014 and decreased 24% compared to the previous quarter. Royalties are expected to be approximately 7% of crude sales revenue; however during the quarter ended December 31, 2014 the Cuisinier Joint Venture was assessed certain annual adjustments that were not present in the current quarter resulting in a higher than usual royalty expense.

**Operating & Transportation Expenses**

| Operating & trans. expenses ($000s) | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Operating | **211** | 258 | (18) | **835** | 747 | 12 |
| Transportation | **1,218** | 1,470 | (17) | **4,159** | 3,584 | 16 |
| | **1,429** | 1,728 | (17) | **4,994** | 4,331 | 15 |
| Operating - $/boe | **5.23** | 5.14 | 2 | **5.87** | 6.26 | (6) |
| Transp. - $/boe | **30.19** | 29.26 | 3 | **29.26** | 30.04 | (3) |
| | **35.42** | 34.40 | 3 | **35.13** | 36.30 | (3) |

Operating costs per barrel increased by 2% compared to Q3 2014 and decreased by 8% compared to the prior quarter. Total operating expenses during the quarter reflect the operators annual adjustments, which resulted in a reduction compared to the prior quarter. This was partially offset by the appreciation of the Australian dollar compared to the Canadian dollar.

Transportation costs on a boe basis have increased 3% compared to Q3 2014 and increased 5% compared to the prior quarter. The increase from the prior quarter relates primarily to the appreciation of the Australian dollar compared to the Canadian dollar. The connection to the Merrimelia pipeline increases per barrel costs when compared to those incurred to transport oil by truck. However, the pipeline connection ensures the continuous deliverability of oil from the well-head to sales point.

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

| G&A Expenses and SBC ($000s) | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Net G&A | **649** | 759 | (14) | **1,973** | 2,506 | (21) |
| Capitalized G&A | **83** | 84 | (1) | **244** | 290 | (16) |
| Total G&A | **732** | 843 | (13) | **2,217** | 2,796 | (21) |
| Expensed share-based compensation | **26** | 42 | (38) | **74** | 147 | (50) |
| Capitalized share-based compensation | **3** | 8 | (63) | **10** | 36 | (72) |
| Total share-based compensation | **29** | 50 | (42) | **84** | 183 | (54) |

The 13% decrease in total G&A expenditures compared to Q3 2014 reflects the Company's ongoing effort to minimize discretionary spending without impacting operations.

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. The decrease in share-based compensation expense reflects a lack of option grants during the quarter ended December 31, 2015.

## Depletion and Depreciation (DD&A)

| DD&A Expenses ($000s) | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| PNG – Australia | **1,078** | 1,378 | (22) | **3,753** | 3,462 | 8 |
| PNG – Canada | **6** | 19 | (68) | **19** | 59 | (68) |
| Subtotal | **1,084** | 1,397 | (22) | **3,772** | 3,521 | 7 |
| Rig - Canada | **-** | 165 | (100) | **-** | 330 | (100) |
| Total | **1,084** | 1,562 | (31) | **3,772** | 3,851 | (2) |
| | | | | | | |
| $/boe – PNG Australia | **26.72** | 27.43 | (3) | **26.40** | 29.02 | (9) |
| $/boe – PNG Canada | **-** | 63.45 | - | **-** | 44.80 | - |
| $/boe – Total PNG | **26.87** | 29.40 | (9) | **26.54** | 30.09 | (12) |

Depletion per boe decreased in Australia compared to the prior year due to increases in the proved plus probable reserve base against which assets are depleted compared to proved and probable reserves at December 31, 2014.

### Impairment

| Impairment ($000s) | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Total | **-** | 3,966 | (100) | **-** | 4,762 | (100) |

There were no impairment charges recognized during the nine months ended December 31, 2015.

### Finance Income/Expenses

| Finance Expenses ($000s) | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Interest income | **2** | 4 | (50) | **7** | 13 | (46) |
| Accretion expense on decommissioning liabilities | **(8)** | (4) | 100 | **(24)** | (11) | 118 |
| Accretion expense on notes payable | **-** | (401) | (100) | **-** | (507) | (100) |
| Change in FV of VARs | **3** | 33 | (91) | **2** | 51 | (96) |
| Letter of credit charges | **-** | - | - | **14** | - | - |
| Interest and penalties on notes payable and credit facility | **(333)** | (381) | (13) | **(963)** | (870) | 11 |
| Finance expenses | **(336)** | (749) | (55) | **(964)** | (1,324) | (27) |

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

### CAPITAL EXPENDITURES

| Capital Expenditures ($000s) | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Geological and geophysical | **418** | 409 | 2 | **1,209** | 956 | 26 |
| Drilling | **21** | 3,516 | (99) | **(34)** | 6,726 | (101) |
| Completions | **873** | 564 | 55 | **1,730** | 3,371 | (49) |
| Cuisinier working interest purchase | **(1)** | - | - | **110** | - | - |
| Total expenditures | **1,311** | 4,489 | (71) | **3,015** | 11,053 | (73) |
| | | | | | | |
| Exploration & evaluation expenditures | **174** | 1,978 | (91) | **666** | 2,922 | (77) |
| Development & production expenditures | **1,137** | 2,511 | (55) | **2,349** | 8,131 | (71) |
| Total net expenditures | **1,311** | 4,489 | (71) | **3,015** | 11,053 | (73) |

Development expenditures during the quarter related primarily to the Cuisinier fracture stimulation program.

## SHARE CAPITAL

At February 10, 2016, there were 68,177,796 common shares issued and outstanding, together with 4,357,500 outstanding options, 703,125 warrants and 546,875 VARs.

| Trading History | Three Months Ended December 31 | | | Nine Months Ended December 31 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| High | **$ 0.21** | $ 0.44 | (53) | **$ 0.32** | $ 0.76 | (58) |
| Low | **$ 0.10** | $ 0.18 | (44) | **$ 0.10** | $ 0.18 | (44) |
| Close | **$ 0.14** | $ 0.25 | (46) | **$ 0.14** | $ 0.25 | (46) |
| Volume (000s) | **7,841** | 3,858 | 103 | **13,646** | 11,611 | 18 |
| Shares outstanding (000s) | **68,178** | 64,692 | 5 | **68,178** | 64,692 | 5 |
| Weighted average shares outstanding (000s) | | | | | | |
| Basic | **68,178** | 64,692 | 5 | **68,178** | 64,689 | 5 |
| Diluted | **68,178** | 64,692 | 5 | **68,283** | 64,689 | 6 |

## 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 December 31, 2015 the Company had $1.5 million of working capital deficiency, including cash and short-term deposits of $2.7 million and restricted cash of $0.1 million, compared to working capital of $5.8 million at September 30, 2015 and working capital of $5.2 million at March 31, 2015. The decrease in working capital is due to the nominal reduction schedule associated with the Company's Westpac credit facility. The Company plans to limit its capital expenditures during the next quarters to replenish its cash reserves in order to meet potential debt obligations.

In the previous fiscal year, Bengal had finalized a US $25.0 million secured credit facility drawing US $14.0 million in November and subsequently redeeming its $8.0 million notes payable. Proceeds from this facility are restricted for use within the Cuisinier production license. 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 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. There are no financial covenants associated with this credit facility. The Company was in compliance with the stated covenants at December 31, 2015.

The majority of the Company's oil sales are benchmarked on dated Brent prices which averaged US $51.96 /bbl for the nine months ended December 31, 2015. 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 payment schedule for the credit facility:

| **Credit facility (US$000s)** | |
|---|---|
| Fiscal year 2017 | 7,750 |
| Fiscal year 2018 | 6,250 |
| | **14,000** |

## COMMITMENTS

Pursuant to current production sharing contracts ("PSC"), the Company is required to perform minimum exploration activities in its Indian permits 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 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 India – CY-ONN-2005/1 | 3 wells | Currently under Force Majeure(2) | $5.8 |

(1) Translated at September 30, 2015 at an exchange rate of US $1.00 = CAD $1.3869.

(2) If the Company did not participate in the drilling of 3 wells, costs of $3.7 million would be impaired and the Company's interest in the permit would decline.

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 500 kilometers of 2D seismic and up to three wells.

| Country and Permit | Work Program | Obligation Period Ending | Estimated Expenditure (net) (millions CAD$)(1) |
|---|---|---|---|
| Onshore Australia – ATP 934P | 500 $km^2$ of 2D seismic and up to three wells | March 2021 | $ 16.9 |

(1) Translated at December 31, 2015 at an exchange rate of AUS $1.00 = CAD $1.0122.

## GUARANTEES – INDIA PERMITS

| ($000s) CAD | December 31, 2015 | December 31, 2014 |
|---|---|---|
| CY-OSN-2005/1 – Onshore India | **1,002** | 840 |
| **Total Guarantees** | **1,002** | 840 |

These performance guarantees are based on a percentage of the capital commitments shown in the table above and are not reflected in the statement of financial position, as they are secured by Export Development Canada. These guarantees are cancelled when the Company completes the work program commitment required for the applicable exploration period.

## OTHER

At December 31, 2015, 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 | $ | 332 | $ | 266 | $ | 66 | $ | - | $ | - |
| Decommissioning obligations | | 1,533 | | - | | 61 | | 184 | | 1,288 |
| Total contractual obligations | $ | 1,865 | $ | 266 | $ | 127 | $ | 184 | $ | 1,288 |

## OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

## SELECTED QUARTERLY INFORMATION

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

| | **Dec.31 2015** | **Sep. 30 2015** | Jun. 30 2015 | Mar. 31 2015 | Dec. 31 2014 | Sep. 30 2014 | Jun. 30 2014 | Mar. 31 2014 |
|---|---|---|---|---|---|---|---|---|
| Petroleum and natural gas sales | **$1,838** | $3,392 | $3,704 | $3,378 | $3,944 | $4,458 | $3,889 | $5,272 |
| Cash from (used in) operations | **935** | 2,318 | 649 | 1,031 | 1,144 | 2,232 | 2,219 | 2,106 |
| Funds from (used in) operations(1) | **105** | 1,282 | 1,222 | 939 | 1,318 | 1,459 | 926 | 2,218 |
| Per share | | | | | | | | |
| Basic and diluted | **0.00** | 0.02 | 0.02 | 0.01 | 0.02 | 0.02 | 0.01 | 0.03 |
| Net income (loss) | **1,413** | $1,167 | $(1,256) | $(1,052) | $(1,293) | ($98) | ($729) | ($1,804) |
| Per share | | | | | | | | |
| Basic and diluted | **0.02** | 0.02 | (0.02) | (0.02) | (0.02) | 0.00 | (0.01) | (0.03) |
| Capital expenditures | **1,311** | $596 | $1,108 | $2,410 | $4,489 | $2,909 | $3,655 | $2,048 |
| Working capital (deficiency) | **(1,487)** | 5,775 | 3,087 | 5,221 | 4,931 | (1,705) | (88) | 3,104 |
| Total assets | **72,353** | 66,583 | 62,926 | 65,679 | 66,229 | 60,385 | 60,216 | 62,425 |
| Shares outstanding (000s) | **68,178** | 68,178 | 68,178 | 68,178 | 64,692 | 64,692 | 64,692 | 64,446 |
| Operations | | | | | | | | |
| Average daily production | | | | | | | | |
| Natural gas (mcfpd) | **-** | - | - | 114 | 181 | 169 | 194 | 180 |
| Oil and NGLs (bpd) | **439** | 592 | 520 | 506 | 548 | 429 | 329 | 474 |
| Combined (boepd) | **439** | 592 | 520 | 525 | 578 | 457 | 361 | 504 |
| Netback ($/boe) | **72.03** | 36.97 | 46.23 | 45.86 | $36.79 | $65.05 | $73.15 | $74.28 |

(1) See “Non-IFRS Measurements” on page 6 of this MD&A.

Production over the last eight quarters initially climbed with the addition of 2014 Phase One wells during fiscal Q3 2015 after which production declined naturally offset partially during fiscal Q1 2016 as 2014 Phase Two wells were brought on stream near the end of the quarter after which production increased to 592 bopd during fiscal Q2 2016 before decreasing to 439 bopd during the quarter as a result of five wells which were temporary offline during the quarter.

The decrease in netbacks from the fiscal fourth quarter of 2015 through to Q2 2016 are due primarily to decreased benchmark crude prices and pipeline costs which are marginally higher than costs incurred previously to truck oil. However, this ensures continuous deliverability.

## 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 December 31, 2015 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 2015 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.

Accounting for acquisitions of interests in joint operations

In May 2014, the IASB issued amendments to IFRS 11 "Joint Arrangements" to clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business is required to apply all of the principles of business combinations accounting in IFRS 3 "Business Combinations". Prospective application of this interpretation is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The adoption of this amendment could impact the Company in the event that it increases or decreases its ownership share in an existing joint operation or invests in a new joint operation.

Sale or contribution of assets between an investor and its associate or joint venture

In September 2014, the IASB issued amendments to address an inconsistency between the requirements in IFRS 10 "Consolidated Financial Statements" and those in IAS 28 "Investments in Associates and Joint Ventures" regarding the sale or contribution of assets between an investor and its associate or joint venture. The amendment clarified that a full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business. Prospective application of this interpretation is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The adoption of this amendment could impact the Company in the event that it has transactions with associates or joint ventures.

Disclosure initiative

In December 2014, the IASB issued narrow-focus amendments to IAS 1 "Presentation of Financial Statements" to clarify existing requirements relating to materiality, order of notes, subtotals, accounting policies and disaggregation. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2016, with earlier application permitted. The adoption of this amended standard is not expected to have a material impact on the Company's disclosure.

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. On July 22, 2015, the IASB confirmed its proposal to defer the effective date 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.

## 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 29, 2015 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;*
- *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;*

- *Expectation that the selection of three drilling locations in India expected to commence no earlier than mid calendar 2016.*

.

*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 Nine Months Ended December 31, 2015 and 2014

# BENGAL ENERGY LTD.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Thousands of Canadian dollars)

(unaudited)

| As at | Notes | December 31, 2015 | March 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | **$ 2,678** | $ 1,749 |
| Restricted cash | | **140** | 140 |
| Accounts receivable | | **2,872** | 3,109 |
| Prepaid expenses and deposits | | **223** | 348 |
| Fair value of financial instruments | **11** | **6,502** | 2,164 |
| | | **12,415** | 7,510 |
| Non-current assets: | | | |
| Exploration and evaluation assets | **4** | **30,498** | 28,245 |
| Petroleum and natural gas properties | **5** | **26,731** | 27,122 |
| Fair value of financial instruments | **11** | **2,709** | 2,802 |
| | | **59,938** | 58,169 |
| **Total assets** | | **$ 72,353** | $ 65,679 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | | **$ 3,154** | $ 2,289 |
| Current portion of credit facility | **7** | **10,748** | - |
| | | **13,902** | 2,289 |
| Non-current liabilities: | | | |
| Decommissioning liability | **8** | **1,535** | 1,454 |
| Credit facility | **7** | **8,268** | 16,982 |
| Other long-term liabilities | **6** | **1** | 3 |
| | | **9,804** | 18,439 |
| Shareholders' equity: | | | |
| Share capital | | **94,151** | 94,151 |
| Contributed surplus | | **7,425** | 7,341 |
| Warrants | **6** | **167** | 167 |
| Accumulated other comprehensive Income (loss) | | **2,158** | (130) |
| Deficit | | **(55,254)** | (56,578) |
| | | **48,647** | 44,951 |
| **Total liabilities and shareholders' equity** | | **$ 72,353** | $ 65,679 |

Commitments and contingencies (note 13)

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 December 31, 2015 | Three months ended December 31, 2014 | Nine months ended December 31, 2015 | Nine months ended December 31, 2014 |
|---|---|---|---|---|---|
| **Income** | | | | | |
| Petroleum and natural gas revenue | | **$ 1,838** | $ 3,944 | **$ 8,934** | $ 12,291 |
| Royalties | | **(133)** | (369) | **(622)** | (855) |
| | | **1,705** | 3,575 | **8,312** | 11,436 |
| Realized gain on financial instruments | | **838** | 174 | **2,007** | 174 |
| Unrealized gain on financial instruments | | **1,663** | 4,522 | **3,802** | 4,522 |
| | | **4,206** | 8,271 | **14,121** | 16,132 |
| **Operating expenses** | | | | | |
| General and administrative | | **649** | 759 | **1,973** | 2,506 |
| Operating and transportation | | **1,432** | 1,794 | **5,006** | 4,520 |
| Depletion and depreciation | 5 | **1,084** | 1,562 | **3,772** | 3,851 |
| Pre-licensing & impairment | | **-** | 3,966 | **-** | 4,762 |
| Share-based compensation | | **26** | 42 | **74** | 147 |
| | | **3,191** | 8,123 | **10,825** | 15,786 |
| **Operating income** | | **1,015** | 148 | **3,296** | 346 |
| **Other (expenses) income** | | | | | |
| Other expenses | | **(2)** | (11) | **(2)** | (353) |
| Finance expenses | 10 | **(336)** | (749) | **(964)** | (1,324) |
| Foreign exchange (loss) gain | | **736** | (681) | **(1,006)** | (789) |
| | | **398** | (1,441) | **(1,972)** | (2,466) |
| **Net income (loss)** | | **1,413** | (1,293) | **1,324** | (2,120) |
| Exchange differences on translation of foreign operations | | **3,286** | (867) | **2,288** | (3,148) |
| **Total comprehensive income (loss) for the period** | | **$ 4,699** | $ (2,160) | **$ 3,612** | $ (5,268) |
| **Earnings (loss) per share** | 9 | | | | |
| - Basic & diluted | | **$ 0.02** | $ (0.02) | **$ 0.02** | $ (0.03) |
| **Weighted average number of shares outstanding (000s)** | 9 | | | | |
| - Basic | | **68,178** | 64,692 | **68,178** | 64,689 |
| - Diluted | | **68,178** | 64,692 | **68,283** | 64,689 |

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, 2014** | 64,667,082 | $ 93,151 | $ 167 | $ 7,141 | $ 1,536 | $ (53,406) | $ 48,589 |
| Net loss for the period | - | - | - | - | - | (2,120) | (2,120) |
| Comprehensive loss for the period | - | - | - | - | (3,148) | - | (3,148) |
| Issuance of common shares, net of issuance costs | 25,000 | 24 | - | (10) | - | - | 14 |
| Share-based compensation – expensed | - | - | - | 147 | - | - | 147 |
| Share-based compensation – capitalized | - | - | - | 36 | - | - | 36 |
| **Balance at December 31, 2014** | 64,692,082 | $ 93,175 | $ 167 | $ 7,314 | $ (1,612) | $ (55,526) | $ 43,518 |
| **Balance at April 1, 2015** | **68,177,796** | **$ 94,151** | **$ 167** | **$ 7,341** | **$ (130)** | **$ (56,578)** | **$ 44,951** |
| Net income for the period | - | - | - | - | - | **1,324** | **1,324** |
| Comprehensive income for the period | - | - | - | - | **2,288** | - | **2,288** |
| Share-based compensation – expensed | - | - | - | **74** | - | - | **74** |
| Share-based compensation – capitalized | - | - | - | **10** | - | - | **10** |
| **Balance at December 31, 2015** | **68,177,796** | **94,151** | **$ 167** | **$ 7,425** | **$ 2,158** | **$ (55,254)** | **$ 48,647** |

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 December 31, 2015 | 2014 | Nine Months Ended December 31, 2015 | 2014 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net income (loss) for the period | | **$ 1,413** | $ (1,293) | **$ 1,324** | $ (2,120) |
| Non-cash items: | | | | | |
| Depletion and depreciation | | **1,084** | 1,562 | **3,772** | 3,851 |
| Pre-licensing & impairment | | **-** | 3,966 | **-** | 4,762 |
| Accretion on decommissioning liability | | **8** | 4 | **24** | 11 |
| Accretion on notes payable and credit facility /change in fair value of VARs | | **110** | 422 | **324** | 510 |
| Share-based compensation | | **26** | 42 | **74** | 147 |
| Unrealized gain on financial instruments | | **(1,663)** | (4,522) | **(3,802)** | (4,522) |
| Unrealized foreign exchange (gain) loss | | **(873)** | 1,137 | **893** | 1,064 |
| | | **105** | 1,318 | **2,609** | 3,703 |
| Change in non-cash working capital | 12 | **830** | 174 | **1,293** | 2,240 |
| **Net cash from operating activities** | | **935** | 1,492 | **3,902** | 5,943 |
| **Investing activities** | | | | | |
| Exploration and evaluation expenditures | | **(174)** | (1,978) | **(666)** | (2,922) |
| Petroleum and natural gas properties | | **(1,137)** | (2,511) | **(2,349)** | (8,131) |
| Changes in non-cash working capital | 12 | **577** | 72 | **(43)** | (66) |
| **Net cash used in investing activities** | | **(734)** | (4,417) | **(3,058)** | (11,119) |
| **Financing activities** | | | | | |
| Proceeds from issuance of shares, net of issuance costs | | **-** | - | **-** | 14 |
| Proceeds from issuance of credit facility, net of Issuance costs | | **-** | 14,520 | **-** | 14,520 |
| Repayment of notes | | **-** | (8,000) | **-** | (8,000) |
| Decrease in prepaid financing charges | | **-** | 134 | **-** | - |
| Changes in non-cash working capital | 12 | **13** | (46) | **(30)** | (190) |
| **Net cash from financing activities** | | **13** | 6,608 | **(30)** | 6,344 |
| Impact of foreign exchange on cash and cash equivalents | | **171** | (127) | **115** | (283) |
| **Net increase (decrease) in cash and cash equivalents** | | **385** | 3,556 | **929** | 885 |
| Cash and cash equivalents, beginning of period | | **2,293** | 3,313 | **1,749** | 5,984 |
| Cash and cash equivalents, end of period | | **$ 2,678** | 6,869 | **$ 2,678** | $ 6,869 |

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 of the Company as at December 31, 2015 and 2014 and for the three and nine months ended December 31, 2015 and 2014 are comprised of the Company and its wholly-owned subsidiaries Bengal Energy International Inc., Bengal Energy Australia (Pty) 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 6th Ave SW, Calgary, Alberta, Canada, T2P 3W2 and the registered office is at Burnet, Duckworth & Palmer LLP, Suite 2400, 525 - 8th Ave SW, Calgary, Alberta, Canada T2P 1G1.

### 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, 2015.

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, 2015.

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

#### b) Basis of measurement

These condensed consolidated financial statements have been prepared on a historical cost basis, except for commodity contracts as discussed in Note 3.

#### 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. DETERMINATION OF FAIR VALUES

A number of IFRS require the determination of fair value for financial and non-financial assets and liabilities.

### Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into three categories based on the degree to which fair value is observable:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis;

Level 2 - Valuations are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; including forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace;

Level 3 - Inputs that are not based on observable data for the asset or liability.

Financial instruments comprise cash, cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, credit facility and derivatives.

The Company's policy is to recognize transfers in and out of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the period.

Fair values have been determined for measurement and disclosure purposes as follows:

**a) Cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities**

The fair values of these financial instruments approximate their carrying amounts due to their short-term maturity.

**b) Credit facility**

The fair value of the Company’s credit facility approximates its carrying value as it bears interest at floating rates and the applicable margin is indicative of the Company’s current credit risk.

**c) Derivatives**

The Company’s commodity contracts (swaps and put options) are measured at level 2 of the fair value hierarchy. The fair value of the swap component is determined by discounting the difference between the contracted prices and published forward price curves as at the period end date, using the remaining contracted oil volumes and a risk-free interest rate. The fair value of puts are based on option models that use published information with respect to volatility, prices and interest rates.

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

| ($000s) | Exploration and Evaluation Expenditures |
|---|---|
| Balance at April 1, 2014 | 26,821 |
| Additions | 3,189 |
| Capitalized share-based compensation | 10 |
| E&E impairment loss | (1,592) |
| Exchange adjustments | (183) |
| **Balance at March 31, 2015** | **28,245** |
| Additions | **556** |
| Acquisition | **110** |
| Capitalized share-based compensation | **4** |
| E&E impairment loss | **-** |
| Exchange adjustments | **1,583** |
| **Balance at December 31, 2015** | **30,498** |

Exploration and evaluation assets consist of the Company's exploration projects in Australia and India 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.

## 5. PETROLEUM AND NATURAL GAS PROPERTIES

| $000s | Petroleum and Natural Gas Properties | Corporate Assets | Total |
|---|---|---|---|
| *Cost:* | | | |
| Balance at April 1, 2014 | 28,404 | 318 | 28,722 |
| Additions | 10,274 | - | 10,274 |
| Non-cash additions | 53 | - | 53 |
| Capitalized share-based compensation | 30 | - | 30 |
| Change in decommissioning obligation | 1,118 | - | 1,118 |
| Exchange adjustments | (1,178) | 24 | (1,154) |
| Balance at March 31, 2015 | 38,701 | 342 | 39,043 |
| Additions | **2,349** | **-** | **2,349** |
| Capitalized share-based compensation | **6** | **-** | **6** |
| Exchange adjustments | **1,101** | **3** | **1,104** |
| **Balance at December 31, 2015** | **42,157** | **345** | **42,502** |

| $000s | Petroleum and Natural Gas Properties | Corporate Assets | Total |
|---|---|---|---|
| *Accumulated depletion, depreciation and impairment losses:* | | | |
| **Balance at April 1, 2014** | 6,819 | 234 | 7,053 |
| Depletion and depreciation charge | 4,800 | 32 | 4,832 |
| Exchange adjustments | 59 | (23) | 36 |
| **Balance at March 31, 2015** | 11,678 | 243 | 11,921 |
| Depletion and depreciation charge | **3,753** | **19** | **3,772** |
| Exchange adjustments | **75** | **3** | **78** |
| **Balance at December 31, 2015** | **15,506** | **265** | **15,771** |
| *Net carrying value* | | | |
| **At March 31, 2015** | 27,023 | 99 | 27,122 |
| **At December 31, 2015** | **26,651** | **80** | **26,731** |

The calculation of depletion for the quarter ended December 31, 2015 included $123.8 million for estimated future development costs associated with proved and probable reserves in Australia (March 31, 2015 - $123.8 million).

As at December 31, 2015, the decline in oil prices was identified as an impairment indicator and an impairment test was performed. Based on the impairment test performed, the net present value of future cash flows exceeded the carrying value of the CGU and no impairment was recorded for the period ended December 31, 2015.

## 6. NOTES PAYABLE

| Non-Convertible Notes – Issued July 5, 2013 ($000s) | Total | Debt Component | Other long-term liability | Warrants |
|---|---|---|---|---|
| Gross proceeds | 8,000 | 7,593 | 178 | 229 |
| Total cash fees | (257) | (256) | 6 | (7) |
| | 7,743 | 7,337 | 184 | 222 |
| Accretion on debt/change in fair value of VARs | 482 | 663 | (181) | - |
| Deferred tax impact | (55) | - | - | (55) |
| Repayment | (8,000) | (8,000) | - | - |
| **Balance at March 31, 2015** | 170 | - | 3 | 167 |
| Change in fair value of VARs | **(2)** | **-** | **(2)** | **-** |
| **Balance at December 31, 2015** | **168** | **-** | **1** | **167** |

## 7. CREDIT FACILITY

| Facility Agreement – Issued November 12, 2014 ($000s) | | |
|---|---|---|
| Gross proceeds | | 15,364 |
| Total cash fees | | (844) |
| | | 14,520 |
| Unrealized foreign exchange loss | | 2,307 |
| | | 16,827 |
| Accretion | | 155 |
| **Balance at March 31, 2015** | | **16,982** |
| Unrealized foreign exchange loss | | **1,708** |
| Accretion | | **326** |
| **Balance at December 31, 2015** | | **19,016** |
| **Current portion of credit facility at** | **December 31, 2015** | **March 31, 2015** |
| **Current portion of credit facility** | **10,748** | - |
| **Non-current portion of credit facility** | **8,268** | 16,982 |

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. 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% to 3.5% depending on certain reserve forecast parameters.

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. Calculation dates commence December 31, 2015 and occur every six months thereafter until June 30, 2017 with a nominal reduction of $6.25 million to the facility limit at each calculation date based on the Company's existing reserve profile. The facility limit at December 31, 2015, is US $18.75 million. The current portion of the credit facility (US $7.75 million/CAD $10.75 million) reflects the December 31, 2016 reduction of the available facility to US $6.25 million.

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 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. There are no financial covenants associated with this credit facility. The Company was in compliance with the stated covenants at December 31, 2015.

## 8. 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) | December 31, 2015 | March 31, 2015 |
|---|---|---|
| Decommissioning liabilities, beginning of period | **1,454** | 358 |
| Revision | **-** | 901 |
| Decommissioning expenditures | **-** | (19) |
| Additions | **-** | 217 |
| Accretion | **24** | 15 |
| Exchange adjustments | **57** | (18) |
| **Decommissioning liabilities, end of period** | **1,535** | 1,454 |

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 December 31, 2015 is approximately $2.0 million (March 31, 2015 – $2.0 million) which will be incurred between 2018 and 2035. An inflation factor of 2.0% and a risk-free discount rate ranging between 1.4% and 2.3% have been applied to the decommissioning liability at December 31, 2015.

## 9. 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, 2015** | **3,515,000** | **$ 0.89** |
| Granted | **1,072,500** | **0.18** |
| Forfeited | **-** | **-** |
| Expired | **(230,000)** | **0.86** |
| Exercised | **-** | **-** |
| **Outstanding at December 31, 2015** | **4,357,500** | **0.72** |
| **Exercisable at December 31, 2015** | **3,215,000** | **0.90** |

### (c) Per share amounts:

Income (loss) per share is calculated based on net income (loss) and the weighted-average number of common shares outstanding.

| ($000s) | Three months ended December 31, 2015 | Three months ended December 31, 2014 | Nine months ended December 31, 2015 | Nine months ended December 31, 2014 |
|---|---|---|---|---|
| **Income (loss) for the period** | **$ 1,413** | $ (1,293) | **$ 1,324** | $ (2,120) |
| Weighted average number of common shares (basic) | **68,178** | 64,692 | **68,178** | 64,689 |
| Weighted average number of common shares (diluted) | **68,178** | 64,692 | **68,283** | 64,689 |
| **Basic and diluted income per share** | **$ 0.02** | $ (0.02) | **$ 0.02** | $ (0.03) |

For the three and nine months ended December 31, 2015, there were 4,357,500 and 3,285,000 (March 31, 2015 – 3,515,000) options respectively considered anti-dilutive.

In addition, there were 703,125 warrants and 546,875 value appreciation rights considered anti-dilutive.

## 10. FINANCE INCOME/EXPENSES

| ($000s) | Three months ended December 31, 2015 | 2014 | Nine months ended December 31, 2015 | 2014 |
|---|---|---|---|---|
| Interest income | **2** | 4 | **7** | 13 |
| Accretion on decommissioning obligations | **(8)** | (4) | **(24)** | (11) |
| Letter of credit charges | **-** | - | **14** | - |
| Interest on notes payable and credit facility | **(333)** | (381) | **(963)** | (870) |
| Accretion on notes payable and change in fair value of VARs | **3** | (368) | **2** | (456) |
| **Finance (expenses)** | **(336)** | (749) | **(964)** | (1,324) |

## 11. 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 December 31, 2015, Bengal's receivables consisted of $2.4 million (March 31, 2015 - $2.6 million) from joint venture partners and $0.5 million (March 31, 2015 - $0.5 million) of other trade receivables of which $1.8 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 December 31, 2015, (March 31, 2015 - $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 December 31, 2015 and did not provide for any doubtful accounts, nor was it required to write-off any receivables during the nine months ended December 31, 2015. 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, and credit facility and amounted to $22.2 million at December 31, 2015 (March 31, 2015- $19.3 million).

At December 31, 2015 the Company had $1.5 million of working capital deficiency, including cash and short-term deposits of $2.7 million and restricted cash of $0.1 million, compared to working capital of $5.2 million at March 31, 2015 and working capital of $5.3 million at December 31, 2014.

In the previous fiscal year, Bengal had finalized a US $25.0 million secured credit facility drawing US $14.0 million in November. Proceeds from this facility are restricted for use within the Cuisinier production licence.

The majority of the Company's oil sales are benchmarked on dated Brent prices which averaged US $51.96/bbl for the nine months ended December 31, 2015. 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 Copmany 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 2017 | 7,750 |
| Fiscal year 2018 | 6,250 |
| | **14,000** |

### (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, US dollars for Australian oil sales and incurs expenditures in Australian, Canadian and US 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 December 31, 2015 ($000s) | | | |
|---|---|---|---|
| | **CAD** | **AUD** | **USD** |
| Cash and short-term deposits | 289 | 799 | 1,590 |
| Restricted cash | 140 | - | - |
| Accounts receivable | 23 | 2,849 | - |
| Accounts payable and accrued liabilities | (239) | (2,886) | (29) |
| Other long-term liability | (1) | - | - |
| Credit facility | - | - | (19,016) |
| Fair value of financial instruments | - | - | 9,211 |
| | 212 | 762 | (8,244) |

*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 December 31, 2015, 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)** |
|---|---|---|---|---|
| January 1, 2016 – May 31, 2017 | Oil - Swap | 97,965 | 80.00 | 80.00 |
| January 1, 2016 – May 31, 2017 | Oil – Put option | 80,150 | 80.00 | - |
| **($000s)** | | **Oil - swap** | **Oil – put** | **Total** |
| Current fair value of financial instruments | | 3,571 | 2,931 | **6,502** |
| Non-current fair value of financial instruments | | 1,477 | 1,232 | **2,709** |
| **Total** | | **5,048** | **4,163** | **9,211** |

A US$1.00 increase in the future crude oil price per barrel would result in an approximate $178,000 decrease in the fair value of financial instruments at December 31, 2015 while a $US1.00 decrease would result in an increase of approximately US$178,000 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 December 31, 2015 as the funds are not invested in interest-bearing instruments. 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 December 31, 2015.

For the nine months ended December 31, 2015, a 1% increase in US Libor would increase interest expense by $136,000.

## 12. CHANGES IN NON-CASH WORKING CAPITAL

| Nine months ended ($000s) | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Accounts receivable | **237** | 934 |
| Prepaid expenses and deposits | **125** | 110 |
| Accounts payable and accrued liabilities | **865** | 845 |
| Impact of foreign exchange | **(7)** | 95 |
| Total | **1,220** | 1,984 |
| Relating to: | | |
| Operating | **1,293** | 2,240 |
| Financing | **(30)** | (190) |
| Investing | **(43)** | (66) |
| Total | **1,220** | 1,984 |

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

| Nine months ended ($000s) | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Cash interest paid** | **892** | 783 |
| **Cash interest received** | **7** | 13 |

## 13. COMMITMENTS AND CONTINGENCIES

Pursuant to current production sharing contracts ("PSC"), the Company is required to perform minimum exploration activities that include various types of surveys, acquisition and processing of seismic data and drilling of exploration wells. 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.

| Country and Permit | Work Program | Obligation Period Ending | Estimated Expenditure (net) (millions CAD$)(1) |
|---|---|---|---|
| Onshore India – CY-ONN-2005/1 | 3 wells | Currently under Force Majeure(2) | $5.8 |

(1) Translated at December 31, 2015 at an exchange rate of US $1.00 = CAD $1.3869.

(2) If the Company did not participate in the drilling of three wells, costs of $3.7 million would be impaired and the Company's interest in the permit would decline.

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 500 kilometers of 2D seismic and up to three wells.

| Country and Permit | Work Program | Obligation Period Ending | Estimated Expenditure (net) (millions CAD$)(1) |
|---|---|---|---|
| Onshore Australia – ATP 934P | 500 $km^2$ of 2D seismic and up to three wells | March 2021 | $ 16.9 |

(1) Translated at December 31, 2015 at an exchange rate of AUS $1.00 = CAD $1.0122.

At December 31, 2015 the Company had the following lease commitment for office space in Canada.

| ($000s) | | | | | |
|---|---|---|---|---|---|
| January 2016 to March 2017 | **Total** | **Less than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 Years** |
| Office lease | **332** | **266** | **66** | **-** | **-** |

Effective April 1, 2012 the Company entered into a head lease in Calgary, Canada for a term of five years.

## 14. SEGMENTED INFORMATION

As at December 31, 2015, the Company has three reportable operating segments being the Australian, Canadian and Indian 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 nine months ended December 31, 2015 ($000s) | | | | |
|---|---|---|---|---|
| | **Australia** | **Canada** | **India** | **Total** |
| Revenue | **8,934** | **-** | **-** | **8,934** |
| Interest revenue | **6** | **1** | **-** | **7** |
| Interest expense | **963** | **-** | **-** | **963** |
| Depletion and depreciation | **3,753** | **19** | **-** | **3,772** |
| Net income (loss) | **2,563** | **(979)** | **(260)** | **1,324** |
| Exploration and evaluation expenditures | **646** | **-** | **20** | **666** |
| Petroleum and natural gas property expenditures | **2,349** | **-** | **-** | **2,349** |
| Impairment losses (recovery) | **-** | **-** | **-** | **-** |
| **As at December 31, 2015 ($000s)** | | | | |
| Petroleum and natural gas properties | | | | |
| Cost | **37,860** | **4,637** | **-** | **42,497** |
| Accumulated impairment losses | **(796)** | **(310)** | **-** | **(1,106)** |
| Accumulated depletion, depreciation and accretion | **(10,413)** | **(4,247)** | **-** | **(14,660)** |
| Net book value | **26,651** | **80** | **-** | **26,731** |
| Exploration and evaluation assets | **34,504** | **-** | **8,757** | **43,261** |
| Accumulated impairment losses | **(11,455)** | **-** | **(1,308)** | **(12,763)** |
| Net book value | **23,049** | **-** | **7,449** | **30,498** |
| Property, plant & equipment | **-** | **5,130** | **-** | **5,130** |
| Accumulated depletion, depreciation and accretion | **-** | **(403)** | **-** | **(403)** |
| Impairment | **-** | **(4,727)** | **-** | **(4,727)** |
| Net book value | **-** | **-** | **-** | **-** |

| For the nine months ended December 31, 2014 ($000s) | | | | |
|---|---|---|---|---|
| | **Australia** | **Canada** | **India** | **Total** |
| Revenue | 12,036 | 255 | - | 12,291 |
| Interest revenue | 12 | 1 | - | 13 |
| Interest expense | - | 870 | - | 870 |
| Depletion and depreciation | 3,463 | 388 | - | 3,851 |
| Net earnings (loss) | 4,539 | (6,279) | (380) | (2,120) |
| Exploration and evaluation expenditures | 2,885 | - | 37 | 2,922 |
| Petroleum and natural gas property expenditures | 8,131 | - | - | 8,131 |
| Impairment losses (recovery) | 1,592 | 3,170 | - | 4,762 |
| **As at December 31, 2014 ($000s)** | | | | |
| Petroleum and natural gas properties | | | | |
| Cost | 30,603 | 4,617 | - | 35,220 |
| Impairment loss | (796) | (310) | - | (1,106) |
| Accumulated depletion, depreciation and accretion | (5,418) | (4,078) | - | (9,496) |
| Net book value | 24,389 | 229 | - | 24,618 |
| Exploration and evaluation assets | 31,119 | - | 7,260 | 38,379 |
| Accumulated impairment losses | (10,364) | - | (1,096) | (11,460) |
| Net book value | 20,755 | - | 6,164 | 26,919 |
| Property, plant & equipment | - | 5,130 | - | 5,130 |
| Accumulated depletion, depreciation and accretion | - | (403) | - | (403) |
| Impairment | - | (4,727) | - | (4,727) |
| Net book value | - | - | - | - |

| **For the three months ended December 31, 2015 ($000s)** | | | | |
|---|---|---|---|---|
| | **Australia** | **Canada** | **India** | **Total** |
| Revenue | **1,838** | **-** | **-** | **1,838** |
| Interest revenue | **1** | **1** | **-** | **2** |
| Interest expense | **333** | **-** | **-** | **333** |
| Depletion and depreciation | **1,078** | **6** | **-** | **1,084** |
| Net income (loss) | **1,833** | **(320)** | **(100)** | **1,413** |
| Exploration and evaluation expenditures | **174** | **-** | **-** | **174** |
| Petroleum and natural gas property expenditures | **1,137** | **-** | **-** | **1,137** |
| Impairment losses (recovery) | **-** | **-** | **-** | **-** |

| **For the three months ended December 31, 2014 ($000s)** | | | | |
|---|---|---|---|---|
| | **Australia** | **Canada** | **India** | **Total** |
| Revenue | 3,870 | 74 | - | 3,944 |
| Interest revenue | 3 | 1 | - | 4 |
| Interest expense | - | 381 | - | 381 |
| Depletion and depreciation | 1,378 | 184 | - | 1,562 |
| Net earnings (loss) | 3,378 | (4,557) | (114) | (1,293) |
| Exploration and evaluation expenditures | 1,951 | - | 27 | 1,978 |
| Petroleum and natural gas property expenditures | 2,511 | - | - | 2,511 |
| Impairment losses (recovery) | 796 | 3,170 | - | 3,966 |

# 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