International exploration & production

Management's Discussion & Analysis

Three and Nine Months Ended December 31, 2010 and 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS – FEBRUARY 11, 2011

The following Management's Discussion and Analysis ("MD&A") as provided by the management of Bengal Energy Ltd. ("Bengal" or the "Company") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the three and nine months ended December 31, 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.

Barrels of oil equivalent - when converting natural gas to barrels of oil equivalent ("boe"), Bengal uses the widely recognized standard of six thousand cubic feet ("mcf") of natural gas to one barrel of oil ("bbl"). Bengal cautions that boes may be misleading, particularly if used in isolation. A boe conversion ratio of six mcf: one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

This MD&A and accompanying financial statements and notes are for the three month period ended December 31, 2010. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from October 1, 2010 through December 31, 2010. The term "prior year's quarter" is used throughout the MD&A for comparative purposes and refers to the period from October 1, 2009 through December 31, 2009. The term "prior quarter" refers to the three months ended September 30, 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, 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			Nine Months Ended	
$000s	**12/31/10**	12/31/09	09/30/10	**12/31/10**	12/31/09
Cash flow from (used in) operations	**(556)**	(264)	(460)	**(1,586)**	(1,157)
Abandonment expenditures	**-**	-	-	**-**	21
Changes in non-cash working capital	**(127)**	(83)	(12)	**(115)**	196
Funds from (used in) operations	**(683)**	(347)	(472)	**(1,701)**	(940)

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 or information (collectively "forward-looking statements") within the meaning of Canadian securities laws. 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 and assumptions reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations and assumptions 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;*
- *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 and Brent daily index prices;*
- *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;*
- *Continuation of exploration and development activities on Block CY-ONN-2005/1 and whether identified play types on this block will be prospective;*
- *That reprocessing and acquisition of seismic will occur on Block CY-OSN-2009/1;*
- *Continuation of exploration, development and drilling activities on Permit AC/P47 offshore Australia and whether a farm-out partner will be found on acceptable terms to the Company;*
- *That exploration well Marshall Withers will be drilled in the first half of calendar 2011 and whether it will contain economic quantities of hydrocarbons;*
- *Obtaining a Native Title Agreement on ATP 934P; closing the acquisition of ATP 732P in Australia and the commencement of a seismic and drilling program thereon;*

- *That the Cuisinier Appraisal Well B and a carried farm-in well on the Wompi Block will be drilled on ATP 752P;*
- *That Barta North Well and Cuisinier Appraisal A Well will be tested in the first quarter of calendar 2011. That Barta North Well and Cuisinier Appraisal A Well will be tested in the first quarter of calendar 2011; and*
- *That production from the Cuisinier 1 Well will continue as expected and transportation of the oil will occur.*

With respect to the forward-looking statements contained in the MD&A, Bengal has made assumptions regarding: future commodity prices; the impact of royalty regimes; the timing and the amount of capital expenditures; future operating costs; 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; the general economic conditions in Canada, the United States, India and Australia, and the continued stability of political, regulatory, tax and fiscal regimes in jurisdictions 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 or otherwise; 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.

HIGHLIGHTS

$000s except per share, volumes and netback amounts	Three Months Ended			Nine Months Ended	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
Revenue					
Natural gas	**$ 112**	$ 186	$ 127	**$ 364**	$ 623
Natural gas liquids	**12**	19	16	**49**	142
Oil	**306**	208	240	**749**	727
Total	**430**	413	383	**1,162**	1,492
Royalties	**46**	53	40	**114**	192
% of revenue	**10.5**	12.7	10.5	**9.8**	12.8
Operating & transportation	**189**	164	220	**588**	640
Netback[(1)]	**195**	196	123	**460**	660
Cash flow from (used in) operations:	**(556)**	(264)	(460)	**(1,586)**	(1,157)
Per share ($) (basic & diluted)	**(0.02)**	(0.01)	(0.02)	**(0.07)**	(0.06)
Funds from (used in) operations:[(2)]	**(683)**	(347)	(472)	**(1,701)**	(940)
Per share ($) (basic & diluted)	**(0.02)**	(0.02)	(0.02)	**(0.08)**	(0.05)
Net (loss):	**(1,031)**	(885)	(684)	**(2,466)**	(3,598)
Per share ($) (basic & diluted)	**(0.03)**	(0.05)	(0.04)	**(0.11)**	(0.20)
Capital expenditures	**$ 1,797**	$ 1,120	$ 174	**$ 2,064**	$ 848
Volumes					
Natural gas (mcf/d)	**327**	422	366	**356**	631
Natural gas liquids (boe/d)	**3**	6	5	**4**	13
Oil (bbl/d)	**36**	24	36	**33**	34
Total (boe/d @ 6:1)	**94**	100	102	**96**	152
Netback[(1)] ($/boe)					
Revenue	**$ 49.93**	$ 44.89	$ 41.59	**$ 44.00**	$ 35.60
Royalties	**5.25**	5.69	4.38	**4.31**	4.57
Operating & transportation	**21.99**	17.81	23.88	**22.27**	15.27
Total	**$ 22.69**	$ 21.39	$ 13.33	**$ 17.42**	$ 15.76

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

(2) Funds from operations is a non-GAAP measure. The comparable GAAP measure is cash flow from operations. A reconciliation of the two measures can be found in the table on page 2. See "Non-GAAP Measurements" on page 1 of this MD&A.

RESULTS OF OPERATIONS

Production

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

Production	Three Months Ended			Nine Months Ended	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
Natural gas (mcf/d)	**327**	422	366	**356**	631
NGLs (boe/d)	**3**	6	5	**4**	13
Oil (bbls/d)	**36**	24	36	**33**	34
Total (boe/d)	**94**	100	102	**96**	152

For the three months ended December 31, 2010, production averaged 94 boe/d, down marginally from the 100 boe/d produced in the comparable prior year quarter. Natural declines in gas production from the Company's Oak B.C. property are partially offset by increasing oil production in Australia from the Cuisinier 1 oil well.

YTD fiscal 2011 production averaged 96 boe/d which is down 56 boe/d or 37% from YTD fiscal 2010 production of 152 boe/d. The decline is due to the sale of 4 Kaybob gas wells in September 2009.

Oil production in fiscal 2011 YTD is mainly from the Cuisinier oil well at 20 bbl/d while the Toparoa oil well contributed 13 b/d. In the prior YTD period all oil production was from the Toparoa oil well. The Toparoa well is experiencing natural reservoir declines while Cuisinier is producing at over 400 bbl/d on days the well is on production; however the well was only producing about half the time during the current quarter. The Cuisinier well produces into a 600 barrel storage tank at the well site and access by trucks to pick up the oil has been hampered by recent flooding in Australia. In early January the operator of the Cuisinier well started trucking the oil to a different processing facility at Dullingari which is not affected by truck access or flooding issues.

Pricing

Bengal's realized price for its Australian oil production has been based on the Asia Petroleum Price Index (APPI) Tapis Crude benchmark price. Tapis is the main regional reference price for light sweet crude oils in South East Asia and has been used as the reference price for Australian oil producers up to December 31, 2010. Tapis historically has traded at a premium to West Texas Intermediate (WTI). Starting January 1, 2011 Bengal's price received for Australian oil production will be based on daily Dated Brent quotes, as published by Platts Crude Oil Marketwire. Prices in the prior quarter ended September 30, 2010 are lower due to a declining US dollar.

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			Nine Months Ended	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
Average Benchmark Prices					
AECO 30 day firm ($/mcf)	**$ 3.58**	$ 4.23	$ 3.72	**$ 3.72**	$ 3.64
TAPIS oil ($US/bbl)	**92.22**	77.15	81.13	**84.91**	71.51
Cdn/Aus exchange rate	**1.00**	0.96	0.94	**0.95**	0.92
WTI oil ($US/bbl)	**$ 85.17**	$ 76.16	$ 76.17	**$ 78.78**	$ 68.05
Bengal's Realized Price ($CAD)					
Natural gas ($/mcf)	**$ 3.72**	$ 4.80	$ 3.81	**$ 3.71**	$ 3.59
Oil ($/bbl)	**92.32**	96.58	73.00	**82.95**	76.92
NGLs ($/bbl)	**42.57**	31.74	42.63	**47.32**	39.94
Total ($/boe)	**$ 49.93**	$ 44.89	$ 41.59	**$ 44.00**	$ 35.60

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 ($000s)	Three Months Ended			Nine Months Ended	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
Natural gas	**$ 112**	$ 186	$ 127	**$ 364**	$ 623
NGLs	**12**	19	16	**49**	142
Oil	**306**	208	240	**749**	727
Total	**$ 430**	$ 413	$ 383	**$ 1,162**	$ 1,492

Petroleum and natural gas sales in the current quarter increased 4%, or $17,000, from the prior comparable quarter. The increase in sales revenue was due to higher crude oil volumes partially offset by lower gas volumes and prices.

YTD fiscal 2011 revenue decreased 22%, or $330,000 from YTD fiscal 2010 due to sale of the Kaybob gas wells partially offset by an increase in realized oil 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. In fiscal 2010 Bengal also paid a 7.5% gross overriding royalty (GORR) on two of the Kaybob gas wells. The Company no longer has any Alberta production due to the sale of the Kaybob gas property in September 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 ($000s)	Three Months Ended			Nine Months Ended	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
Canada Crown	**$ 10**	$ 23	$ 9	**$ 22**	$ 81
Canada gross overriding	**7**	12	8	**21**	43
Australian Government	**29**	18	23	**71**	68
Total	**$ 46**	$ 53	$ 40	**$ 114**	$ 192
$/boe	**5.25**	5.69	4.38	**4.31**	4.57
% of revenue	**10.5**	12.7	10.5	**9.8**	12.8
Royalties by Commodity	**Three Months Ended**			**Nine Months Ended**	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
Natural gas					
$000s	**$ 14**	$ 30	$ 14	**$ 33**	$ 93
$/mcf	**0.46**	0.77	0.43	**0.34**	0.53
% of revenue	**12.3**	16.1	11.2	**9.1**	14.8
Oil					
$000s	**$ 29**	$ 18	$ 23	**$ 71**	$ 68
$/bbl	**8.74**	8.23	6.90	**7.82**	7.21
% of revenue	**9.5**	8.5	9.5	**9.4**	9.4
NGLs					
$000s	**$ 3**	$ 5	$ 3.	**$ 10**	$ 31
$/bbl	**8.51**	8.07	9.28	**9.45**	8.77
% of revenue	**20.0**	25.4	21.8	**20.0**	21.9

For the third quarter of the 2011 fiscal year, royalties were 15% or $8,000, lower than the previous comparable period due the decline of high royalty rate natural gas and natural gas liquids production compared to the increase in relatively low royalty rate oil production.

YTD fiscal 2011 royalties decreased $78,000 or 40%, from the prior year's comparable period due to lower natural gas and natural gas liquids production volumes while royalties as a percentage of revenue declined due to a greater proportion of sales from lower royalty rate oil.

Operating & Transportation Expenses

Operating and transportation expenses in the current quarter increased 15% or $25,000, compared to the prior year comparable quarter. Canadian costs declined due to declining production volumes whereas Australian operating costs increased due to commencement of the Cuisinier well. The Cuisinier well has relatively higher operating costs than the Toparoa well due to trucking and road maintenance costs at Cuisinier whereas Toparoa oil is pipelined. Australian operating costs declined $4.92/bbl in the current quarter compared to the three months ended September 30, 2010 as road maintenance and usage charges are coming in less than budgeted and accrued for in the September 30, 2010 quarter.

Operating costs increased by $4.18 per boe in the current quarter compared to the prior year's quarter. The increase is due to a greater proportion of production coming from Cuisinier oil which has a higher per boe cost than gas.

YTD operating costs are down $52,000 or 8% due to sale the sale of Kaybob, partially offset by increases in higher cost Cuisinier oil production. YTD operating and transportation costs increased by $7.00 per boe due to higher cost Cuisinier oil and Oak gas production in the current year compared to relatively lower cost Toparoa and Kaybob production in the prior year.

Transportation costs in Australia are incurred to transport Bengal's oil production via trucking and 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 ($000s)	**Three Months Ended**			**Nine Months Ended**	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
Australia					
Operating	**$ 42**	$ 14	$ 58	**$ 150**	$ 51
Transportation	**57**	33	54	**149**	135
	99	47	112	**299**	186
Canada – Operating costs	**90**	117	108	**289**	454
Total	**$ 189**	$ 164	$ 220	**$ 588**	$ 640
Australia					
Operating - $/boe	**12.74**	6.65	17.66	**16.59**	5.45
Transportation - $/boe	**17.19**	14.99	16.29	**16.47**	14.26
Canada - $/boe	**17.04**	16.64	18.27	**16.66**	13.98
Total ($boe)	**$ 21.99**	$ 17.81	$ 23.88	**$ 22.27**	$ 15.27

General and Administration (G&A) Expenses

In the current quarter, G&A expenses increased by 70% or $377,000, over the prior year's quarter. The increase is due to a one-time restructuring cost and increased consulting, legal and travel fees. YTD G&A expenses increased by 37%, or $585,000. The increase in YTD expenses was due to the reasons noted above and higher consulting and evaluation costs incurred on the Company's significantly larger land base.

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. 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.

Bengal recognized stock-based compensation expense of $230,000 in the current quarter and $337,000 YTD compared to $114,000 in the prior year quarter and $146,000 prior YTD. The increase in the quarterly and YTD expense was mainly due to amortization of the fair value of options granted in December 2010.

Stock-Based Compensation ($000s)	Three Months Ended			Nine Months Ended	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
SBC - options	**$ 230**	$ 114	$ 57	**$ 337**	$ 146
SBC - warrants	**52**	54	54	**160**	208
Stock-based compensation	**$ 282**	$ 168	$ 111	**$ 497**	$ 354

At December 31, 2010 there is $54,000 of fair value related to the warrants to be amortized.

Depletion, Depreciation and Accretion (DD&A)

Depletion, depreciation and accretion (DD&A) decreased by $237,000 or $24.73 per boe for the three months ended December 31, 2010 over the comparable prior year's period. The decrease in DD&A expense was mainly due to lower production volumes and a smaller depletable cost pool in Canada due to the sale of Kaybob. The lower DD&A rate per boe is due to upward reserve revisions reflected in the March 31, 2010 reserve report and lower depletable costs due to the Kaybob disposition.

DD&A expense for the nine months ended December 31, 2010 decreased $1,021,000 or 74%, compared to the prior year's period while DD&A per boe decreased $19.40 or 59%. The decreases were due to lower production volumes, lower depletable costs and upward reserve revisions as discussed above.

Bengal has excluded $4.6 million from the depletion base related to Australian unproved properties at December 31, 2010 (September 30, 2010 - $3.1 million) and has $0.7 million related to the new India cost centre (September 30, 2010 - $0.6 million) which are assets considered in the preproduction stage and are not subject to depletion.

DD&A Expenses ($000s)	Three Months Ended			Nine Months Ended	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
DD&A – Australia	**$ 85**	$ 176	$ 67	**$ 195**	$ 490
DD&A – Canada	**48**	194	54	**157**	883
Total	**$ 133**	$ 370	$ 121	**$ 352**	$ 1,373
$/boe – Australia	**25.50**	81.18	20.46	**21.58**	51.76
$/boe – Canada	**9.47**	27.66	9.03	**9.07**	27.22
$/boe – Total	**$ 15.48**	$ 40.21	$ 13.12	**$ 13.35**	$ 32.75

Funds From (Used In) Operations and Net Loss

For the three months ended December 31, 2010 funds used in operations totaled $683,000 compared to funds used in operations of $472,000 in the prior comparable period mainly due to higher G&A costs as discussed above. Funds used in operations for the nine months ended December 31, 2010 was $1,701,000 compared to $940,000 in the prior comparable period mainly due to the sale of the Company's Kaybob gas property and the increased costs in Q3 as discussed above. The changes in non-cash working capital associated with operating activities and abandonment expenditures are added back to the GAAP measure cash flow used in operations to arrive at the non-GAAP measure funds used in operations.

In the current quarter the Company had a net loss of $1,031,000 compared to a net loss of $885,000 in the prior year's comparable quarter due to higher stock based compensation expense and the one-time G&A costs. On a YTD basis, the Company had a current net loss of $2,466,000 compared to a net loss of $3,598,000 in the prior comparable YTD period mainly due to higher depletion expense and a loss on the sale of the Kaybob property in the prior year.

CAPITAL EXPENDITURES

Geological and geophysical expenses totaled $531,000 for the quarter ended December 31, 2010, and $798,000 for the nine month YTD period. These costs relate to seismic acquisition, interpretation and analysis on the Company's 2.2 million net acre land base. Drilling costs in the current quarter relate to the Barta North well drilled on the Company's Barta North Block. The Company paid 55% of the costs to drill the well to complete its earning in the Barta Block. Upon rig release on November 13, 2010, Bengal's interest in the entire Barta Block, including the producing Cuisinier 1 well, prospectively increased from 14.26% to 25%.

Capital Expenditures ($000s)	**Three Months Ended**			**Nine Months Ended**	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
Geological and geophysical	**$ 531**	$ 614	$ 174	**$ 798**	$ 934
Drilling	**1,135**	224	-	**1,135**	(370)
Completions	**131**	282	-	**131**	284
Total oil and gas additions	**1,797**	1,120	174	**2,064**	848
Property disposition	**-**	-	-	**-**	(2,111)
Total expenditures	**$ 1,797**	$ 1,120	$ 174	**$ 2,064**	$ (1,263)

Ceiling Test

No impairment was recognized under the ceiling test at December 31, 2010. The future commodity prices used in the ceiling test were based on the latest commodity price forecasts of the Company's independent reserve engineers adjusted for differentials specific to the Company's reserves.

SHARE CAPITAL

Bengal has an unlimited number of common shares authorized for issuance. On February 11, 2011 there were 37,786,813 common shares issued and outstanding.

In September 2010, Bengal closed a short form prospectus offering whereby 12,000,000 common shares were issued at a price of $1.00 per share. The proceeds, net of share issue costs of $1,022,000, were $10,978,000.

In January 2011 the Company issued 7,525,000 common shares at a price of $1.20 per Common Share for aggregate gross proceeds of $9,030,000. Proceeds of the offering, net of share issue costs of $850,000 were $8,180,000.

In the period from March 31, 2010 up to the date of this report, 75,000 options were exercised on a cashless basis resulting in the issuance of 49,030 common shares, 133,000 options expired and 58,333 options were forfeited.

At February 11, 2011, there were 2,159,000 employee stock options outstanding with an average exercise price of $1.36 per share. Of these, 1,365,008 are exercisable at an average price of $1.51 per share. These options expire between 2011 and 2014 with an average remaining life of 2.4 years.

At February 11, 2011 there are 940,000 common share purchase warrants outstanding of which 627,000 are vested. Each Bengal warrant vests and is 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.

Trading History	Three Months Ended			Nine Months Ended	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
High	**$ 1.39**	$ 1.97	$ 1.28	**$ 1.72**	$ 1.97
Low	**1.00**	0.49	0.92	**0.92**	0.27
Close	**$ 1.36**	$ 1.58	$ 1.05	**$ 1.36**	$ 1.58
Volume (000s)	**8,795**	1,301	1,011	**10,517**	2,494
Shares outstanding Basic and diluted	**30,262**	18,213	18,213	**30,262**	18,213
Weighted average shares outstanding Basic and diluted	**30,257**	18,213	18,213	**22,515**	18,213

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2010 the Company had working capital of $8.6 million, including cash and short term deposits of $9.8 million and restricted cash of $0.1 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.

The Company's ability to continue operations and fund its liabilities is dependent on management's ability to secure additional financing and the timing of cash flow pursuant to its capital program. Management continues to pursue such additional sources of financing when appropriate, 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 future work commitments on certain of its permits (see Note 10 of the interim consolidated financial statements), the Company may be forced to curtail some exploration and development activities, which could result in the forfeiture of the related permits and necessitate the write-off of expenditures incurred on the related permits.

Contractual Arrangements

Work Programs

Pursuant to current production sharing contracts (PSC) and other joint venture agreements, the Company is required to perform minimum exploration activities that include various types of surveys, acquisitions, the processing of seismic data and the 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. Failure to perform minimum work program activities may result in forfeiture of the permit license. 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	$9.1
Offshore Australia – AC/P24	Drill 1 exploration well	October 11, 2011	$2.3
Onshore India – CY-ONN-2005/1	500km^2 3D seismic & 3 wells	March 3, 2014	$6.8
Offshore India – CY-OSN-2009/1	310km 2D seismic & 81km^2 3D seismic	August 15, 2014	$2.1

Onshore Australia – ATP 752	Drill 2 exploration wells & 1 development well. Complete & Equip 3 wells. Shoot 50km of 2D seismic[2]	December 31, 2012	$3.2
Onshore Australia – ATP 934P	Awaiting completion of Native Title before granting of ATP[3]	4 years after grant of ATP	$11.7

[1] Translated at December 31, 2010 exchange rate of US $1.00 = CAD $1.00 and AUD $1.00 = CAD $1.00.

[2] Bengal will pay 25% of Barta Block Cuisinier Appraisal Well B expected to spud in the first quarter of calendar 2011. Two wells currently cased and suspended (Barta North and Cuisinier Appraisal Well A) are expected to be tested in the first quarter of calendar 2011 and if successful, the Company will pay 25% of the completion and equipping costs. The operator of the Wompi Block will then pay 100% of the drilling costs to drill the Sampdoria Well as part of the Wompi Block Farm-in Agreement. The Company will then pay 60% of the costs of a second Wompi well to complete its commitment under the Wompi Block phase of the farm-in agreement and increase its interest in the Wompi Block to 30%. If any of the Barta or Wompi Block wells are successful, the Company will pay its working interest share (Barta 25%; Wompi 30%) of casing, completing and equipping costs on these wells and shoot 50km of new 2D seismic.

[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 seven 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 of 2D seismic over four years at an estimated cost of $2.5 million.

Guarantees – India Permits

($000s) CAD	Nine Months Ended December 31, 2010	Year ended March 31, 2010
	12/31/10	03/31/10
CY-ONN-2005/1 – Onshore India	$ 499	$ 515
CY-OSN-2009/1 – Offshore India	152	-
Total Guarantees	**$ 651**	**$ 515**

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

Other

At December 31, 2010 the Company had the following lease commitment for office space in Canada:

($000s)	
Fiscal 2011 – January 2011 to March 2011	$ 32
Fiscal 2012 – April 2011 to March 2012	127
	$ 159

RELATED PARTY TRANSACTIONS

For the three and nine months ended December 31, 2010 the Company paid $42,000 and $64,500 respectively (2009 - $Nil, and $20,850, respectively) 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 and travel costs. At December 31, 2010, the Company had an accounts payable balance of $13,000 (2009 - $nil) payable to this director.

SUBSEQUENT EVENTS

In January 2011 the Company issued 7,525,000 common shares at a price of $1.20 per Common Share for aggregate gross proceeds of $9,030,000. Proceeds of the offering, net of share issue costs of $850,000 were $8,180,000.

Effective February 4, 2011 Mr. Peter Gaffney has joined the Board of Directors of Bengal. Mr. Gaffney, a chartered engineer and geologist, is an independent advisor to the international oil and gas industry. His focus is on strategic management issues and the integration of surface and subsurface operations with particular reference to National Oil Companies. He was a founding partner of Gaffney, Cline and Associates, an international petroleum management and technical advisory firm, having direct involvement with the firm until its acquisition in 2008.

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

OUTLOOK

Recent drilling in Australia, two successful financings, and future drilling plans for the net 2.2 million acres of lands that Bengal has acquired in India and Australia over the past three years provide an optimistic outlook for the future. The Company's 89%-operated acreage offers a balanced portfolio ranging from relatively lower-risk development drilling in Australia's onshore Cooper Basin to high-impact offshore drilling opportunities in the Australian Timor Sea and in India's Cauvery Basin (Gulf of Mannar). These drilling opportunities could provide Bengal with near-term production growth, positive cash flow and possible exploration discoveries.

AUSTRALIA- Onshore

In the Cooper Basin of Australia, two new wells were drilled and cased as potential oil wells on the Barta Block portion of permit ATP752P in Queensland. The first well, Barta North, in which Bengal paid 55% of drilling costs to casing point, completed the Company's final earning in the Barta portion of the permit. Bengal's now holds a 25% interest in the 360,570 acre Barta Block including the producing Cuisinier 1 oil discovery. At Barta North, greater than four metres of oil pay was found in the Murta Sandstone in a separate reservoir, and on an apparently separate structure, approximately four kilometres southwest of the existing Cuisinier 1 Murta zone discovery. The possible Barta North success could be significant in that it may demonstrate that a new drilling fairway exists for Murta oil prospects offsetting the Cuisinier discovery. The Barta North well will be tested in calendar Q1-2011.

Production from the Cuisinier 1 Well remains strong. Since May 2010, the Cuisinier 1 Well production has shown no evidence of decline and has seen, as yet, no appreciable water-cut and continues to be capable of higher than 400 barrels per producing day. Temporary volume restrictions have resulted due to the size of relocatable oil storage tank at the lease which holds 600 barrels of oil and trucking restrictions imposed by a regional flood event that has affected some transportation in the State of Queensland.

A second well, Cuisinier 2 Well, was drilled to appraise the Cuisinier 1 Murta discovery. Bengal was carried on all drilling costs in the well. Cuisinier 2 located directly northeast of Cuisinier 1, encountered three zones of Murta oil pay and has been cased as a potential oil well. Of significance at Cuisinier 2 is that the Murta oil pay zones evident from logs look to extend 27 metres deeper than the base of perforations in the Cuisinier 1 discovery well. If confirmed with testing, these deep, lower Murta pay zones will offer additional oil reserves on the structure that might be tapped further over the northeast flank of the structure.

Results at the Cuisinier 2 Well were positive enough that the operator has scheduled a rig to drill a second offset appraisal well, located south of the initial discovery well. The Cuisinier Appraisal Well B or Cuisinier 3 is anticipated to spud in the first quarter of calendar 2011. Field development plans will be made following Cuisinier 3 and well testing. On ATP 752P another well is anticipated to be spud before October 2011. This well will be on the Wompi portion of ATP 752P and Bengal will be carried for all drilling costs.

Also in the Cooper Basin, grant of Bengal-operated permit ATP 732P is expected in the near term. This 654,321 acre, 100% working interest block is offset by producing oil and gas fields and a seismic program has been laid out to possibly enable drilling in 2011. Bengal has already defined numerous leads and prospects on this permit.

Australia – Timor Sea Offshore

Bengal and its partner have agreed to drill a large, shallow structure, defined on the basis of multiple 3D and 2D seismic data, on offshore permit AC/P24 in the Timor Sea of North West Australia. The drilling location previously referred as Marshall Withers and now licensed as the Kingtree well, lies on trend with the Challis-Cassini oil field, approximately 300 kilometres offshore in a water depth of approximately 110 metres. This drilling location sits east from the Bengal's original Katandra oil discovery and with success could potentially enable joint development of both fields. Drilling is expected to use a semi-submersible rig and is planned by the operator, Thailand National Oil Company (PTTEP), for the second quarter of calendar 2011. Bengal holds a 10% working interest in the prospect and the permit AC/P24.

Elsewhere in the Timor Sea, Bengal has acquired two regional seismic lines across its 100% operated permit AC/P47. The new 2D seismic was acquired to assist in the design of and planning for a 750km² 3D program that is expected to be completed later in 2011. Bengal has contracted an international consulting firm to assist the Company with identification of prospective farmees or partners to help accelerate nearer term drilling activity on permit AC/P47.

INDIA - Offshore

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

INDIA - Onshore

On Bengal's 30% working interest, 233,000 acres (gross) Production Sharing Agreement CY-ONN-2005/1, work is well underway on the first year work program. Reprocessing of existing seismic data is nearly complete. Recently revised plans by the operator, GAIL India Ltd., call for the acquisition of 700km² of 3D seismic data beginning in the first half of 2011 as well as airborne magnetometry work. The increased

seismic acquisition is intended to help the joint venture accelerate the drilling of exploration wells on the permit.

SUMMARY

Following a fully subscribed $12 million prospectus offering in September 2010, and a subsequent, recently completed and fully subscribed, $9 million bought deal prospectus offering in early 2011, Bengal is now sufficiently capitalized to undertake its nearer term plans. The Company has a large and attractive portfolio of both lower-risk and high-impact drilling opportunities to assist its growth. Recent drilling on the Barta permit could enhance near term operating income for the Company and set the stage for future development. Potential near-term exploration success from impact plays at offshore permit AC/P24 and onshore permit ATP 732P, planned this year, should encourage momentum. Longer term plays in India and in the Timor Sea should provide additional upside. The Company will continue to evaluate accretive production acquisition, exploration and corporate transaction opportunities, as and where they arise, both in Australia, India and greater Southeast Asia.

SELECTED QUARTERLY INFORMATION

(000s, except per share amounts)	Quarter Ended							
	12/31/10	09/30/10	06/30/10	03/31/10	12/31/09	09/30/09	06/30/09	03/31/09
Petroleum and natural gas sales	**$ 430**	$ 383	$ 349	$ 280	$ 413	$ 505	$ 574	$ 667
Cash flow from (used-in) operations	**(556)**	(460)	(570)	(493)	(264)	(263)	(630)	(85)
Per share Basic and diluted	**(0.02)**	(0.02)	(0.03)	(0.03)	(0.01)	(0.01)	(0.03)	(0.00)
Funds from (used in) operations[1]	**(683)**	(472)	(546)	(626)	(347)	(295)	(298)	(92)
Per share Basic and diluted	**(0.02)**	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)	(0.02)	(0.01)
Net loss	**$ (1,031)**	$ (684)	$ (751)	$ (1,396)	$ (885)	$(1,848)	$ (865)	$ (839)
Per share Basic and diluted	**(0.03)**	(0.04)	(0.04)	(0.08)	(0.05)	(0.10)	(0.05)	(0.05)
Additions to capital assets, net	**$ 1,797**	$ 174	$ 93	$ 553	$ 1,120	$ (426)	$ 154	$ 254
Working capital	**8,572**	11,022	633	1,275	2,501	3,970	1,764	2,189
Total assets	**17,611**	17,357	6,684	7,368	8,928	9,159	11,839	12,664
Shares outstanding Basic and diluted	**30,262**	30,238	18,238	18,213	18,213	18,213	18,213	18,213
Operations								
Average daily production								
Natural gas (mcf/d)	**327**	366	381	377	422	787	684	712
Oil and NGLs (bbls/d)	**39**	41	31	12	30	53	58	63
Combined (boe/d)	**94**	102	94	75	100	184	172	182
Netback ($/boe)	**$22.69**	$13.33	$16.65	$18.67	$21.39	$11.77	$16.78	$14.86

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

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

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

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 CONTROLS 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 ("ICFR")

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 December 31, 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 and the Board of Directors believe 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 including International Financial Reporting Standards 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 October 2009, the Accounting Standards Board ("AcSB") issued a third and final IFRS Omnibus Exposure Draft confirming that publicly accounting enterprises will be required to apply IFRS, in full and without modification, for financial periods beginning on or after January 1, 2011. The adoption date of April 1, 2011 will require Bengal to restate amounts reported in fiscal year ended March 31, 2011 including its opening balance sheet at April 1, 2010 for comparative purposes.

In response, the Company has completed its high-level IFRS changeover plan and established a 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.

During the next phase of the project, the Company is performing an in-depth review of the significant areas of difference identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on compensation arrangements. External advisors have been retained and will assist management with the project on an as needed basis to ensure IFRS readiness by April 1, 2011.

Below is a summary of the Company's current views of the key areas where changes in accounting policies are expected that may impact the Company's consolidated financial statements. The list and comments below should not be regarded as a complete list of changes that will result from the transition to IFRS. It is intended to highlight those areas the Company believes to be most significant; however, analysis of changes is still in progress and not all decisions have been made where choices of accounting policies are available. At this stage, the Company has not quantified the impacts expected on its consolidated financial statements for these differences.

Note that most adjustments required on transition to IFRS will be made retrospectively, against opening retained earnings in the first comparative balance sheet. Transitional adjustments relating to those standards where comparative figures are not required to be restated because they are applied prospectively will only be made as of the first day of the year of transition.

IFRS 1 "First-Time Adoption of International Financial Reporting Standards" provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Company is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate in the Company's circumstances.

Property, Plant and Equipment: International Accounting Standard (IAS) 16 "Property, Plant & Equipment" and Canadian GAAP contain the same basic principles, however there are some differences. IFRS requires that significant parts of an asset be depreciated separately and depreciation commences when the asset is available for use. The Company has not identified any assets to be depreciated separately as all of its assets are estimated to have useful lives tied to the reserves they service. IFRS also permits property, plant and equipment to be measured using the fair value model or the historical cost model. The Company is not planning on adopting the fair value measurement model for property, plant and equipment.

Under the full cost accounting guideline in Canadian GAAP, gains or losses are not recognized upon the disposition of petroleum and natural gas ("P&NG") assets unless the disposition results in a significant change in the depletion rate. Under IFRS, gains and losses are recognized in net income on the disposal of an item of P&NG assets. The amount of the gain or loss is determined by comparing the proceeds from disposal with the carrying amount of the item. This will include transactions such as sales of assets, farm-outs, asset swaps and other non-monetary transactions which typically did not result in gains or losses being recorded under Canadian GAAP. The Company has had no dispositions in fiscal 2011.

IFRS 1 contains an exemption whereby a company may apply IFRS prospectively by utilizing its transition date reserves (volumes or values) to allocate the Company's full cost pool, with the provision that an impairment test, under IFRS standards, be conducted at the transition date. The Company intends to use this exemption and is currently evaluating the impact of allocating the net book values based on reserve volumes or values. Applying this exemption will require any changes to the Company's asset retirement obligation liability to be recorded against opening retained earnings.

Provisions: Under IFRS, similar to Canadian GAAP, the Company is required to record obligations relating to the retirement of its wells and facilities where a legal or contractual obligation currently exists. Upon the adoption of IFRS, the Company will also need to evaluate if there are any constructive obligations where the decommissioning liability would also need to be recognized. Currently, the Company has not identified any constructive obligations.

The Company is in the process of evaluating the methodology by which its decommissioning liabilities will be calculated including the future cash flows as well as the appropriateness of the discount rate. It is anticipated the liability will increase due to a risk free discount rate being utilized.

Impairment of Assets: Impairments are to be determined based on the greater of fair value and value in use. This differs from the current two step practice where the asset's carrying value is initially compared to the estimated undiscounted future cash flows, and only if the carrying value exceeds the undiscounted future cash flows is a discounted analysis, step two, required. There is no undiscounted test under IFRS. This may result in more frequent write-downs upon transition.

In addition, under IFRS, an entity must also evaluate whether there are changes in circumstances that would support an impairment reversal, which is not allowable under full cost guidelines under GAAP.

Another difference arises in the level at which an impairment test is performed. Under IFRS, impairment testing will be performed on cash generating units. The Company has identified three cash generating units compared to the two full cost pools under Canadian GAAP.

Share-Based Payments: Under IFRS 2 "Share-Based Payments", graded vested options are required to be separated into their vesting tranches and valued and accounted for separately. This differs from Canadian GAAP, where graded vested options may be valued as a single award at the grant date and expensed using the straight line method. IFRS 1 provides an exemption for equity instruments which vested before the transition date and does not require them to be retroactively restated. All unvested options at transition date will be required to be retroactively restated with the adjustment going through opening retained earnings on transition. The Company intends to use this exemption and is currently evaluating the transitional impact.

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

In the third quarter of fiscal 2011, work continued on drafting and gaining consensus on the Company's transition policies and this work will ramp up again with completion of the third quarter reporting.

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, Suite 1000, 736 – 6 Avenue SW, Calgary, AB, T2P 3T7, 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
Westpac Bank • Brisbane, Australia
Commonwealth Bank • Brisbane, Australia
ICICI Bank Ltd. • Calgary, Canada and Mumbai, India

REGISTRAR AND TRANSFER AGENT
Valiant Trust Corporation • Calgary, Canada

INVESTOR RELATIONS
Bryan Mills Iradesso • Calgary, Canada

DIRECTORS
Richard A. N. Bonnycastle
Chayan Chakrabarty
Richard N. Edgar
Peter D. Gaffney **
James B. Howe
Robert Steele
Ian J. Towers (Chairman)

GOVERNANCE AND DISCLOSURE COMMITTEE
All Directors are members of the Committee

AUDIT COMMITTEE
Richard A.N. Bonnycastle
James B. Howe (Chairman)
Robert Steele

RESERVES COMMITTEE
Richard N. Edgar
Peter D. Gaffney (Chairman) **
Ian J. Towers

COMPENSATION COMMITTEE
Peter D. Gaffney **
Robert Steele (Chairman)
Ian J. Towers

OFFICERS
Chayan Chakrabarty, President & CEO
James Mott, Vice President, Exploration
Bryan Goudie, Chief Financial Officer
Bruce Allford, Secretary

STOCK EXCHANGE LISTING
TSX: BNG

** Peter D. Gaffney appointed to the Board of Directors effective February 4, 2011

International exploration & production

Consolidated Financial Statements

Three and Nine Months Ended December 31, 2010 and 2009

BENGAL ENERGY LTD.

CONSOLIDATED BALANCE SHEETS

(thousands of dollars) (unaudited)

As at	December 31, 2010	March 31, 2010
ASSETS		
Current assets:		
Cash and short term deposits	$ 9,825	$ 1,055
Restricted cash (Note 3)	135	510
Accounts receivable	416	273
Prepaid expenses and deposits	90	103
	10,466	1,941
Petroleum and natural gas properties (Note 4)	7,145	5,427
	$ 17,611	$ 7,368
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,894	$ 666
Asset retirement obligations (Note 5)	99	93
Shareholders' equity:		
Share capital (Note 6)	54,452	43,460
Warrants (Note 6)	650	490
Contributed surplus (Note 6)	4,194	3,871
Deficit	(43,678)	(41,212)
	15,618	6,609
	$ 17,611	$ 7,368

Future Operations (Note 2)
Commitments (Note 10)
Subsequent events (Note 12)

See accompanying notes to consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

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

	Three months		Nine months	
Periods ended December 31,	**2010**	2009	**2010**	2009
Revenues				
Petroleum and natural gas sales	**$ 430**	$ 413	**$ 1,162**	$ 1,492
Royalties	**(46)**	(53)	**(114)**	(192)
Interest	**55**	2	**55**	15
	439	362	**1,103**	1,315
Expenses				
General and administrative	**917**	540	**2,175**	1,590
Operating and transportation	**189**	164	**588**	640
Depletion, depreciation and accretion	**133**	370	**352**	1,373
Loss on sale of oil and gas assets	**-**	-	**-**	943
Stock-based compensation (Note 6)	**282**	168	**497**	354
Foreign exchange (gain) loss	**(51)**	5	**(43)**	13
	1,470	1,247	**3,569**	4,913
Net loss and comprehensive loss	**(1,031)**	(885)	**(2,466)**	(3,598)
Deficit, beginning of period	**(42,647)**	(38,934)	**(41,212)**	(36,221)
Deficit, end of period	**$ (43,678)**	$ (39,819)	**$ (43,678)**	$ (39,819)
Weighted average number of shares outstanding (000s) (Note 6)	**30,257**	18,213	**22,515**	18,213
Basic and diluted loss per share (Note 6)	**$ (0.03)**	$ (0.05)	**$ (0.11)**	$ (0.20)

See accompanying notes to consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of dollars) (unaudited)

	Three months		Nine months	
Periods ended December 31,	**2010**	2009	**2010**	2009
Cash provided by (used in)				
Operations				
Net loss	**$ (1,031)**	$ (885)	**$ (2,466)**	$ (3,598)
Items not affecting cash				
Depletion, depreciation and accretion	**133**	370	**352**	1,373
Stock-based compensation	**282**	168	**497**	354
Loss on sale of oil and gas assets	**-**	-	**-**	943
Unrealized foreign exchange loss (gain)	**(67)**	-	**(84)**	(12)
Abandonment expenditures	**-**	-	**-**	(21)
Changes in non-cash working capital (Note 9)	**127**	83	**115**	(196)
Cash flow used in operations	**(556)**	(264)	**(1,586)**	(1,157)
Financing				
Proceeds from issuance of shares, net of issuance costs (Note 6)	**(37)**	-	**10,978**	-
Changes in non-cash working capital (Note 9)	**(100)**	5	**(5)**	5
Cash flow from (used in) financing	**(137)**	5	**10,973**	5
Investing:				
Additions to petroleum and natural gas properties	**(1,797)**	(1,120)	**(2,064)**	(848)
Decrease in restricted cash	**(75)**	-	**375**	-
Property disposition	**-**	-	**-**	2,111
Changes in non-cash working capital (Note 9)	**1,004**	494	**988**	56
Cash flow from (used in) investing	**(868)**	(626)	**(701)**	1,319
Foreign exchange (loss) gain on cash and short-term deposits	**67**	(2)	**84**	10
Change in cash and short-term deposits	**(1,494)**	(887)	**8,770**	177
Cash and short-term deposits, beginning of period	**11,319**	3,740	**1,055**	2,676
Cash and short-term deposits, end of period	**$ 9,825**	$ 2,853	**$ 9,825**	$ 2,853

	2010	2009	**2010**	2009
Interest received	**$ 19**	$ 1	**$ 19**	$ 23

See accompanying notes to consolidated financial statements.

BENGAL ENERGY LTD.

Notes to the Consolidated Financial Statements

Three and nine months ended December 31, 2010 and 2009
(Unaudited)

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 consolidated 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 the current presentation.

2. FUTURE OPERATIONS

The Company's ability to continue as a going concern has improved recently with the closing of a $12 million equity financing in September 2010 and a $9 million equity financing in January 2011. Due to substantial capital commitments, the Company is still dependent upon obtaining further 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 $1.0 million for the three months ended December 31, 2010, and had an accumulated deficit of $43.7 million as at December 31, 2010. Over the next 12 months ending December 31, 2011 and beyond, the Company expects to incur cash outflows to fund its exploration and development activities and the Company's existing cash and short-term deposits and operating cashflows are not expected to be sufficient to meet all of its commitments under its capital program, and accordingly the Company will need to raise additional equity capital or farm out portions of its property interests. These matters raise some doubt about the Company's ability to continue as a going concern.

Management continues to pursue additional sources of financing when appropriate, 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 future work commitments on certain of its permits (see Note 10), the Company may be forced to curtail some exploration and development activities, which could result in the forfeiture of the related permits and necessitate the write-off of expenditures incurred on the related permits.

The Company's financial statements as of and for the quarter ended December 31, 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 $135,000 at December 31, 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 ICICI Bank (India) Ltd. 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. 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.

On August 9, 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 the 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.

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

($000s)	Cost	Accumulated Depletion & Depreciation	Net Book Value
December 31, 2010			
Australia			
Petroleum and natural gas properties	$ 21,342	$ 15,765	$ 5,577
Other assets	56	56	-
Canada			
Petroleum and natural gas properties	3,834	3,117	717
Other assets	525	368	157
Other cost centres (India and Ireland)			
Petroleum properties – India	694	-	694
Petroleum properties - Ireland	451	451	-
	$ 26,902	$ 19,757	$ 7,145
March 31, 2010			
Australia			
Petroleum and natural gas properties	$ 19,438	$ 15,575	$ 3,863
Other assets	56	53	3
Canada			
Petroleum and natural gas properties	3,805	3,003	802
Other assets	525	329	196
Other cost centres (India and Ireland)			
Petroleum properties – India	563	-	563
Petroleum properties - Ireland	451	451	-
	$ 24,838	$ 19,411	$ 5,427

At December 31, 2010, undeveloped property costs of $4.6 million (March 31, 2010 - $3.0 million) related to the Australian cost centre 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 Canadian and Australian depletion calculation.

At December 31, 2010 the India cost centre was considered to be in the preproduction stage with costs of $0.7 million (March 31, 2010 – $0.6 million for India) not subject to depletion.

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 December 31, 2010 is approximately $163,000 (December 31, 2009 - $161,000) which will be incurred between 2011 and 2026. An inflation factor of 2% has been applied to the estimated asset retirement cost at December 31, 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)	Nine months ended December 31, 2010	Year ended March 31, 2010
Balance, beginning of period	$ 93	$ 179
Revisions		(14)
Additions	2	-
Liabilities settled	-	(21)
Liabilities disposed	-	(63)
Accretion	4	12
Balance, end of period	$ 99	$ 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	49,030	14
Shares issued for cash	12,000,000	12,000
Share issue costs	-	(1,022)
Balance December 31, 2010	**30,261,813**	**$ 54,452**

In September 2010 the Company closed a short form prospectus offering of common shares. The Company issued 12,000,000 common shares at a price of $1.00 per share. Proceeds of the offering, net of share issue costs of $1,022,000, were $10,978,000.

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.

In October 2010, 33,333 stock options were exercised based on a cashless exercise whereby 24,030 common shares were issued based on a market share price of $1.29 per share on the date of exercise. The related compensation expense of $6,000 was reclassified from contributed surplus to share capital.

(c) Stock-based compensation - 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**	**$**	**490**
Stock-based compensation expense	-		160
Balance December 31, 2010	**940,000**	**$**	**650**

(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	(75,000)		0.46
Expired	(133,000)		2.31
Forfeited	(58,333)		0.75
Issued	640,000		1.39
Outstanding at December 31, 2010	**2,175,667**	**$**	**1.37**
Exercisable at December 31, 2010	1,381,675	$	1.51

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

	Nine months ended Dec 31, 2010	Year ended March 31, 2010
Assumptions:		
Risk free interest rate (%)	2.0%	2.0%
Expected life (years)	3 yr	3 yr
Expected volatility (%)	72 %	122 %
Vesting period (years)	2 yr	2 yr
Results:		
Weighted average fair value of options granted	$ 0.67	$ 0.91

The fair value of stock options granted during the nine months ended December 31, 2010 was estimated to be $429,000 and for the year ended March 31, 2010 the fair value was estimated to be $592,000.

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.

In the three and nine months ended December 31, 2010 there were 640,000 stock options granted with an exercise price of $1.39 and a three year term. These options vest one-third immediately and one-third on each of the next two anniversary dates.

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

Stock-based compensation ($000s)	**Three Months Ended**			**Nine Months Ended**	
	12/31/10	12/31/09	09/30/10	**12/31/10**	12/31/09
SBC - options	**$ 230**	$ 114	$ 57	**$ 337**	$ 146
SBC - warrants	**52**	54	54	**160**	208
Stock-based compensation	**$ 282**	$ 168	$ 111	**$ 497**	$ 354

(e) Contributed surplus

A reconciliation of contributed surplus is provided below:

($000s)	**Nine months ended December 31, 2010**	**Year ended March 31, 2010**
Balance, beginning of period	**$ 3,871**	**$ 3,577**
Stock-based compensation expense	337	294
Exercise of options	(14)	-
Balance, end of period	**$ 4,194**	**$ 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 of the last two years and therefore any addition to basic shares outstanding is anti-dilutive.

The weighted average number of shares outstanding for the three and nine months ended December 31, 2010 is 30,256,850 and 22,515,197 respectively (2009 – 18,212,783 and 18,212,783 respectively).

At December 31, 2010, there were 2,175,667 (2009 – 1,764,667) options that were anti-dilutive and at December 31, 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. As at December 31, 2010, Bengal's receivables consisted of $0.3 million (March 31, 2010 - $0.1 million) from joint venture partners and $0.1 million (March 31, 2010 - $0.2 million) 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 December 31, 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 has a zero balance in the allowance for doubtful accounts as at December 31, 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 $1.9 million at December 31, 2010. Bengal had $9.8 million in cash, $0.1 million in restricted cash and a net working capital surplus of $8.6 million at December 31, 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 December 31, 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 December 31, 2010 ($000s)				
	Total	**CAD**	**AUD**	**U.S.D**
			CAD $ Equivalent	
Cash and short-term deposits	9,825	6,886	2,683	256
Restricted cash	135	135	-	-
Accounts receivable	416	129	-	287
Accounts payable and accrued liabilities	(1,894)	(365)	(1,529)	-
Balance sheet exposure	8,482	6,785	1,154	543

A 5% strengthening or (weakening) of the CAD as compared to the AUD or USD would have decreased or (increased) net loss by $151,000 respectively.

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 December 31, 2010. At December 31, 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 $89,000 for the nine months ended December 31, 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 receiving 1.2% interest on its guaranteed investment certificates in Canada and 5.0% on term deposits in Australia. A one percent decrease in interest rates would have resulted in a $50,000 decrease to earnings and cash flow in the nine months ended December 31, 2010 and a one percent increase in interest rates would add $50,000 to earnings and cash flow over the same period. The Company had no interest rate swaps or hedges at December 31, 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

Nine months ended December 31 ($000s)		**2010**		2009
Accounts receivable	**$**	**(143)**	$	282
Prepaid expenses and deposits		**13**		-
Accounts payable and accrued liabilities		**1,228**		(417)
Total	**$**	**1,098**	$	(135)
Relating to:				
Operating	**$**	**115**	$	(196)
Financing		**(5)**		5
Investing		**988**		56
Total	**$**	**1,098**	$	(135)

10. COMMITMENTS

Work Programs

Pursuant to current production sharing contracts ("PSC") and other joint venture agreements, 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. Failure to perform minimum work program activities may result in forfeiture of the permit license. 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	$9.1
Offshore Australia – AC/P24	Drill 1 exploration well	October 11, 2011	$2.3

Onshore India – CY-ONN-2005/1	500km^2 3D seismic & 3 wells	March 3, 2014	$6.8
Offshore India – CY-OSN-2009/1	310km 2D seismic & 81km^2 3D seismic	August 15, 2014	$2.1
Onshore Australia – ATP 752	Drill 2 exploration wells & 1 development well. Complete & Equip 3 wells. Shoot 50km of 2D seismic[(2)]	December 31, 2012	$3.2
Onshore Australia – ATP 934P	Awaiting completion of Native Title before granting of ATP[(3)]	4 years after grant of ATP	$11.7

[(1)] Translated at December 31, 2010 exchange rate of US $1.00 = CAD $1.00 and AUD $1.00 = CAD $1.00

[(2)] Bengal will pay 25% of Barta Block Cuisinier Appraisal B Well expected to spud in the first quarter of calendar 2011. Two wells currently cased and suspended (Barta North and Cuisinier Appraisal Well A) are expected to be tested in the first quarter of calendar 2011 and if successful, the Company will pay 25% of the completion and equipping costs. The operator of the Wompi Block will then pay 100% of the drilling costs to drill the Sampdoria Well as part of the Wompi Block farm-in agreement. The Company will then pay 60% of the costs of a second Wompi well to complete its commitment under the Wompi Block phase of the farm-in agreement and increase its interest in the Wompi Block to 30%. If any of the Barta or Wompi Block wells are successful, the Company will pay its working interest share (Barta 25%; Wompi 30%) of casing, completing and equipping costs on these wells and shoot 50km of new 2D seismic.

[(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 seven wells.

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.

Other

At December 31, 2010 the Company had the following lease commitment for office space in Canada:

($000s)		
Fiscal 2011 – January 2011 to March 2011	$	32
Fiscal 2012 – April 2011 to March 2012		127
	$	159

11. RELATED PARTY TRANSACTIONS

For the three and nine months ended December 31, 2010, the Company paid $42,000 and $64,500 respectively (2009 - $Nil and $20,850 respectively) in consulting fees and travel costs to a director of the Company and to a company controlled by a director. The fees were paid in the ordinary course of business based on market rates and were for international consulting services. At December 31, 2010, the Company has an accounts payable balance of $13,000 (2009 - $Nil) payable to this director.

12. SUBSEQUENT EVENTS

In January 2011 the Company issued 7,525,000 common shares at a price of $1.20 per Common Share for aggregate gross proceeds of $9,030,000. Proceeds of the offering, net of share issue costs of $850,000 were $8,180,000.

13. SEGMENTED INFORMATION

Nine months ended December 31, 2010 ($000s)	**Australia**	**Canada**	**Other[1]**	**Total**
Revenue, net of royalties	$ 678	$ 370	$ -	$ 1,048
Net loss	(425)	(1,881)	(160)	(2,466)
Petroleum and natural gas property expenditures	$ 1,905	$ 29	$ 130	$ 2,064
As at December 31, 2010 ($000s)				
Petroleum and natural gas properties				
Cost	$ 21,398	$ 4,359	$ 1,145	$ 26,902
Accumulated depletion, depreciation and accretion	(15,821)	(3,485)	(451)	(19,757)
Net book value	$ 5,577	$ 874	$ 694	$ 7,145

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

Nine months ended December 31, 2009 ($000s)	**Australia**	**Canada**	**Other[1]**	**Total**
Revenue, net of royalties	$ 659	$ 641	$ -	$ 1,300
Net loss	(458)	(3,006)	(134)	(3,598)
Petroleum and natural gas property expenditures	$ 282	$ 317	$ 249	$ 848
Property disposition	-	$ 2,111		$ 2,111
As at March 31, 2010 ($000s)				
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

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

CORPORATE INFORMATION

AUDITORS
KPMG LLP • Calgary, Canada

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

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

REGISTRAR AND TRANSFER AGENT
Valiant Trust Corporation • Calgary, Canada

INVESTOR RELATIONS
Bryan Mills Iradesso • Calgary, Canada

DIRECTORS
Richard A.N. Bonnycastle
Chayan Chakrabarty
Richard N. Edgar
Peter D. Gaffney **
James B. Howe
Robert Steele
Ian J. Towers (Chairman)

GOVERNANCE AND DISCLOSURE COMMITTEE
All Directors are members of the Committee

AUDIT COMMITTEE
Richard A.N. Bonnycastle
James B. Howe (Chairman)
Robert Steele

RESERVES COMMITTEE
Richard N. Edgar
Peter D. Gaffney (Chairman) **
Ian J. Towers

COMPENSATION COMMITTEE
Peter D. Gaffney **
Robert Steele (Chairman)
Ian J. Towers

OFFICERS
Chayan Chakrabarty, President & CEO
James Mott, Vice President, Exploration
Bryan Goudie, Chief Financial Officer
Bruce Allford, Secretary

STOCK EXCHANGE LISTING
TSX: BNG

** Peter D. Gaffney appointed to the Board of Directors effective February 4, 2011