International exploration & production

Management's Discussion & Analysis

Three Months Ended June 30, 2010 and 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS – August 12, 2010

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Bengal Energy Ltd. ("Bengal" or the "Company") should be read in conjunction with the unaudited interim Consolidated Financial Statements and accompanying notes for the three months ended June 30, 2010 and the audited Consolidated Financial Statements and accompanying notes for the years ended March 31, 2010 and 2009.

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

Basis of Presentation - The financial statements and data presented herein were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and the functional currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one barrel ("bbl") of oil. The following definitions are used in this MDA: boe/d means barrels of oil equivalent per day; bbl/d means barrels per day and mcf/d means thousand cubic feet per day.

This MD&A and accompanying financial statements and notes are for the three-month period ended June 30, 2010. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from April 1, 2010 through June 30, 2010. The term "prior year's quarter" is used throughout the MD&A for comparative purposes and refers to the period from April 1, 2009 through June 30, 2009. The term "prior quarter" refers to the three months ended March 31, 2010.

The fiscal year for the Company is the 12-month period ended March 31, 2011. The terms "fiscal 2011," "current year" and "the year" are used in the MD&A and in all cases refer to the period from April 1, 2010 through March 31, 2011. The terms "previous year," "prior year" and "fiscal 2010" are used in the MD&A for comparative purposes and refer to the period from April 1, 2009 through March 31, 2010.

Non-GAAP Measurements – Within the MD&A references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks are not defined by GAAP in Canada and are referred to as non-GAAP measures. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income (loss) per share. Netbacks equal total revenue less royalties and operating and transportation expenses calculated on a boe basis. Management utilizes these measures to analyze operating performance. Funds from operations is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net income, cash flow from operations or other measures of financial performance calculated in accordance with Canadian GAAP. Funds from operations is commonly referred to as cash flow by research analysts, is used to value and compare oil and gas companies and is frequently included in published research when providing investment recommendations. Total boes are calculated by multiplying the daily production by the number of days in the period.

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

	Three Months Ended		
$000s	**06/30/10**	06/30/09	03/31/10
Cash flow from (used in) operations	**(570)**	(628)	**(493)**
Abandonment expenditures	**-**	21	**-**
Changes in non-cash working capital	**24**	309	**(133)**
Funds from (used in) operations	**(546)**	(298)	**(626)**

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

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

- *Oil and natural gas production levels;*
- *The size of the oil and natural gas reserves;*
- *Projections of market prices and costs;*
- *Expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;*
- *Treatment under governmental regulatory regimes and tax laws;*
- *Capital expenditures programs and estimates of costs;*
- *Expectations that Bengal's future realized gas and oil prices will coincide with the B.C Station 2 and TAPIS daily index prices;*
- *Funding of working capital requirements, commitments and other planned expenses will be by cash on hand, cashflows, farm-outs, joint ventures or share issues and funds will be sufficient to meet requirements;*
- *Continuation of exploration and development activities on Block CY-ONN-2005/1 and whether identified play types on this Block will be prospective;*
- *Commencement of exploration and development activities on Block CY-OSN-2009/1;*
- *Continuation of exploration, development and drilling activities on Permits AC/P 47 and AC/P 24 offshore Australia;*
- *Closing of the acquisition of ATP 732P and obtaining Native Title Agreement on ATP 934P in Australia;*
- *That there will be two carried farm-in wells and one earning well drilled by the Santos Joint Venture on ATP 752P.*

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

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

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

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

HIGHLIGHTS

$000s except per share, volumes and netback amounts	Three Months Ended		
	06/30/10	**06/30/09**	**03/31/10**
Revenue			
Natural gas	**$ 125**	$ 219	$ 206
Natural gas liquids	**21**	56	22
Oil	**203**	299	52
Total	**349**	574	280
Royalties	**28**	65	39
% of revenue	**8.1**	11.3	13.9
Operating & transportation	**179**	246	116
Netback[1]	**142**	263	125
Cash flow from (used in) operations:	**(570)**	(628)	(493)
Per share ($) (basic & diluted)	**(0.03)**	(0.03)	(0.03)
Funds from (used in) operations[2]:	**(546)**	(298)	(626)
Per share ($) (basic & diluted)	**(0.03)**	(0.02)	(0.03)
Net (loss):	**(751)**	(865)	(1,396)
Per share ($) (basic & diluted)	**(0.04)**	(0.05)	(0.08)
Capital expenditures	**$ 93**	$ 154	$ 553
Volumes			
Natural gas (mcf/d)	**381**	684	377
Natural gas liquids (boe/d)	**4**	15	5
Oil (bbl/d)	**27**	43	7
Total (boe/d @ 6:1)	**94**	172	75
Netback[1] ($/boe)			
Revenue	**$ 40.92**	$ 36.54	$ 41.65
Royalties	**3.31**	4.11	5.79
Operating & transportation	**20.96**	15.64	17.19
Total	**$ 16.65**	$ 16.79	$ 18.67

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

(2) Funds from operations is a non-GAAP measure. The comparable GAAP measure is cash flow from operations. A reconciliation of the two measures can be found in the table on page 3.

RESULTS OF OPERATONS

Production

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

Production	Three Months Ended		
	06/30/10	**06/30/09**	**03/31/10**
Natural gas (mcf/d)	**381**	684	377
NGLs (boe/d)	**4**	15	5
Oil (bbls/d)	**27**	43	7
Total (boe/d)	**94**	172	75

For the three months ended June 30, 2010, total oil, natural gas and natural gas liquids (NGLs) production averaged 94 boe/d, a decrease of 45% from the 172 boe/d produced in the prior year comparable quarter. The decrease in production is mainly due to the sale of four Kaybob gas wells in Canada in September 2009. These wells contributed 215 mcf/d (36 boe/d) of gas volumes and 11 boe/d of liquids volumes in the prior period. Also contributing to the decline is lower oil production from the Toparoa well in Australia which was shut-in due to extensive flooding in the Cooper Basin of Australia in early February, 2010. The Toparoa well recommenced in May 2010 but due to natural declines has lower production than the prior year quarter. Declining oil production was partially offset by start-up of production from the Cuisinier well on the Barta Block (ATP 752P) in the Cooper basis of Queensland, Australia in late May. Cuisinier produced at a rate of 44 bbl/d net to Bengal in June.

Oil production increased from 7 bbl/d in the three months ended March 31, 2010 to 27 bbl/d in the current quarter due to recommencement of Toparoa production after flooding related shut-ins and start-up of Cuisinier production.

Pricing

Bengal's realized price for its Australian oil production is based on the Tapis Crude benchmark price plus a small quality premium. Tapis is the main regional reference price for light sweet crude oils in South East Asia and is used as the reference price for Australian oil producers. Tapis historically has traded at a premium to West Texas Intermediate (WTI).

Oak, British Columbia gas sales are marketed by the operator and the price received is based on the reference price at British Columbia's Station 2 plus $0.03 per mcf.

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

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

Prices and Marketing			**Three Months Ended**
	06/30/10	**06/30/09**	**03/31/10**
Average Benchmark Prices			
AECO 30 day firm ($/mcf)	**$ 3.77**	$ 3.65	$ 5.35
TAPIS oil ($US/bbl)	**81.34**	67.55	81.27
Cdn/Aus exchange rate	**0.91**	0.89	0.94
WTI oil ($US/bbl)	**$ 77.99**	$ 59.62	$ 78.79
Bengal's Realized Price ($ CAD)			
Natural gas ($/mcf)	**$ 3.60**	$ 3.51	$ 6.08
Oil ($/bbl)	**83.66**	75.80	81.62
NGLs ($/bbl)	**65.83**	40.24	51.69
Total ($/boe)	**$ 40.92**	$ 36.54	$ 41.65

Bengal's total realized price on a boe basis improved for the three months ended June 30, 2010 compared to the prior year quarter by $4.38 due to higher oil prices. Current quarter prices remained flat compared to the prior quarter as lower natural gas prices were offset by a larger proportion of higher priced oil volumes in the total sales mix.

Petroleum and Natural Gas Sales

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

Petroleum and Natural Gas Sales ($000s)			**Three Months Ended**
	06/30/10	**06/30/09**	**03/31/10**
Natural gas	**$ 125**	$ 219	$ 206
NGLs	**21**	56	22
Oil	**203**	299	52
Total	**$ 349**	$ 574	$ 280

Petroleum and natural gas sales for the first quarter of the 2011 fiscal year were 39% or $225,000 lower than the prior comparable period. Lower product volumes contributed $247,000 to the decline offset by $19,000 due to higher oil prices.

Revenue in the current quarter increased 25% or $69,000 from the fourth quarter of fiscal 2010. The increase is due to higher oil production from the start-up of the Cuisinier well offset by lower gas prices.

Royalties

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

In Alberta, royalties on natural gas and NGLs are charged by the government based on an established monthly reference price. Bengal also paid a 7.5% gross overriding royalty (GORR) on two of the Kaybob gas wells which were sold on September 24, 2009.

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

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

Royalties by Type ($000s)	**Three Months Ended**		
	06/30/10	**06/30/09**	**03/31/10**
Canada Crown	**$ 3**	$ 18	$ 17
Canada gross overriding	**6**	19	17
Australian Government	**19**	28	5
Total	**$ 28**	$ 65	$ 39
$/boe	**3.31**	4.11	5.79
% of revenue	**8.1**	11.3	13.9

Royalties by Commodity	**Three Months Ended**		
	06/30/10	**06/30/09**	**03/31/09**
Natural gas			
$000s	**$ 5**	$ 16	$ 29
$/mcf	**0.15**	0.26	0.85
% of revenue	**4.3**	7.3	14.1
Oil			
$000s	**$ 19**	$ 28	$ 5
$/bbl	**7.81**	7.18	7.58
% of revenue	**9.3**	9.5	9.3
NGLs			
$000s	**$ 4**	$ 21	$ 5
$/bbl	**12.10**	14.63	11.99
% of revenue	**18.4**	36.4	23.2

For the first quarter of the 2011 fiscal year, royalties were 57%, or $37,000 lower than the previous comparable period due to lower production volumes. Royalties as a percentage of revenue and per boe declined as Kaybob had natural gas liquids rich production which had attracted a higher royalty rate relative to other products. Royalties declined as a percentage of revenue and per boe in the current quarter compared to the three months ended March 31, 2010 due to a $14,000 Crown royalty credit related to prior years and received in the current quarter.

Operating & Transportation Expenses

Operating and transportation expenses in the first quarter of the 2011 fiscal year declined $67,000 to $179,000 compared to $246,000 in the prior year comparable quarter. The decline is mainly due to the sale of the Kaybob property in Canada in September 2009. Operating costs increased by $5.32 per boe in the current quarter compared the prior year quarter. The increase is due to Cuisinier oil volumes, which are charged $6.00/bbl for trucking to the Jackson facility and higher Toparoa costs per bbl as a certain amount of costs are fixed and as production declines, costs per bbl increase.

Operating and transportation costs increased by $63,000 ($3.77 per boe) in the current quarter compared to the prior quarter due to higher oil volumes from the Cuisinier well.

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

Operating Expenses ($000s)			**Three Months Ended**
	06/30/10	**06/30/09**	**03/31/10**
Australia			
Operating	**$ 50**	$ 17	$ 9
Transportation	**38**	54	12
	88	71	21
Canada – Operating costs	**91**	175	95
Total	**$ 179**	$ 246	$ 116
Australia			
Operating - $/boe	**20.37**	4.22	14.35
Transportation - $/boe	**15.73**	13.81	17.66
Canada - $/boe	**14.93**	14.84	15.65
Total ($boe)	**$ 20.96**	$ 15.64	$ 17.19

General and Administration (G&A) Expenses

In the first quarter of fiscal 2011, G&A expenses increased by 31% or $164,000 over the prior fiscal year's quarter and G&A per boe increased by $47.14 over the same period. Expenses in the current quarter are higher due technical consulting costs and investor relations costs. G&A per boe increased due to lower production volumes.

G&A expenses decreased by 18% or $154,000 in the current quarter compared to the prior quarter and G&A per boe decreased by $44.96 over the same period. The decrease in expenses is due to annual renewal of geological software subscriptions and reserve report costs incurred in the prior quarter while G&A per boe declined due to higher oil volumes in the current quarter.

General and Administrative Expenses ($000s)			**Three Months Ended**
	06/30/10	**06/30/09**	**03/31/10**
G&A	**$ 687**	$ 523	$ 841
G&A ($/boe)	**$ 80.44**	$ 33.30	$ 125.40

Stock-Based Compensation

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

Bengal recognized stock-based compensation ("SBC") expense of $50,000 for the current quarter compared to $16,000 in the comparable prior year's period. The increase is due to amortization of the fair value of options granted in December 2009 and due to an increase in expected volatility used to calculate those options fair value. Stock-based compensation in the three months ended June 30, 2010 declined from the March 31, 2010 quarter due to reversal of stock based compensation on forfeited options and due to fair values on older option grants having been fully amortized in the current quarter.

Bengal recorded stock-based compensation related to outstanding warrants of $54,000 for the three months ended June 30, 2010 (June 30, 2009 - $40,000). At June 30, 2010 there is $161,000 of fair value related to the warrants to be amortized.

Stock Based Compensation ($000s)	Three Months Ended		
	06/30/10	**06/30/09**	**03/31/10**
SBC - options	**$ 50**	$ 16	$ 148
SBC - warrants	**54**	40	54
Stock-based compensation	**$ 104**	$ 56	$ 201

Depletion, Depreciation and Accretion (DD&A)

DD&A Expenses ($000s)	Three Months Ended		
	06/30/10	**06/30/09**	**03/31/10**
DD&A – Australia	**$ 43**	$ 239	$ 44
DD&A – Canada	**55**	320	24
Sub-total	**98**	559	68
Impairment charge	**–**	–	451
Total	**$ 98**	$ 559	$ 519
$/boe – Australia	**17.76**	60.34	70.79
$/boe – Canada	**9.07**	27.21	3.91
$/boe – Subtotal	**11.54**	35.55	10.20
$/boe – Impairment charge	**–**	–	67.27
$/boe – Total	**$ 11.54**	$ 35.55	$ 77.47

Depletion, depreciation and accretion (DD&A) decreased by $461,000 for the three months ended June 30, 2010 over the comparable prior year's period. The decrease in Canada is due to removal of the Kaybob property costs from the depletable cost pool and in Australia the expense decreased due to upward reserve revisions for Toparoa and lower production volumes.

At March 31, 2010 the Company recorded an unproved property impairment charge of $0.5 million pertaining to its South Larne permit in Northern Ireland. The exploration license for the permit has expired and the Company does not expect any future activity on the permit.

Bengal has excluded $3.0 million from the depletion base related to Australian unproved properties at June 30, 2010 (March 31, 2010 - $3.0 million) and has excluded $0.6 million for the India new cost centre (March 31, 2010 - $0.6 million).

Funds from (used in) Operations and Net Loss

For the three months ended June 30, 2010 funds used in operations increased to $546,000 or $0.03 per basic and diluted share compared to funds used in operations of $298,000 or $0.02 per basic and diluted share in the prior comparable period. The increase in funds used is due to lower net operating income primarily as a result of the sale of the Kaybob gas property. The changes in non-cash working capital and abandonment expenditures are removed from the GAAP measure cash flow from (used in) operations to arrive at the non-GAAP measure funds from (used in) operations.

The loss for the three months ended June 30, 2010 was $751,000 or $0.04 per basic and diluted share compared to a loss of $865,000 or $0.05 per basic and diluted share in the prior fiscal year. The lower loss is due to unproved property impairment charges of $0.5 million in the prior year quarter offset by lower net operating income in the current quarter.

CAPITAL EXPENDITURES

Geological and geophysical expenses totaled $93,000 for the quarter ended June 30, 2010 and relate to seismic acquisition, interpretation and analysis on Company's offshore Australia block AC/P47 and onshore India block CY-ONN-2005/1.

Capital Expenditures ($000s)			**Three months ended**
	06/30/10	**06/30/09**	**03/31/10**
Geological and geophysical	**$ 93**	$ 152	$ 443
Drilling	**–**	–	109
Completions	**–**	2	1
Total oil and gas additions	**93**	154	553
Total expenditures	**$ 93**	$ 154	$ 553

Ceiling Test

No impairment was recognized under the ceiling test at June 30, 2010. The future commodity prices used in the ceiling test were based on the commodity price forecasts of the Company's independent reserve engineers at June 30, 2010 adjusted for differentials specific to the Company's reserves. These prices have declined slightly since year end which has had the impact of a marginal reduction in the available cushion under the ceiling test.

SHARE CAPITAL

Bengal has an unlimited number of common shares authorized for issuance. On August 12, 2010 there were 18,237,783 common shares issued and outstanding.

In the period from March 31, 2010 up to the date of this report, 41,667 options were exercised on a cashless basis resulting in the issuance of 25,000 common shares, 38,000 options expired and 33,333 options were forfeited.

At August 12, 2010, there were 1,689,000 employee stock options outstanding with an average exercise price of $1.37 per share. Of these, 1,059,340 are exercisable at an average price of $1.61 per share. These options expire between 2010 and 2014 with an average remaining life of 2.4 years.

At August 12, 2010 there are 940,000 common share purchase warrants outstanding of which 627,000 are vested. The warrants entitle the holder to purchase one common share at an exercise price of $2.00 until August 13, 2011.

Trading History			**Three Months Ended**
	06/30/10	**06/30/09**	**03/31/10**
High	**$ 1.72**	$ 0.84	$ 1.74
Low	**1.02**	0.27	1.11
Close	**$ 1.22**	$ 0.43	$ 1.35
Volume (000s)	**711**	909	978
Shares outstanding			
Basic and diluted	**18,238**	18,213	18,213
Weighted average shares outstanding			
Basic and diluted	**18,225**	18,213	18,213

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2010 the Company had working capital of $0.6 million, including cash and short term deposits of $0.6 million and restricted cash of $0.2 million, compared to working capital of $1.3 million, including cash and short term deposits of $1.1 million and restricted cash of $0.5 million at March 31, 2010.

As the Company does not currently generate sufficient cash flow from operating activities nor have sufficient working capital to fund its operating activities and work commitments, it plans to carry out an equity financing in the range of $5.0 to $10.0 million during the fiscal year and may enter into farm-out arrangements to help finance its exploration activities as appropriate.

The Company's ability to continue operations and fund its liabilities is dependent on management's ability to secure additional financing and cash flow. Management is pursuing such additional sources of financing and cash flow and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. If the Company is unable to secure additional financing to fund its operating activities and future work commitment payments on certain of its permits (see Note 10), the Company may be forced to substantially curtail or cease current operating, exploration and development activities and existing capital investment on its Indian and Australian permits may be forfeited.

Contractual Arrangements

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

Country and Permit	Work Program	Obligation Period Ending	Estimated Expenditure (net) (millions CAD$)[1]
Offshore Australia – AC/P47	985km 2D seismic reprocessing & 750km^2 3D seismic	March 2, 2012	$10.3
Offshore Australia – AC/P24	Drill 1 exploration well	October 11, 2011	$1.9
Onshore India – CY-ONN-2005/1	500km^2 3D seismic & 3 wells	March 3, 2014	$4.9
Offshore India – CY-OSN-2009/1	310km 2D seismic & 81km^2 3D seismic	June 30, 2014	$2.1
Onshore Australia – ATP 752	Drill 3 wells[2]	June 30, 2011	$3.0
Onshore Australia – ATP 934P	Awaiting completion of Native Title before granting of ATP[3]	4 years after grant of ATP	$10.5

[1] Translated at June 30, 2010 exchange rate of US $1.00 = CAD $1.05 and AUD $1.00 = CAD $0.90

(2) Bengal to pay 55% of earning well to complete its commitment under the farm-in agreement and increase its interest in the Barta block from 14.26% to 25%. Two carried wells are then paid 100% by operator as part of farm-in agreement. The Company will pay its share of completion and equipping costs on any successful wells.

(3) Currently negotiating Native Title Agreement with the Wongkumara People of Queensland. The Native Title Agreement is then submitted to the Government of Queensland for approval and granting of the Authority to Prospect ("ATP"). Work program consists of 500km of 2D seismic and up to 7 wells.

Bengal is pursuing joint venture or farm-out arrangements to finance its exploration commitments under some of these licenses.

Purchase & Sale Agreement – Onshore Australia Block ATP 732P

On December 10, 2009 Bengal entered into a Purchase & Sale Agreement and upon satisfaction of all conditions in the Agreement, Bengal will be required to pay AUD$1.0 million to acquire 100% interest in ATP 732P. Upon closing of this acquisition, Bengal will be required to complete a minimum work program consisting of one exploration well and 100km 2D seismic over four years at an estimated cost of $2.5 million.

At June 30, 2010 the Company had the following lease commitment for office space in Canada:

($000s)		
Fiscal 2011 – July 2010 to March 2011	$	95
Fiscal 2012 – April 2011 to March 2012		127
		222

RELATED PARTY TRANSACTIONS

For the three months ended June 30, 2010 the Company paid $16,300 (2009- $20,850) in consulting fees and travel costs to a director of the Company and to a company controlled by a director. The fees were paid in the ordinary course of business based on market rates and were for international consulting services.

SUBSEQUENT EVENTS

Subsequent to June 30, 2010 the Company, through ICICI Bank (India) Ltd., issued a guarantee to the Government of India for US $151,500 representing 7.5% of the four year work program costs for offshore block CY-OSN-2009/1. The Canadian Federal Government, through Export Development Canada (EDC), has undertaken to guarantee the obligations of the Company to the bank regarding the guarantee issued on behalf of the Company. Although EDC has guaranteed the current obligations on behalf of the Company, there can be no assurances they will continue to in the future.

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

OUTLOOK

Bengal Energy offers a blend of drilling opportunities on 2.3 million net acres of undeveloped land in India and Australia. The Company's 87%-operated acreage ranges from relatively low-risk development drilling in Australia's onshore Cooper Basin to high-impact offshore exploration drilling north of Australia in the Timor Sea and in India's Cauvery Basin. These drilling opportunities are expected to provide Bengal with a path to material production and cash flow.

In June 2010, Bengal signed its' second Production Sharing Contract ("PSC") with the Government of India, turning the provisional award of offshore block CY-OSN-2009/1 in India's Cauvery Basin into a formal agreement. Bengal's wholly-owned subsidiary, Bengal Energy International Inc., had been named provisional winner of the 340,000 acre block at the New Exploration Licensing Policy bid round in New Delhi, India in October 2009. Bengal is the operator and has a 100% working interest in the block.

Bengal has agreed to obtain 310 line kilometers of 2D seismic data and 81 square kilometers of 3D seismic data during the first four years of the seven-year exploration phase. Drilling is required after the first four years in order to hold the block. The Company has identified a structure approximately 18,000 acres in size on existing 2D seismic that will be further evaluated through the committed geoscience work program. The block is subject to very good fiscal terms including 100% cost recovery and a seven year tax holiday from the start of commercial production.

The year one work program for Bengal's onshore Cauvery basin block CY-ONN-2005/1 commenced in the quarter involving the acquisition of an aeromagnetic survey, reprocessing of existing 2D seismic and planning and design of a 3D seismic acquisition program for later in the fiscal year.

Production from Bengal's oil discovery on Authority to Prospect ("ATP") 752P ("the permit") in Australia's Cooper Basin commenced in May 2010. The well is producing clean oil at 52° API which is being trucked to the Jackson facility and then pipelined to Port Bonython near Adelaide. Bengal and its joint venture partners have acquired and interpreted over 300 km2 of 3D seismic data. Locations are being finalized and partner approvals are being sought to commence drilling up to three wells starting in the fourth quarter of this calendar year. Bengal's working interest is expected to increase in the Barta Block of ATP752 to 25% after contributing 55% of the cost to drill the next earning well. Bengal will then be fully carried on up to two additional exploration wells on the permit.

Geoscience work is also progressing on Bengal's other onshore and offshore blocks in Australia to accelerate play and prospect identification and future drilling locations.

SUMMARY

Bengal's growth plan includes both low-risk and high-impact onshore and offshore drilling opportunities in India and Australia. Given the depth and prospectivity of its international prospects, Bengal will continue to seek suitable financial and operating partners to help accelerate the path to material production.

SELECTED QUARTERLY INFORMATION

(000s, except per share amounts)	Quarter Ended							
	6/30/10	**3/31/10**	**12/31/09**	**9/30/09**	**6/30/09**	**3/31/09**	**12/31/08**	**9/30/08**
Petroleum and natural gas sales	**$ 349**	$ 280	$ 413	$ 505	$ 574	$ 667	$ 825	$ 1,482
Cash flow from (used-in) operations	**(570)**	(493)	(264)	(263)	(628)	(85)	303	1,142
Per share Basic and diluted	**(0.03)**	(0.03)	(0.01)	(0.01)	(0.03)	(0.00)	0.02	0.06
Funds from (used in) operations[1]	**(546)**	(626)	(347)	(295)	(298)	(92)	(29)	367
Per share Basic and diluted	**(0.03)**	(0.03)	(0.02)	(0.02)	(0.02)	(0.01)	(0.00)	0.02
Net loss	**$ (751)**	$(1,396)	$ (885)	$ (1,848)	$ (865)	$ (839)	$ (6,916)	$ (812)
Per share Basic and diluted	**(0.04)**	(0.08)	(0.05)	(0.10)	(0.05)	(0.05)	(0.34)	(0.04)
Additions to capital assets, net	**$ 93**	$ 553	$ 1,120	$ (426)	$ 154	$ 254	$ 1,096	$ 3,842
Working capital	**633**	1,275	2,501	3,970	1,764	2,189	2,642	3,783
Total assets	**6,684**	7,368	8,928	9,159	11,839	12,664	13,459	22,812
Shares outstanding Basic and diluted	**18,238**	18,213	18,213	18,213	18,213	18,213	18,213	18,213
Operations								
Average daily production								
Natural gas (Mcf/d)	**381**	377	422	787	684	712	842	609
Oil and NGLs (bbls/d)	**31**	12	30	53	58	63	65	84
Combined (boe/d)	**94**	75	100	184	172	182	205	186
Netback ($/boe)	**$ 16.65**	$18.67	$ 21.39	$11.77	$16.78	$ 14.86	$ 25.90	$ 49.75

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

Petroleum and natural gas revenues peaked in the three months ended September 30, 2008 due to historically high commodity prices. In addition, production levels were high due to the acquisition of the Oak B.C. gas wells on February 13, 2008 combined with existing Kaybob gas and Toparoa oil production. Gas production volumes continued upward in the quarter ended December 31, 2008 due to commencement of production from the Oak 1-30 well. From December 31, 2008 to March 31, 2010 volumes and revenues have been on a declining trend due to natural reservoir declines and lower commodity prices and the sale of the Kaybob gas wells in September, 2009. In the three months ended June 30, 2010 revenues and volumes increased over the previous quarter due to commencement of production from the Cuisinier well in the Cooper Basin of Australia.

In the quarter ended December 31, 2008 the loss is increased by goodwill and ceiling test impairment charges and in the quarter ended September 30, 2009 the net loss was increased by a loss on the disposal of oil and gas assets. The net loss in the quarter ended March 31, 2010 includes an undeveloped property impairment charge of $0.5 million.

FINANCIAL INSTRUMENTS

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

The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. A variety of derivative instruments may be used by the Company to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. The Company does not use derivative instruments at this time.

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

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to provide reasonable assurance that material information required to be disclosed by Bengal is accumulated and communicated to the appropriate members of management to allow timely decisions regarding required disclosure. The Chief Executive Officer and Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are not effective in providing reasonable assurance that material information required to be disclosed by the Company in reports filed with the Canadian securities regulators is accurate and complete and filed within the periods required due to the material weaknesses identified in internal controls over financial reporting as noted below. The Chief Executive Officer and Chief Financial Officer have individually signed certifications to this effect.

Internal Controls Over Financial Reporting

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

There were no changes in the Company's internal controls or weaknesses during the three months ended June 30, 2010 that have materially affected, or are reasonably likely to affect, the Company's ICFR. While Bengal's Chief Executive Officer and Chief Financial Officer believe the Company's internal controls and procedures provide a reasonable level of assurance that they are reliable, an internal control system cannot prevent all errors and fraud. It is management's belief that any control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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

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

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

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The significant accounting policies used by Bengal are disclosed in Note 3 to the audited Consolidated Financial Statements for the years ended March 31, 2010 and 2009. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a regular basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates. A detailed discussion of the critical accounting policies and practices of the Company helps assess the likelihood of materially different results being reported is disclosed in the March 31, 2010 Annual Management Discussion and Analysis.

FINANCIAL REPORTING UPDATE

International Financial Reporting Standards ("IFRS")

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

In response, the Company has completed its high-level IFRS changeover plan and established a preliminary timeline for the execution and completion of the conversion project. The changeover plan was determined following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company.

The Company has determined that a significant impact of IFRS conversion is to Property and Equipment. IFRS does not prescribe specific oil and gas accounting guidance other than for costs associated with the exploration and evaluation phase.

The Company currently follows full cost accounting as prescribed in Accounting Guideline 16, *Oil and Gas Accounting – Full Cost.* Conversion to IFRS may have a significant impact on how the Company accounts for costs pertaining to oil and gas activities, in particular those related to the development phases. In addition, the level at which impairment tests are performed and the impairment testing methodology will differ under IFRS. IFRS conversion will also result in other impacts, some of which may be significant in nature. The Company is in the process of evaluating the impact on the Company's financial statements.

The following IFRS standards are expected to have the most significant impact on Bengal.

- IFRS 1 – First time adoption of IFRS
- IFRS 2 – Share based payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 16 – Property, plant and equipment
- ED 9 – Joint arrangements (replacing IAS 31 – Interests in joint ventures)
- IAS 36 – Impairment of assets
- IAS 37 – Provisions, contingent liabilities and contingent assets
- IAS 21 – Effects of changes in foreign exchange rates

Business combinations

In December 2008, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. Under this standard, the purchase price used in a business combination is based on the fair value of shares exchanged at the market price of the shares at the closing date. Under the current standard, the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is announced. In addition, the new standard requires all acquisition costs to be expensed while the current standard allows for the capitalization of certain of these costs as part of the purchase price. This section replaces Section 1581, Business Combination and harmonizes the Canadian standards with IFRS.

Consolidated financial statements and non-controlling interest

In 2009, Section 1601 and Section 1602 were issued which replace the existing guidance under section 1600, Consolidated Financial Statements. These standards provide guidance for preparing consolidated financial statements and for accounting for non-controlling interest in a subsidiary subsequent to a business combination. These standards are effective for business combinations occurring on or after January 1, 2011, with early adoption permitted.

RISK FACTORS

There are a number of risk factors facing companies that participate in the International oil and gas industry. A complete list of risk factors are provided in Bengal's Annual Information Form dated June 29, 2010 filed on SEDAR at www.sedar.com.

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, 1140, 715 - 5 Avenue S.W., Calgary, Alberta T2P 2X6, by email to info@bengalenergy.ca or by accessing Bengal's website at www.bengalenergy.ca.

CORPORATE INFORMATION

AUDITORS
KPMG LLP • Calgary, Canada

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

BANKERS
Royal Bank of Canada • Calgary, Canada
ICICI Bank Canada • Calgary, Canada
ICICI Bank Limited • Mumbai, India
West Pac Bank • Brisbane, Australia
Commonwealth Bank • Brisbane, Australia

REGISTRAR AND TRANSFER AGENT
Valiant Trust Corporation • Calgary, Canada

INVESTOR RELATIONS
Bryan Mills Iradesso • Calgary, Canada

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

GOVERNANCE AND DISCLOSURE COMMITTEE
All Directors are members of the Committee

AUDIT COMMITTEE
Richard N. Edgar
James B. Howe
Ian J. Towers

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

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

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

STOCK EXCHANGE LISTING
TSX: BNG

International exploration & production

Consolidated Financial Statements

Three Months Ended June 30, 2010 and 2009

BENGAL ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

(thousands of dollars) (unaudited)

As at	June 30, 2010	March 31, 2010
ASSETS		
Current assets:		
Cash and short-term deposits	$ 637	$ 1,055
Restricted cash (Note 3)	160	510
Accounts receivable	351	273
Prepaid expenses and deposits	113	103
	1,261	1,941
Petroleum and natural gas properties (Note 4)	5,423	5,427
	$ 6,684	$ 7,368
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 628	$ 666
Asset retirement obligations (Note 5)	94	93
Shareholders' equity:		
Share capital (Note 6)	43,468	43,460
Warrants (Note 6)	544	490
Contributed surplus (Note 6)	3,913	3,871
Deficit	(41,963)	(41,212)
	5,962	6,609
	$ 6,684	$ 7,368

Going concern (Note 2)
Commitment (Note 10)
Subsequent events (Note 12)

See accompanying notes to the consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(thousands of dollars, except per share amounts) (unaudited)

Three months ended June 30,	2010	2009
Revenues		
Petroleum and natural gas	$ 349	$ 574
Royalties	(28)	(65)
Interest	–	7
	321	516
Expenses		
General and administrative	687	523
Operating and transportation	179	246
Depletion, depreciation and accretion	98	559
Stock-based compensation (Note 6)	104	56
Foreign exchange loss (gain)	4	(3)
	1,072	1,381
Net loss and comprehensive loss	(751)	(865)
Deficit, beginning of period	(41,212)	(36,221)
Deficit, end of period	$ (41,963)	$ (37,086)
Weighted average number of shares outstanding (000s) (Note 6)	18,225	18,213
Basic and diluted loss per share (Note 6)	$ (0.04)	$ (0.05)

See accompanying notes to the consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of dollars) (unaudited)

Three months ended June 30,	**2010**	**2009**
Cash provided by (used in):		
Operations		
Net loss	$ (751)	$ (865)
Items not affecting cash		
Depletion, depreciation and accretion	98	559
Stock-based compensation	104	56
Unrealized foreign exchange loss (gain)	3	(48)
Abandonment expenditures	–	(21)
Changes in non-cash working capital (Note 9)	(24)	(309)
Cash flow used in operations	(570)	(628)
Financing		
Changes in non-cash working capital (Note 9)	(5)	(3)
Cash flow used in financing	(5)	(3)
Investments		
Additions to petroleum and natural gas properties	(93)	(154)
Decrease in restricted cash	350	–
Changes in non-cash working capital (Note 9)	(97)	159
Cash flow from investing	160	5
Foreign exchange (loss) gain on cash and short-term deposits	(3)	48
Decrease in cash and short-term deposits	(418)	(578)
Cash and short-term deposits, beginning of period	1,055	2,676
Cash and short-term deposits, end of period	$ 637	$ 2,094

	2010	**2009**
Interest received	$ –	$ 4

See accompanying notes to consolidated financial statements.

BENGAL ENERGY LTD.

Notes to Consolidated Financial Statements

Three months ended June 30, 2010 and 2009
(Tabular amounts are stated in thousands of dollars except share and per share amounts)

1. INCORPORATION:

Bengal Energy Ltd (the “Company” or “Bengal”) is incorporated under the laws of the Province of Alberta and is involved in the exploration for and development of oil and gas reserves in Australia, India and Canada. These interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended March 31, 2010. The disclosures included below are incremental to those included with the annual consolidated financial statements. These interim consolidate financial statements should be read in conjunction with the consolidated financial statements and the notes thereto for the year ended March 31, 2010. Certain comparative items have been reclassified to conform with current presentation.

2. GOING CONCERN:

The Company’s ability to continue as a going concern is dependent upon obtaining the necessary financing to complete its exploration and development activities and generate profitable operations from its oil and natural gas interests in the future. The Company incurred a net loss of $0.8 million for the three months ended June 30, 2010, and had an accumulated deficit of $42.0 million as at June 30, 2010. Over the next twelve months ending June 30, 2011, the Company expects to incur cash outflows from operating activities and to fund its exploration and development activities and the Company’s existing cash and short-term deposits balance is not expected to be sufficient to meet its obligations as they come due. These matters raise substantial doubt about the Company’s ability to continue as a going concern.

The Company’s ability to continue operations and fund its liabilities is dependent on management’s ability to secure additional financing and cash flow. Management is pursuing such additional sources of financing and cash flow and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. If the Company is unable to secure additional financing to fund its operating activities and future work commitment payments on certain of its permits (see Note 10), the Company may be forced to substantially curtail or cease current operating, exploration and development activities and existing capital investment on its Indian and Australian permits may be forfeited.

The Company’s financial statements as of and for the quarter ended June 30, 2010 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Should the going concern assumption not be appropriate, certain asset and liability amounts would require adjustment and reclassification which may be material.

3. RESTRICTED CASH

Restricted cash of $160,000 at June 30, 2010 consists of a guaranteed investment certificate provided to the Company’s bank that secures corporate credit cards.

At March 31, 2010, the Company had a US $0.5 million performance guarantee issued by a bank in India to the Government of India to guarantee the Company's share of first year exploration expenditures on its onshore Cauvery Block CY-ONN-2005/1. The Company's Canadian bank had provided a guarantee to the bank in India on behalf of the Company. The Canadian bank guarantee was secured by a US $0.5 million term deposit which was segregated by the bank and not available for general purposes. In April 2010 the Canadian Federal Government, through Export Development Canada (EDC), has undertaken to guarantee the obligations of the Company to the bank regarding the guarantee issued on behalf of the Company. Upon receipt of the EDC guarantee, the bank released the US $0.5 million term deposit. Although EDC has guaranteed the current obligations on behalf of the Company, there can be no assurances they will continue to in the future.

4. PETROLEUM AND NATURAL GAS PROPERTIES ("P&NG")

($000s)	Cost	Accumulated Depletion & Depreciation	Net Book Value
June 30, 2010			
Australia			
P&NG properties	$ 19,456	$ 15,615	$ 3,841
Other assets	56	56	–
Canada			
P&NG properties	3,834	3,043	791
Other assets	525	343	182
New cost centres (India and Ireland)			
P&NG properties – India	609	–	609
P&NG properties - Ireland	451	451	–
	$ 24,931	$ 19,508	$ 5,423
March 31, 2010			
Australia			
P&NG properties	$ 19,438	$ 15,575	$ 3,863
Other assets	56	53	3
Canada			
P&NG properties	3,805	3,003	802
Other assets	525	329	196
New cost centres (India and Ireland)			
P&NG properties – India	563	–	563
P&NG properties - Ireland	451	451	-
	$ 24,838	$ 19,411	$ 5,427

At June 30 2010, undeveloped property costs of $3.0 million (March 31, 2010 - $3.0 million) related to Australia have been excluded from the full cost pool for the depletion calculation.

Future development costs of proved, undeveloped reserves of $44,000 (March 31, 2010 – $44,000) are included in the depletion calculation.

At June 30, 2010 the new cost centre (India) was considered to be in the preproduction stage and costs of $0.6 million (March 31, 2010 – $0.6 million for India) has also been excluded from the full cost pool for the depletion calculation.

5. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from ownership interests in petroleum and natural gas assets. The Company estimates the total inflation adjusted undiscounted amount of cash flow required to settle its asset retirement obligations at June 30, 2010 is approximately $158,000 (June 30, 2009 - $281,000) which will be incurred between 2011 and 2025. An inflation factor of 2% has been applied to the estimated asset retirement cost at June 30, 2010 and 2009. A credit-adjusted risk-free rate of between 7% and 10% was used to calculate the initial fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

($000s)	Three months ended June 30, 2010	Year ended March 31, 2010
Balance, beginning of period	$ 93	$ 179
Revisions	–	(14)
Liabilities settled	–	(21)
Liabilities disposed	–	(63)
Accretion	1	12
Balance, end of period	$ 94	$ 93

6. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares.

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

(b) Issued:

($000s)	Number of shares	Amount
Balance March 31, 2009 and 2010	**18,212,783**	**$ 43,460**
Issued on exercise of stock options	25,000	8
Balance June 30, 2010	**18,237,783**	**$ 43,468**

In May 2010, 41,667 stock options were exercised based on a cashless exercise whereby 25,000 common shares were issued based on a market share price of $1.35 per share on the date of exercise. The related compensation expense of $8,000 was reclassified from contributed surplus to share capital.

(c) Stock-based compensation - warrants:

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

The fair value of the warrants issued February 13, 2008 was estimated to be $0.7 million using the Black-Scholes option pricing model and will be recorded in warrant capital and compensation expense over the 36 month vesting period of the warrants.

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

($000s)	Number of Warrants	Amount
Balance March 31, 2009	**940,000**	**$ 229**
Stock-based compensation expense	-	261
Balance March 31, 2010	**940,000**	**$ 490**
Stock-based compensation expense	-	54
Balance June 30, 2010	**940,000**	**$ 544**

(d) Stock-based compensation – stock options:

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

A summary of stock option activity is presented below:

	Options	Weighted Average Exercise Price
Outstanding at March 31, 2009	**1,565,366**	**$ 1.81**
Granted	652,000	1.26
Expired	(405,366)	2.92
Forfeited	(10,000)	1.60
Outstanding at March 31, 2010	**1,802,000**	**$ 1.37**
Exercised	(41,667)	0.54
Expired	(18,000)	3.59
Forfeited	(33,333)	0.81
Outstanding at June 30, 2010	**1,709,000**	**$ 1.39**
Exercisable at June 30, 2010	1,079,340	$ 1.64

Bengal accounts for its stock-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period. Stock options granted under the plan can be exercised on a cashless basis, whereby the number of shares the employee receives is calculated by dividing the market price of the common shares minus the exercise price of the options by the market price of the shares and multiplying the result by the number of options exercised. Shares resulting from this formula will be issued against the exercised options without any cash consideration.

The table below provides details Bengal's stock-based compensation ("SBC") for the periods indicated:

Stock Based Compensation ($000s)	**Three Months Ended**		
	06/30/10	**06/30/09**	**03/31/10**
SBC - options	**$ 50**	$ 16	$ 148
SBC - warrants	**54**	40	54
Stock-based compensation	**$ 104**	$ 56	$ 201

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

No stock options were granted in the three months ended June 30, 2010.

(e) Contributed surplus

A reconciliation of contributed surplus is provided below:

($000s)	**Three months ended June 30, 2010**	**Year ended March 31, 2010**
Balance, beginning of period	**$ 3,871**	**$ 3,577**
Stock-based compensation expense	50	294
Exercise of options	(8)	–
Balance, end of period	**$ 3,913**	**$ 3,871**

(f) Per share amounts:

Per share amounts are calculated using losses and the weighted average number of common shares outstanding. The Company has recorded a loss in each period presented and therefore any addition to basic shares outstanding is anti-dilutive.

The weighted average number of shares outstanding for the quarter ended June 30, 2010 is 18,224,871 (2009 – 18,212,783).

At June 30, 2010, there were 1,709,000 (2009 – 1,565,366) options that were anti-dilutive and at June 30, 2010 there were 940,000 warrants (2009 – 940,000) that were anti-dilutive.

7. FINANCIAL RISK MANAGEMENT

(a) Fair value of financial instruments:

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

(b) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bengal's cash calls paid to joint venture partners and receivables from petroleum and natural gas marketers. As at June 30, 2010, Bengal's receivables consisted of $215,000 (March 31, 2010 - $74,000) from joint venture partners and $136,000 (March 31, 2010 - $199,000) of other trade receivables.

In Canada, production from the Oak property is marketed by the operator. Bengal has not experienced any collection issues with the operator of the Oak wells.

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

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

At June 30, 2010, the Company had no receivables that were considered past due (past due is considered greater than 90 days outstanding).

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. Bengal establishes an allowance for doubtful accounts as determined by management based on their assessment of collection. Bengal does not have an allowance for doubtful accounts as at June 30, 2010 and did not provide for any doubtful accounts nor was it required to write-off any receivables during the years ended March 31, 2010 or 2009.

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

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations, including work commitments, as they are due. Bengal prepares an annual budget and updates forecasts for operating, financing and investing activities on an ongoing basis to ensure it will have sufficient liquidity to meet its liabilities when due. Bengal's financial liabilities consist of accounts payable and accrued liabilities and amounted to $628,000 at June 30, 2010. Bengal had $637,000 in cash, $160,000 in restricted cash and a net working capital surplus of $633,000 at June 30, 2010.

As the Company is in the early stages of exploration and development, and although it is generating operating revenue, funding of most activities to date has been supplemented through the issuance of share capital. It is expected that further equity financings, as well as joint ventures and farm-ins when appropriate, will be used to fund ongoing operations and the Company's projected capital program, supplemented by cash flow from operations, working capital and debt, when the level of operations provides borrowing capacity.

(d) Market risk:

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

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Bengal receives Canadian dollars for sales in Canada, U.S. dollars for Australian oil sales and incurs expenditures in Australian, Canadian and U.S. currencies. Having sales and expenditures denominated in three currencies spreads the impact of individual currency fluctuations. The Company had no forward exchange rate contracts in place as at June 30, 2010.

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 June 30, 2010 ($000s)				
	Total	**CAD**	**AUD**	**U.S.D**
			CAD $ Equivalent	
Cash and short-term deposits	637	485	140	12
Restricted cash	160	160	–	–
Accounts receivable	351	155	13	183
Accounts payable and accrued liabilities	(628)	(285)	(343)	–
Balance sheet exposure	520	515	(190)	195

A 5% strengthening or weakening of the CAD as compared to the AUD or USD would have no material impact on net loss.

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 Tapis reference price, which tracks WTI but is also affected by refinery capacity in South East Asia and the U.S. There were no financial instruments in place to manage commodity prices during the period ended June 30, 2010. At June 30, 2010 a $5.00 decrease in oil prices and a $0.50 decline in natural gas prices would have caused net loss to increase by $29,000 for the quarter ended June 30, 2010.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents that have a floating interest rate. The Company is only receiving one quarter of 1% interest on its guaranteed investment certificates. If interest rates declined from 0.5% to zero, there would be no material effect on earnings and cash flow in the quarter ended June 30, 2010 and a 1% increase in interest rates would have no material increase earnings and cash flow over the same period. The Company had no interest rate swaps or hedges at June 30, 2010.

8. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility which will allow it to execute on its capital investment program, provide creditor and market confidence and to sustain future development of the business.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling inventory, the efficiencies of past investments, the efficiencies of forecasted investments and the timing of such investments, the forecasted cash balances, the forecasted commodity prices and resulting cash flow. The Company currently has no debt.

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

9. CHANGES IN NON-CASH WORKING CAPITAL

Three months ended June 30 ($000s)		**2010**		**2009**
Accounts receivable	$	(78)	$	(151)
Prepaid expenses and deposits		(10)		(3)
Accounts payable and accrued liabilities		(38)		1
Total	$	(126)	$	(153)
Relating to:				
Operating	$	(24)	$	(309)
Financing		(5)		(3)
Investing		(97)		159
Total	$	(126)	$	(153)

10. COMMITMENT

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

Country and Permit	Work Program	Obligation Period Ending	Estimated Expenditure (net) (millions CAD$)[1]
Offshore Australia – AC/P47	985km 2D seismic reprocessing & 750km^2 3D seismic	March 2, 2012	$10.3
Offshore Australia – AC/P24	Drill 1 exploration well	October 11, 2011	$1.9
Onshore India – CY-ONN-2005/1	500km^2 3D seismic & 3 wells	March 3, 2014	$4.9
Offshore India – CY-OSN-2009/1	310km 2D seismic & 81km^2 3D seismic	June 30, 2014	$2.1
Onshore Australia – ATP 752	Drill 3 wells[2]	June 30, 2011	$3.0
Onshore Australia – ATP 934P	Awaiting completion of Native Title before granting of ATP[3]	4 years after grant of ATP	$10.5

(1) Translated at June 30, 2010 exchange rate of US $1.00 = CAD $1.05 and AUD $1.00 = CAD $0.90

(2) Bengal to pay 55% of earning well to complete its commitment under the farm-in agreement and increase its interest in the Barta block from 14.26% to 25%. Two carried wells are then paid 100% by operator as part of farm-in agreement. The Company will pay its share of completion and equipping costs on any successful wells.

(3) Currently negotiating Native Title Agreement with the Wongkumara People of Queensland. The Native Title Agreement is then submitted to the Government of Queensland for approval and granting of the Authority to Prospect ("ATP"). Work program consists of 500km of 2D seismic and up to 7 wells.

Bengal is pursuing joint venture or farm-out arrangements to finance its exploration commitments under some of these licenses.

Purchase & Sale Agreement – Onshore Australia Block ATP 732P

On December 10, 2009 Bengal entered into a Purchase & Sale Agreement and upon satisfaction of all conditions in the Agreement, Bengal will be required to pay AUD$1.0 million to acquire 100% interest in ATP 732P. Upon closing of this acquisition, Bengal will be required to complete a minimum work program consisting of one exploration well and 100km 2D seismic over four years at an estimated cost of $2.5 million.

At June 30, 2010 the Company had the following lease commitment for office space in Canada:

($000s)	
Fiscal 2011 – July 2010 to March 2011	$ 95
Fiscal 2012 – April 2011 to March 2012	127
	222

11. RELATED PARTY TRANSACTIONS

For the three months ended June 30, 2010 the Company paid $16,300 (2009- $20,850) in consulting fees and travel costs to a director of the Company and to a company controlled by a director. The fees were paid in the ordinary course of business based on market rates and were for international consulting services.

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2010 the Company, through ICICI Bank (India) Ltd., issued a guarantee to the Government of India for US $151,500 representing 7.5% of the four year work program costs for offshore block CY-OSN-2009/1. The Canadian Federal Government, through Export Development Canada (EDC), has undertaken to guarantee the obligations of the Company to the bank regarding the guarantee issued on behalf of the Company. Although EDC has guaranteed the current obligations on behalf of the Company, there can be no assurances they will continue to in the future.

13. SEGMENTED INFORMATION

Three months ended June 30, 2010 ($000s)	Australia	Canada	Other[1]	Total
Revenue, net of royalties	$ 184	$ 137	$ –	$ 321
Net loss	(178)	(525)	(48)	(751)
Petroleum and natural gas property expenditures	$ 18	$ 29	$ 46	$ 93

As at June 30, 2010 ($000s)	Australia	Canada	Other[1]	Total
Petroleum and natural gas properties				
Cost	$ 19,512	$ 4,359	$ 1,060	$ 24,931
Accumulated depletion, depreciation and accretion	(15,671)	(3,386)	(451)	(19,508)
Net book value	$ 3,841	$ 973	$ 609	$ 5,423

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

Three months ended June 30, 2009 ($000s)	Australia	Canada	Other[1]	Total
Revenue, net of royalties	$ 271	$ 238	$ –	$ 509
Net loss	(168)	(650)	(47)	(865)
Petroleum and natural gas property expenditures	$ 127	$ 25	$ 2	$ 154

As at March 31, 2010 ($000s)	Australia	Canada	Other[1]	Total
Petroleum and natural gas properties				
Cost	$ 19,494	$ 4,330	$ 1,014	$ 24,838
Accumulated depletion, depreciation and accretion	(15,628)	(3,332)	(451)	(19,411)
Net book value	$ 3,866	$ 998	$ 563	$ 5,427

CORPORATE INFORMATION

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Richard N. Edgar
Edwin (Ted) S. Hanbury
James B. Howe
Bradley G. Johnson
Ian J. Towers

GOVERNANCE AND DISCLOSURE COMMITTEE
All Directors are members of the Committee

AUDIT COMMITTEE
Richard N. Edgar
James B. Howe
Ian J. Towers

RESERVES COMMITTEE
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