Bengal

ENERGY LTD.

International exploration & production

Management's Discussion & Analysis

Three and Nine Months Ended December 31, 2013 and 2012

THIRD QUARTER FISCAL 2014 HIGHLIGHTS

In the third fiscal quarter of 2014 (period ended December 31, 2013) Bengal advanced several key developments which contributed to the Company's continued growth strategy. Bengal recorded another profitable quarter driven by stable Australian production volumes and high netbacks from its ultra-light, large oil in place producing Cuisinier property. All 14 wells drilled to date at Cuisinier are now producing, and exploration in the Tookoonooka joint venture has continued with partner, Beach Energy Ltd. With producing oil weighted assets in Australia and prospects in India, Bengal has a portfolio of projects at various stages of development, from exploration through to production and cash flow generation.

Following are operational, financial and corporate achievements through the three months ended December 31, 2013:

Financial Highlights:

- **Materially Higher Funds Flow from Operations** – Bengal generated Funds Flow from Operations[1] of $2.9 million, an increase of 38% over the $2.1 million in the prior quarter and $0.4 million in Q3 of the prior year.
- **Another Profitable Quarter** – Bengal reported its third consecutive profitable quarter, with net income of $0.6 million, compared to a loss of $0.1 million in Q3 of the prior year and net income of $0.5 million in the preceding quarter this year. Profitability was maintained despite the Company prudently electing to take a $1.0 million write-down on its offshore India assets, which was done due to continued uncertainty regarding the future work plan for those assets.
- **Realized Commodity Prices Contributed to Higher Revenue** – Bengal's revenue of $5.5 million was 4% higher than the $5.3 million realized in the preceding quarter and substantially higher than the $0.5 million realized in Q3 of the prior year. The strong revenue was driven by higher production volumes during the second and third fiscal quarters of 2014 coupled with continued strong pricing for the high quality crude oil produced. Bengal's operating (field) netback in Australia averaged C$88.61 per barrel (corporate average of C$83.13/bbl). Sales prices averaged USD $115.48/bbl, a USD $6.23/bbl premium over the Brent benchmark during the quarter.
- **Enhanced Financial Flexibility** – Bengal extended the maturity of $1.8 million of its outstanding privately placed notes which had an initial expiry of January 24, 2014 for an additional one year period at existing terms including a 10% coupon.

Operating Highlights:

- **Stable Production Volumes** – Production averaged 496 boe/d for the period, which is 144% higher than in the same period the prior year and reflects a slight decrease of 4% compared to the previous quarter. These volumes reflect a 25% working interest in Cuisinier for all but the last 13 days of the quarter, when the working interest increased to over 30%, following closing of an acquisition. Taking into account the higher working interest, the Company exited Q3 2014 with a production rate of approximately 520 boepd.
- **Closed Acquisition of Additional Working Interest –** Bengal's agreement to acquire an incremental 5.357% working interest in Cuisinier closed on December 18, 2013 for a purchase price of AUS $7.5 million / C$ 7.2 million, which remains subject to final closing adjustments. Following the acquisition, the Company's total working interest in Cuisinier increased to 30.357% which results in Bengal realizing a greater proportion of production and reserves going forward.
- **Commencement of Tookoonooka Drilling and Seismic Work Plan** – Bengal and its joint interest partner, Beach Energy Ltd commenced activity under their agreement, which will see Beach drill 2 wells in Tookoonooka and acquire 300 km2 of new 3D seismic, fully carrying Bengal up to a maximum of AUD$11.5MM. At the end of December, the first well, Tangalooma-1, was drilled but it failed to define a commercial hydrocarbon accumulation. Also through December and January, the additional 3D seismic was acquired, which will be followed by processing and interpretation through the first half of calendar 2014. A second location is expected to be selected based on the 3D seismic, and drilled in the second half of 2014.
- **Onshore India Drilling Plan -** The Company continues to work with the operator of Bengal's onshore block in India's Cauvery Basin to finalize the necessary regulatory approvals for the drilling of three exploration wells. Based on current dialogue with the partners and the regulatory

agencies, it is anticipated the drilling of the first well will commence in the second quarter of calendar 2014. Continued activity in onshore India for the balance of calendar 2014 and beyond will depend on the results of this drilling.

(1) Funds flow from operations is an additional GAAP measure. The comparable IFRS measure is cash from operations. A reconciliation of the two measures can be found in the table on page 5 of this MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS – FEBRUARY 12, 2014

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 Condensed Consolidated Interim Financial Statements and accompanying notes for the three and nine months ended December 31, 2013 and 2012 and the audited Consolidated Financial Statements and accompanying notes for the years ended March 31, 2013 and 2012. Bengal's financial statements were prepared under International Accounting Standard 34 – "Interim Financial Reporting". Additional information relating to the Company, including detailed reserve disclosures, is included in the Company's Annual Information Form, which is available on SEDAR at www.sedar.com. The reader should be aware that historical results are not necessarily indicative of future performance.

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

OUTLOOK

Bengal's producing assets are predominantly situated in Australia's Cooper Basin, a region featuring large hydrocarbon pools. The Company's core Australian assets – Cuisinier and Tookoonooka – are situated within an area of the Basin in its infancy in terms of appraisal and development, and Bengal believes these assets offer attractive upside potential. Australia features a stable political, fiscal and economic environment in which to operate, with a favourable royalty regime for oil and gas production. With oil pricing benchmarked to Brent, Bengal's realized operating netbacks from Australia have averaged over C$84.62 / bbl for the nine months ending December 31, 2013. This strong pricing environment coupled with a growing production base contributed to the Company's increased revenues and funds flow from operations through calendar 2013.

Bengal's portfolio of assets is unique and provides exposure to existing production combined with a suite of longer term, high potential impact growth opportunities. Current cash flow, production and reserves are provided by the ongoing development at Cuisinier, while development at Tookoonooka and onshore India represent assets at various stages of development to support future growth. Calendar 2014 drilling plans in Cuisinier anticipate a total of nine wells: six development wells, two appraisal wells and one new field exploration well, with activity expected to commence through the summer of 2014. Based on this schedule, the impact of new production volumes is anticipated to be realized in the latter quarters of calendar 2014, and as such, production declines are expected during the first half of 2014 until new production can be added. The operator in Cuisinier has indicated that a pressure maintenance initiative would improve production and ultimate recovery from the field and is intending to initiate such a program during 2014. It is expected that the benefits of this initiative could be seen from late in calendar 2014.

Despite the results of the first well drilled in the Tookoonooka joint venture, both Bengal and joint interest partner, Beach Energy, remain enthusiastic about the potential oil development from this region. Beach's acquisition of the 300 km^2 of 3D seismic and subsequent processing / interpretation is expected to result in selection of the second location within the new seismic area, with drilling anticipated in the second half of calendar 2014. Beach, as a 50% working interest partner, will have the option to become operator upon completion of the work program, with Bengal and Beach continuing go forward operations on a 50/50 basis.

In Bengal's onshore India block, the Company continues to coordinate with its partners to finalize regulatory approvals to proceed with drilling three exploration wells beginning in the second quarter of calendar 2014.

The regulatory delay has no impact on the terms of Bengal's license to drill on the block, and it is anticipated that the necessary approvals will be granted within the first calendar quarter of 2014. The results of the first three wells drilled in the existing work program will determine continued activity through the balance of calendar 2014 and beyond.

In Bengal's offshore block in India, the Company made a conservative decision to take a write-down on that asset in light of continued uncertainty regarding the future work plan and the inability to secure a joint interest partner to date. As a result of this decision, and the uncertainty surrounding any activity or partnership on the asset, it is not anticipated that Bengal will expend any capital during fiscal 2014 in the offshore block. Bengal is engaged in discussions with the regulatory authorities as to how it might proceed if a partner is not found.

Although the Company currently has surplus cash and growing cash flow, to fully evaluate and effectively exploit its large acreage position, the Company will require additional external capital, the size and nature of which will depend upon needs and market conditions.

Through calendar 2014 and into 2015, Bengal's operational activities are expected to result in numerous milestones being met, including the planned drilling of 1 additional carried well in Tookoonooka, 3 wells in onshore India and 9 wells in Cuisinier, along with a greater understanding of the geology in Tookoonooka from the new 3D seismic. The Company will also continue to evaluate potential acquisition, joint venture or other accretive transactions that could grow production and reserves, and generate value. Bengal will continue to benefit from production growth and the resultant funds flow generated from Cuisinier.

OPERATING HIGHLIGHTS

$000s except per share, volumes and netback amounts	**Three Months Ended**			**Nine Months Ended**	
	December 31		**September 30**	**December 31**	
	2013	2012	2013	**2013**	2012
Revenue					
Oil	**$ 5,451**	$ 1,901	$ 5,229	**$ 14,306**	$ 2,721
Natural gas	**53**	35	69	**187**	105
Natural gas liquids	**12**	1	14	**57**	46
Total	**$ 5,516**	$ 1,937	$ 5,312	**$ 14,550**	$ 2,872
Royalties	**365**	172	358	**927**	255
% of revenue	**6.6**	8.9	6.7	**6.4**	8.9
Operating & transportation	**1,365**	623	1,499	**3,794**	1,032
Net operating income	**$ 3,786**	$ 1,142	$ 3,455	**$ 9,829**	$ 1,585
Cash from (used in) operations:	**$ 2,170**	$ (378)	$ 2,066	**5,485**	$ (822)
Per share ($) (basic & diluted)	**0.02**	(0.01)	0.03	**0.07**	(0.02)
Funds flow from (used in) operations:(1)	**$ 2,862**	$ 481	$ 2,063	**$ 6,659**	$ (52)
Per share ($) (basic & diluted)	**0.05**	0.01	0.03	**0.11**	0.00
Net income (loss):	**573**	$ (151)	$ 545	**1,954**	$ (1,207)
Per share ($) (basic & diluted)	**0.01**	(0.00)	0.01	**0.03**	(0.02)
Capital expenditures	**$ 6,462**	$ 9,475	$ 2,702	**$ 14,599**	$ 27,100
Volumes					
Oil (bbl/d)	**463**	184	483	**420**	89
Natural gas (mcf/d)	**184**	110	200	**208**	165
NGL (bbl/d)	**2**	1	2	**2**	3
Total (boe/d @ 6:1)	**496**	203	518	**457**	119
Netback(2) ($/boe)					
Revenue	**$ 121.11**	$ 103.33	$ 111.48	**$ 115.84**	$ 87.84
Royalties	**8.01**	9.18	7.51	**7.38**	7.80
Operating & transportation	**29.97**	33.23	31.46	**30.21**	31.56
Total	**$ 83.13**	$ 60.92	$ 72.51	**$ 78.25**	$ 48.48

(1) Funds from operations is a non-IFRS measure. The comparable IFRS measure is cash from operations. A reconciliation of the two measures can be found in the table on page 5.

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

Basis of Presentation

This MD&A and accompanying financial statements and notes are for the three and nine months ended December 31, 2013. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from October 1, 2013 through December 31, 2013. The terms "prior year's quarter" and "2012 quarter" are used throughout the MD&A for comparative purposes and refer to the period from October 1, 2012 through December 31, 2012.

The fiscal year for the Company is the 12-month period ended March 31, 2014. The terms "fiscal 2014," "current year" and "the year" are used in the MD&A and in all cases refer to the period from April 1, 2013 through March 31, 2014. The terms "previous year," "prior year" and "fiscal 2013" are used in the MD&A for comparative purposes and refer to the period from April 1, 2012 through March 31, 2013. The term YTD means year-to-date. The term "preceding quarter" refers to the quarter ended September 30, 2013.

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

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

Non-IFRS Measurements

Funds flow from operations, funds flow from operations per share and netback do not have standard meanings under IFRS and may not be comparable to those reported by other companies. Management believes that in addition to cash flow provided by operations, funds flow from operations is a useful supplemental measure as it provides an indication of the funds generated by Bengal's principal business activities prior to consideration of changes in working capital and remediation expenditures. Bengal considers this to be a key measure of performance as it demonstrates its ability to generate cash flow necessary to fund capital investments and to repay outstanding debt obligations.

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

	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
$000s	**2013**	2012	2013	**2013**	2012
Cash flow from (used in) operating activities	**2,170**	(378)	2,066	**5,485**	(822)
Changes in non-cash working capital	**692**	859	(3)	**1,172**	770
Funds flow from (used in) operations	**2,862**	481	2,063	**6,657**	(52)

Netback equals total revenue less royalties and operating and transportation expenses calculated on a boe basis.

RESULTS OF OPERATONS

Production

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

Production	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
Oil (bbls/d) (1)	**463**	184	483	**420**	89
Natural gas (mcf/d)(2)	**184**	110	200	**208**	165
NGLs (bbl/d) (2)	**2**	1	2	**2**	3
Total (boe/d)	**496**	203	518	**457**	119

(1) Oil volumes are from the Company's Cooper Basin permits in Australia
(2) Natural gas and NGL volumes are from the Company's Oak property in Canada

In the nine months ended December 31, 2013, oil production increased to 420 bbl/d compared to 89 bbl/d in the prior year period. The increase is due to the completion of the six well calendar 2013 drilling program (Cuisinier wells C7 through C12).

Oil production increased to 463 bbl/d in the current quarter compared to 184 bbl/d in the prior year quarter and 483 bbl/d from preceding quarter largely due to commencement of production from C7 through C11 in July and August 2013. C12 commenced production in November 2013. Incremental production from C12 was not significant and was offset by general declines from the Cuisinier field.

Pricing

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

Prices and Marketing	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
Average Benchmark Prices					
Dated Brent oil ($US/bbl)	**109.23**	110.11	107.47	**107.34**	109.34
AECO 30 day firm ($/mcf)	**$ 2.82**	$ 3.05	$ 2.82	**$ 3.19**	$ 2.36
Number of CAD$ for 1 AUD$	**0.97**	1.03	0.95	**0.98**	1.03
Number of CAD$ for 1 USD$	**1.05**	1.00	1.04	**1.04**	1.00
WTI oil ($US/bbl)	**95.70**	88.87	105.18	**98.25**	91.06
Bengal's Realized Price ($CAD)					
Oil ($/bbl)	**$ 128.07**	$ 112.22	$ 117.79	**$ 123.91**	$111.60
Natural gas ($/mcf)	**3.14**	3.47	3.75	**3.28**	2.32
NGLs ($/bbl)	**71.86**	8.00	72.54	**89.06**	59.51
Total ($/boe)	**121.11**	103.33	114.48	**115.84**	87.84

Bengal's realized prices for the three and nine months ended December 31, 2013 increased as a result of stable Brent prices and strengthening USD / CAD exchange rates at December 31. Oil prices are received in USD and are based on Dated Brent quotes as published by Platts Crude Oil Marketwire for the month in which the Bill of Lading occurs plus a Platts Tapis premium. Brent typically has traded at a premium to West Texas Intermediate (WTI) and the Platts Tapis premium received has averaged USD $6.54/bbl over Brent for the nine months ended December 31, 2013. Future prices will continue to be affected by volatility in foreign exchange rates. The total Company-realized price on a boe basis also increased due to a higher proportion of oil production.

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	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
Oil(1)	**5,451**	1,901	5,229	**14,306**	2,721
Natural gas(2)	**53**	35	69	**187**	105
NGLs(2)	**12**	1	14	**57**	46
Total	**5,516**	1,937	5,312	**14,550**	2,872

(1) Oil sales are from the Company's Cooper Basin permits in Australia
(2) Natural gas and NGL sales are from the Company's Oak property in Canada

Petroleum and natural gas sales increased by $3,579 in the current quarter compared to the prior year quarter due to increased oil production volumes from the Cuisinier field in the Cooper Basin of Australia and higher realized oil prices.

Petroleum and natural gas sales increased by 4% in the current quarter compared to the preceding quarter.

For the nine months ended December 31, 2013, petroleum and natural gas sales increased by $11,678 compared to the prior year due to increased oil production volumes and higher realized oil prices.

Royalties

Royalties by Type ($000s)	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
Canada Crown	**(3)**	-	7	**$4**	$3
Canadian gross overriding	**3**	1	6	**14**	7
Australia	**365**	171	345	**909**	245
Total	**365**	172	358	**927**	255
$/boe	**8.01**	9.18	7.51	**7.38**	7.80
% of revenue	**6.6**	8.9	6.7	**6.4**	8.9
Royalties by Commodity	**Three Months Ended**			**Nine Months Ended**	
	December 31		**September 30**	**December 31**	
	2013	2012	2013	**2013**	2012
Oil					
$000s	**365**	171	345	**909**	245
$/bbl	**8.58**	10.09	7.77	**7.87**	10.05
% of revenue	**6.7**	9.0	6.6	**6.4**	9.0
Natural gas					
$000s	**(2)**	-	9	**7**	1
$/mcf	**(0.15)**	-	0.49	**0.12**	0.02
% of revenue	**(3.8)**	-	13.0	**3.7**	1.0
NGLs					
$000s	**2**	1	4	**11**	9
$/bbl	**15.29**	8.22	20.79	**17.61**	11.81
% of revenue	**16.6**	-	28.6	**19.3**	19.6

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 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 have decreased in the current quarter compared to the prior year quarter on a boe basis due to increased production.

Royalties as a percentage of revenue have declined in the current quarter and YTD due to increased transportation and capital deductions resulting from completion of the Cook pipeline and infrastructure, available to reduce revenue prior to applying the 10% Australian royalty rate. The effective royalty rate going forward is expected to be approximately 7%.

Natural gas royalties are negative for the most recent quarter reflecting prior over accrual of royalty payments.

Operating & Transportation Expenses

Operating Expenses ($000s)	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
Australia					
Operating	**244**	291	194	**678**	424
Transportation	**1,068**	318	1,233	**2,949**	465
	1,312	609	1,427	**3,627**	889
Canada – Oper. costs	**53**	14	72	**167**	143
Total	**1,365**	623	1,499	**3,794**	1,032
Australia					
Operating - $/boe	**5.73**	17.18	4.37	**5.87**	17.39
Transp. - $/boe	**25.09**	18.77	27.78	**25.54**	19.07
Canada - $/boe	**17.77**	7.75	22.09	**16.45**	17.20
Total ($boe)	**29.97**	33.23	31.46	**30.21**	31.56

Operating and transportation expenses increased in the current quarter compared to the prior year quarter mainly as a result of the 144% increase in oil production rates. Transportation costs on a boe basis have increased from prior periods due to commissioning of the Cuisinier to Cook pipeline and subsequent connection of this line to the Cook facility and the Cook to Merrimelia pipeline. Cuisinier oil is now fully pipeline connected from the wellhead to Port Bonython where the crude is loaded on tankers. The pipeline costs are marginally higher than costs incurred previously to truck the oil, the commissioning of the pipeline reduced the risk of downtimes from flooding and to ensure reliability of transportation.

On a year-to-date basis, operating and transportation expenses have increased significantly as noted above, whereas on a boe basis, expenses have decreased slightly.

General and Administrative (G&A) Expenses

General and Admin. Expenses ($000s)	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
G&A	**970**	$ 811	1,026	**2,916**	3,007
Capitalized G&A	**(81)**	(146)	(104)	**(291)**	(384)
Net G&A	**889**	$ 665	922	**2,625**	2,623

For the quarter, gross G&A expenses increased by $0.2 million or 20% compared to the 2012 resulting from increased corporate activity quarter and decreased 4% from the preceding quarter.

For the nine months ended December 31, 2013, gross G&A expenses are down 3%. The net G&A expenses are flat due to reduced capitalized G&A.

Transaction Costs

Transaction Costs ($000s)	Three Months Ended			Nine Months Ended December 31	
	December 31		September 30		
	2013	2012	2013	**2013**	2012
Transaction costs	**-**	-	261	**261**	-

Transaction costs consist of the costs associated with closing the farm-in agreement whereby the Farmee will spend up to $11.5 million AUD to drill two wells and shoot 300 sq. kilometers of 3D seismic to earn a 50% interest in Bengal's permit ATP 732 in Australia.

Share-based Compensation (SBC)

Share-Based Compensation ($000s)	Three Months Ended			Nine Months Ended December 31	
	December 31		September 30		
	2013	2012	2013	**2013**	2012
SBC – options	**118**	144	256	**531**	514
SBC – capitalized	**(23)**	(37)	(65)	**(123)**	(154)
Stock-based compensation	**95**	107	191	**408**	360

The Company uses the Black-Scholes pricing model to estimate the fair value of options on the date of grant and amortizes the estimated expense over the vesting period with a corresponding increase to contributed surplus. With the exception of the option grant that was made on December 21, 2012 (vesting occurs one third after the first year and one third on each of the two subsequent anniversaries), options expire three to five years from the grant date; they vest one-third on the grant date and one-third on each of the following two annual anniversaries.

Capitalized share-based compensation is based on the portion of capitalized fees to total fees paid to consultants and employees that have been granted options.

In the current quarter, no stock options were granted, 433,331 expired and 178,334 were forfeited. No options were exercised during the period.

Depletion and Depreciation (DD&A)

DD&A Expenses ($000s)	Three Months Ended			Nine Months Ended December 31	
	December 31		September 30		
	2013	**2012**	2013	**2013**	**2012**
DD&A – Australia	**1,166**	423	1,229	**3,181**	547
DD&A – Canada	**24**	25	24	**76**	90
Subtotal	**1,190**	448	1,253	**3,257**	637
Rig - Canada	**-**	73	-	**-**	73
Total	**1,190**	521	1,253	**3,257**	710
$/boe – Australia	**27.40**	24.97	27.69	**27.55**	22.43
$/boe – Canada	**8.05**	13.84	7.36	**7.48**	10.82
$/boe – Total	**26.13**	23.90	26.30	**25.93**	19.48

Current quarter and year-to-date depletion in total and per boe increased in Australia over the previous year quarter due to the increase in petroleum and natural gas property expenditures and the increased oil production. Current quarter depletion remained relatively consistent from the preceding quarter on a boe basis.

Depletion per boe increased in Australia for the three and nine months ended December 31, 2013 compared to the prior year periods due to increases in future development costs associated with proved and probable reserves at March 31, 2013.

Impairment

Impairment ($000s)	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
	990	10	2	**992**	(748)

The offshore India permit CY-OSN-2009/1 is scheduled to expire on August 15, 2014. Management has no capital allocated to this asset in its current budget and has not been successful in attracting a partner to share exploration costs, therefore an impairment to exploration and evaluation assets of $1.0 million, which represents the entire carrying value of this asset, has been recorded in Q3 2014.

At June 2012, the Company reported an $847,000 impairment recovery against the previously impaired Hudson well as a result of a settlement agreement reached with the operator. This was offset by $99,000 of final costs billed for the Kingtree well drilled and abandoned in October 2011.

Finance Income

Finance income ($000s)	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
Interest income	**29**	8	29	**69**	165

The Company is receiving interest on guaranteed investment certificates and term deposits. The decrease in interest income is primarily attributable to reduced principal amount of short-term deposits.

Finance Expenses

Finance Expenses ($000s)	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
Accretion expense on decommissioning liabilities	**2**	1	(14)	**(10)**	5
Accretion expense on notes payable	**52**	-	67	**165**	-
Change on fair value of VARs	**(59)**			**(59)**	-
Performance Security Guarantee fee	**-**	4	-	**-**	27
Interest on notes payable	**245**	-	239	**536**	-
Finance expenses	**240**	5	292	**632**	32

The Performance Security Guarantee fee is paid to Export Development Canada for security guarantee for onshore and offshore India work programs.

The Company issued $1,750,000 in convertible notes and $1,750,000 in non-convertible notes in January 2013 for a term of 180 days. The convertible notes were converted/repaid in July 2013 as further described in the Related Party section on page 14. The interest rate was prime plus 3% through July 2013. The non-convertible notes were extended to January 24, 2014 at a rate of 10%.

On July 5, the Company issued $8,000,000 of 10% non-convertible notes with warrants or value appreciation rights.

The accretion expense on notes payable relates to the implied discounts, equity components and transaction costs of the Notes. The change on fair value of VARS relates to marking the VARs to market at quarter end.

Funds from (used in) Operations and Net Loss

For the three months ended December 31, 2013 funds from operations was $2,862,000 or $0.05 per basic and diluted share compared to funds from operations of $481,000 or $0.01 per basic and diluted share in the 2012 quarter and funds flow from operations of $2,063,000 or $0.03 per basic and diluted share in the previous quarter. The changes in non-cash working capital are removed from the IFRS measure cash flow from (used in) operations to arrive at the non-IFRS measure funds from (used in) operations (see reconciliation on page 5).

Net income for the three months ended December 31, 2013 was $573,000 or $0.01 per basic and diluted share compared to a loss of $151,000 or $0.00 per basic and diluted share in the 2012 quarter and net income of $545,000 or $0.01 per basic and diluted share in the preceding quarter. The improved financial results are due to increased production and pricing from the 2012 quarter onwards.

For the nine months ended December 31, 2013, funds flow from operations were $6,790,000 or $0.11 per basic and diluted share compared to funds flow used in operations of ($52,000) or $0.00 per basic and diluted share in the nine months ended December 31, 2012.

Net income for the nine months ended December 31, 2013 was $1,954,000 or $0.03 per basic and diluted share compared to a net loss of ($1,207,000) or ($0.02) per basic and diluted share in the nine months ended December 31, 2012. The increase in net income was due to increased production and higher commodity prices in the current period.

CAPITAL EXPENDITURES

Capital Expenditures ($000s)	**Three Months Ended**			**Nine Months Ended**	
	December 31		**September 30**	**December 31**	
	2013	2012	2013	**2013**	2012
Geological and geophysical	**287**	121	1,038	**2,429**	2,810
Drilling	**(685)**	7,083	554	**2,212**	16,155
Drilling Rig	**-**	154	-	**-**	4,488
Completions	**100**	2,110	1,110	**3,198**	3,628
Cuisinier working interest purchase	**6,760**	-	-	**6,760**	-
Total oil & gas expenditures	**6,462**	9,468	2,702	**14,599**	27,081
Office	**-**	7	-	**-**	19
Total expenditures	**6,462**	9,475	2,702	**14,599**	27,100
Exploration & evaluation Expenditures	**(7)**	7,236	730	**1,582**	15,713
Development & production Expenditures	**6,469**	2,085	1,972	**13,017**	6,899
Property, plant and equipment	**-**	154	-	**-**	4,488
Total net expenditures	**6,462**	9,475	2,702	**14,599**	27,100

In the three months ended December 31, 2013, capital additions related primarily to the acquisition of additional interests in producing oil assets located in Cuisinier (part of the Barta block in Australia) for total consideration of $6.5 million (net of transaction costs of $255,000 and estimated closing adjustments of $531,000).

In the nine months ended December 31, 2013, in addition to the ATP 752 permit costs, additional costs were incurred to complete the Indian seismic program and participate in geological and geophysical analysis and studies to continue to evaluate the Cuisinier field and Cuisinier North 3D seismic as well as the Caracal prospect and surrounding 3D seismic on the Tookoonooka permit (ATP 732P) and the acquisition detailed above.

SHARE DATA

At February 12, 2014, Bengal had the following:

- 64, 390,415 common shares issued and outstanding
- 4,363,334 employee stock options outstanding
- 703,125 warrants outstanding
- 546,875 VARs

TRADING HISTORY

Trading History	Three Months Ended			Nine Months Ended	
	December 31		September 30	December 31	
	2013	2012	2013	**2013**	2012
High	**$ 0.67**	$ 1.09	$ 0.73	**$ 0.79**	$ 1.09
Low	**$ 0.53**	$ 0.49	$ 0.50	**$ 0.50**	$ 0.49
Close	**$ 0.60**	$ 0.56	$ 0.67	**$ 0.60**	$ 0.56
Volume (000s)	**3,307**	8,751	2,578	**9,702**	15,372
Shares outstanding (000s)	**64,315**	52,110	64,315	**64,315**	52,110
Weighted average shares outstanding (000s)					
Basic	**64,315**	52,110	63,859	**62,715**	52,110
Diluted	**64,496**	52,110	64,078	**62,973**	52,110

LIQUIDITY AND CAPITAL RESOURCES

On April 16, 2013, the Company closed a brokered private placement of common shares. The Company issued a total of 9,500,666 common shares at a price of $0.60 per common share for aggregate gross proceeds of approximately $5,700,400.

On July 5, 2013, the Company closed a non-brokered private placement of 8,000 units comprising a debenture, due July 5, 2016, paying 10% interest with 703,125 warrants and 546,875 value appreciation rights (VARs) with an exercise price, or effective price in the case of the VARs, of $0.75. Each unit was priced at $1,000 for aggregate gross proceeds of $8.0 million.

At December 31, 2013 the Company had working capital of $3.6 million, including cash and cash equivalents of $5.6 million and restricted cash of $0.1 million, compared to a working capital deficiency of $1.6 million, including cash and cash equivalents of $2.6 million and restricted cash of $0.1 million at March 31, 2013.

In Tookoonooka, the Company has acquired a partner in Beach Energy. In Bengal's offshore block in India, the Company continues to pursue a joint interest partner.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations, including work commitments, as they are due. As a result of the Company's growing funds flow, the $5.7 million equity financing that closed in April, the $8 million debt financing that closed in July, the election by insiders to convert $1.5 million of convertible notes in July and the election by holders of the $1.75 million of non-convertible notes to extend the repayment until January 2015, Bengal currently has positive working capital. However, longer term, the Company will require additional external capital to fully evaluate and exploit the large acreage position the Company holds. The Company will need to raise funds through some combination of equity capital, debt financing, joint interest partnership(s) or farm out arrangement(s) or divest assets. There is no assurance that additional funds will be available to the Company or, if available, that the funds will be available on terms acceptable to the Company.

COMMITMENTS

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

Country and Permit	Work Program	Obligation Period Ending	Estimated Expenditure (net) (millions CAD$)[1]
Onshore India – CY-ONN-2005/1	Three wells	February 25, 2015[2]	$ 4.0
Offshore India – CY-OSN-2009/1	120 km^2 3D seismic	August 15, 2014[3]	$ 5.2

(1) Translated at December 31, 2013 exchange rate of US $1.0000 = CAD $1.0636 and AUD $1.0000 = CAD $0.9489
(2) If the Company did not participate in the drilling of three wells, costs of up to $4.8 million could be impaired and the Company's interest in the permit would decline proportionately to the amount of non-participation. A 359 day extension has been applied for on this permit.
(3) The Company is looking for a partner to participate in this permit and share the costs. The Company is looking for a partner to participate in this permit and share the costs and has recorded an impairment of $1.0 million related to these assets

Guarantees – India Permits

($000s) CAD	Quarter Ended December 31, 2013	Year ended March 31, 2013
CY-OSN-2005/1 – Onshore India – year 3	–	836
CY-OSN-2005/1 – Onshore India – year 4	769	735
CY-OSN-2009/1 – Offshore India	161	154
Total Guarantees	**930**	**1,725**

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

Other

At December 31, 2013, the contractual obligations for which the Company is responsible are as follows:

Contractual Obligations ($000s)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Office lease	812	245	504	63	–
Decommissioning obligations	328	-	–	–	328
Total contractual obligations	1,140	245	504	63	328

CONTINGENCIES

Final application for grant of permit ATP 934 has been filed with the Queensland Government regulatory authority. No further activity is planned on this permit until the final Ministerial Grant of the tenement is received. Potential legislative changes may result in a lower commitment than shown in the table below. The Company holds a 50% operating interest in this permit. Work program consists of 500 km of 2D seismic and up to seven wells.

Country and Permit	Work Program	Obligation Period Ending	Estimated Expenditure (net) (millions CAD$)
Onshore Australia – ATP 934P	Awaiting Ministerial approval before granting of ATP	4 years after grant of ATP	$ 11.1

RELATED PARTY TRANSACTIONS

On April 16, 2013 the Company closed a brokered private placement of common shares. The Company issued a total of 9,500,666 common shares at a price of $0.60 per common share for aggregate gross proceeds of approximately $5,700,400. A total of 2,400,300 shares of the offering were purchased by insiders of the Company.

On April 18, 2013, the term of the Company's non-convertible notes were extended from July 24, 2013 to January 24, 2014. As consideration for the extension of the maturity date, the interest rate payable under the non-convertible notes was increased to 10.0% per annum from prime plus 3% effective July 25, 2013. Insiders hold approximately 85% of these notes. Insiders had acquired $1,500,000 of non-convertible notes. During the three and nine months ended December 31, 2013, the Company paid or accrued interest on the non-convertible notes to insiders of $38,000 and $94,000 respectively.

On July 5, 2013 the Company closed a non-brokered private placement of 8,000 units of the Company at a price of $1,000 per unit for aggregate gross proceeds of $8.0 million. Certain insiders of the Company acquired $3,500,000 principal amount of 10% unsecured non-convertible redeemable notes and 546,875 value appreciation rights ("VARs) (approximately 44% of the private placement). The notes bear interest at a rate of 10% per annum, payable quarterly, and have a term of 36 months. Following the first anniversary of the closing date of the private placement, the Company shall be required to make quarterly repayments of the outstanding principal of notes in an amount equal to 6.25% of the principal amount of notes outstanding on the last day of each applicable quarter. Each whole VAR entitles the holder thereof, for a period of 36 months following the closing, to exercise the VAR and thereby receive a cash payment equal to the difference between the market price of one common share on the exercise date and $0.75. During the three and nine months ended December 31, 2013, the Company paid or accrued interest on the notes to insiders of $88,000 and $173,000 respectively.

On July 18, 2013, the $1.5 million of convertible notes held by insiders were converted into 2,678,572 common shares at an exercise price of $0.56 per common share. During the three and nine months ended December 31, 2013, the Company paid or accrued interest on the convertible notes to insiders of nil and $28,000 respectively.

All transactions with insiders were done at market value.

SUBSEQUENT EVENT

On January 24, 2014 Bengal agreed with the holders of Bengal's $1.8 million non-convertible notes to extend the terms from January 24, 2014 to January 24, 2015 and to provide the holder with the right to demand repayment on at least 15 business days' prior written notice to Bengal.

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRS requires management to make estimates, assumptions and judgments that affect the application of accounting policies and reported amounts of assets and liabilities, and income and expenses. Accordingly, actual results may differ from these estimates, and those differences may be material. A comprehensive description of the Company's significant estimates and judgments is contained in the March 31, 2013 Management's Discussion and Analysis.

FUTURE ACCOUNTING STANDARDS

On April 1, 2013, the Company adopted new standards with respect to consolidation (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements at April 1, 2013 or on the comparative periods other than additional disclosures.

SELECTED QUARTERLY INFORMATION

(000s, except per share amounts)	**Dec. 31 2013**	Sep. 30 2013	Jun. 30 2013	Mar. 31 2013	Dec. 31 2012	Sep. 30 2012	Jun. 30 2012	Mar. 31 2012
Petroleum and natural gas sales	**$ 5,516**	$ 5,312	$ 3,722	$ 3,013	$ 1,937	$ 437	$ 498	$ 622
Cash flow from (used in) operations	**2,170**	2,066	1,249	119	(378)	315	(759)	486
Per share Basic and diluted	**0.03**	0.03	0.02	(0.00)	(0.01)	0.01	(0.01)	0.01
Funds flow from (used in) operations(1)	**2,862**	2,063	1,732	1,151	481	(471)	(62)	(635)
Per share Basic and diluted	**0.05**	0.03	0.03	0.02	0.01	(0.01)	0.00	(0.01)
Net income (loss)	**573**	$ 545	$ 836	$ (592)	$ (151)	$ (845)	$ (211)	$ (1,424)
Per share Basic and diluted	**0.01**	0.01	0.01	(0.01)	(0.00)	(0.02)	0.00	(0.03)
Capital expenditures	**$6,462**	$ 2,702	$ 5,435	$ 1,281	$ 9,475	$ 10,299	$ 7,326	$ 2,233
Working capital (deficiency)	**3,590**	7,737	(279)	(1,647)	(1,436)	7,578	18,425	25,722
Total assets	**61,353**	62,361	54,556	49,143	47,584	46,557	44,484	43,696
Shares outstanding	**64,315**	64,315	61,611	52,110	52,110	52,110	52,110	52,110
Operations								
Average daily production								
Oil and NGLs (bbls/d)	**465**	485	316	287	185	38	51	52
Natural gas (mcf/d)	**184**	200	240	229	110	159	225	304
Combined (boe/d)	**496**	518	356	325	203	65	89	103
Netback ($/boe)	**$ 83.13**	$ 72.51	$ 79.82	$ 69.93	$ 60.92	$ 40.07	$ 24.51	$ 27.27

(1) See "Non-IFRS Measurements" on page 7 of this MD&A.

Beginning in the quarter ended March 31, 2011 and continuing through to the quarter ended December 31, 2011, oil volumes were increasing due to commencement of production from the Cuisinier 1 well in the
Beginning in the quarter ended March 31, 2011 and continuing through to the quarter ended December 31, 2011, oil volumes were increasing due to commencement of production from the Cuisinier 1 well in the
Cooper Basin of Australia in May 2010 and the Cuisinier 2 and 3 wells in the quarter ended September 2011. Oil sales beginning in January 2012 were impacted by the temporary shut in of Cuisinier 1 on January 13, 2012 and Cuisinier 2 and 3 in August and September 2012 while the Company waited for approval of a Production License. Oil volumes increased in the quarter ended December 31, 2012 due to commencement of production from Cuisinier 4, 5, 6 and Cuisinier North 1 and Barta North 1. These wells

were drilled in mid 2012 and started producing under a six month Extended Production Test in October 2012. The Cuisinier 1, 2 and 3 wells came back onto production in May 2013 after approval of the Production License. Production started from Cuisinier 7, 8 and 10 in July 2013 and from Cuisinier 9 and 11 in August 2013.

Gas volumes declined in the quarter ended September 30, 2011 due to a plant turnaround at the Oak B.C. property and are in a general decline due to natural reservoir declines. Gas volumes also declined in the quarter ended June 30, 2012 due to the removal of a rental screw compressor (due to low gas prices and the cost of the rental plus associated maintenance) and an unscheduled plant shutdown at the Oak property due to a leak in the line to the flare stack. Gas volumes declined in the quarter ended September 30, 2012 as the Company's Oak B.C. gas property was shut in due to low gas prices. This property recommenced production in December 2012.

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

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Bengal are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting ("ICFR") or causing them to be designed and operating effectively under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Bengal's certifying officers have assessed the design and operating effectiveness of internal controls over financial reporting and concluded that the Company's ICFR were ineffective at September 30, 2013 due to the material weaknesses noted below.

No changes in internal controls over financial reporting were identified during the period that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

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

- Management is aware that there is a lack of segregation of duties due to the small number of employees dealing with general and administrative and financial matters. However, management believes that at this time the potential benefits of adding employees to clearly segregate duties do not justify the costs;

- Bengal does not have full-time in-house personnel to address all complex and non-routine financial accounting issues and tax matters that may arise. It is not deemed as economically feasible at this time to have such personnel. Bengal relies on external experts for review and advice on complex financial accounting issues and for tax planning, tax provision and compilation of corporate tax returns.

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

RISK FACTORS

There are a number of risk factors facing companies that participate in the oil and gas industry. A complete list of risk factors are provided in Bengal's Annual Information Form dated July 3, 2013 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 1810, 801 6th Avenue SW., Calgary, Alberta T2P 3W2, by email to info@bengalenergy.ca or by accessing Bengal's website at www.bengalenergy.ca.

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

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

- *Oil and natural gas production levels;*
- *The size of the oil and natural gas reserves;*
- *Projections of market prices and costs;*
- *Expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;*
- *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 Brent daily index prices;*
- *Funding of working capital requirements, commitments and other planned expenses will be by cash on hand, cashflows, farm-outs, joint ventures or share and debt 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 and whether 3 wells will be drilled on this block in 2014;*
- *That a partner will be found and commencement of exploration and development activities on Block CY-OSN-2009/1 will occur;*
- *Continuation of exploration, development and production activities on Permit ATP 752P onshore Australia;*

- *Obtaining Ministerial Grant of the tenement on ATP 934P in Australia and commencement of exploration activities;*
- *That further drilling activities on ATP 732P will occur and that Bengal's farm-in partner will fulfill their AUD $11.5 million farm-in commitment consisting of 2 wells and 300 square km of 3D seismic.*

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

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

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

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

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

CORPORATE INFORMATION

AUDITORS

KPMG LLP • Calgary, Canada

LEGAL COUNSEL

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

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

5 Quarters Investor Relations • Calgary, Canada

DIRECTORS

Chayan Chakrabarty
Peter D. Gaffney
James B. Howe
Stephen N. Inbusch
Dr. Brian J. Moss
R. D. (Bob) Steele
Ian J. Towers (Chairman)
W.B. (Bill) Wheeler

DISCLOSURE COMMITTEE

All Directors are members of the Committee

AUDIT COMMITTEE

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

RESERVES COMMITTEE

Peter D. Gaffney (Chairman)
Stephen N. Inbusch
Dr. Brian J. Moss

GOVERNANCE AND COMPENSATION COMMITTEE

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

OFFICERS

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

STOCK EXCHANGE LISTING – TSX:BNG

Bengal

ENERGY LTD.

Condensed Consolidated Interim Financial Statements (unaudited)

Three and nine months ended

December 31, 2013 and 2012

BENGAL ENERGY LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Thousands of Canadian dollars)

(unaudited)

As at	Notes	December 31, 2013	March 31, 2013
ASSETS			
Current assets:			
Cash and cash equivalents		**$ 5,634**	$ 2,614
Restricted cash		**140**	140
Accounts receivable		**5,215**	3,550
Prepaid expenses and deposits		**479**	110
		11,468	6,414
Non-current assets:			
Exploration and evaluation assets	**3**	**25,099**	26,416
Petroleum and natural gas properties	**4**	**20,103**	11,630
Property, plant and equipment	**5**	**4,683**	4,683
		49,885	42,729
Total assets		**$ 61,353**	$ 49,143
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		**$ 5,159**	$ 4,622
Current portion of notes payable	**6**	**2,719**	3,439
		7,878	8,061
Non-current liabilities:			
Decommissioning liabilities	**7**	**372**	320
Notes payable	**6**	**6,472**	-
Other long term liabilities	**6**	**125**	-
		6,969	320
		14,847	8,381
Shareholders' equity:			
Share capital	**8**	**93,024**	86,246
Contributed surplus		**7,023**	6,466
Warrants	**6,8**	**167**	-
Equity component convertible debenture	**6,8**	**-**	25
Accumulated other comprehensive income		**(2,106)**	1,581
Deficit		**(51,602)**	(53,556)
		46,506	40,762
Total liabilities and shareholders' equity		**$ 61,353**	$ 49,143

Commitments (note 12)

Subsequent event (note 15)

See accompanying notes to the condensed consolidated interim financial statements.

BENGAL ENERGY LTD.

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

(Thousands of Canadian dollars, except per share amounts)

(unaudited)

	Notes	Three months ended December 31, 2013 2013	 2012	Nine months ended December 31, 2013 2013	 2012
Income					
Petroleum and natural gas revenue		**$ 5,516**	$ 1,937	**$ 14,550**	$ 2,872
Royalties		**(365)**	(172)	**(927)**	(255)
		5,151	1,765	**13,623**	2,617
Operating expenses					
General and administrative		**889**	665	**2,625**	2,623
Transaction costs		**-**	-	**261**	-
Operating and transportation		**1,365**	623	**3,794**	1,032
Depletion and depreciation	**4**	**1,190**	521	**3,257**	710
Pre-licensing and impairment		**990**	10	**992**	(748)
Share-based compensation		**95**	107	**408**	360
		4,529	1,926	**11,337**	3,977
Operating income (loss)		**622**	(161)	**2,286**	(1,360)
Other income (expenses)					
Finance income		**29**	8	**69**	165
Finance expenses	**9**	**(240)**	(5)	**(632)**	(32)
Foreign exchange gain (loss)		**162**	7	**176**	20
		(49)	10	**(387)**	153
Net Income (loss) before income tax		**573**	(151)	**1,899**	(1,207)
Deferred income tax recovery	**6**	**-**	-	**55**	-
Net income (loss)		**573**	(151)	**1,954**	(1,207)
Exchange differences on translation of foreign operations		**(349)**	366	**(3,687)**	47
Total comprehensive income (loss) for the period		**$ 224**	$ 215	**$ (1,733)**	$ (1,160)
Income (loss) per share					
- Basic and diluted	**8**	**$ 0.01**	$ (0.00)	**$ 0.03**	$ (0.02)
Weighted average number of shares outstanding (000s)					
- Basic	**8**	**64,315**	52,110	**62,715**	52,110
- Diluted	**8**	**64,496**	52,110	**62,973**	52,110

See accompanying notes to the condensed consolidated interim financial statements.

BENGAL ENERGY LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Thousands of Canadian dollars)

(unaudited)

	Shares outstanding	Share capital	Contributed surplus	Equity component of convertible debentures	Warrants	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at April 1, 2012	52,110,177	$ 86,246	$ 5,779	$ –	$ –	$ 717	$ (51,757)	$ 40,985
Net loss for the period	-	-	-	-	-	-	(1,207)	(1,207)
Comprehensive income for period	-	-	-	-	-	47	-	47
Share-based compensation – expensed	-	-	360	-	-	-	-	360
Share-based compensation – capitalized	-	-	154	-	-	-	-	154
Balance at December 31, 2012	**52,110,177**	**$ 86,246**	**$ 6,293**	**$ -**	**$ -**	**$ 764**	**$ (52,964)**	**$ 40,339**
Balance at April 1, 2013	**52,110,177**	**$ 86,246**	**$ 6,466**	**$ 25**	$ –	**$ 1,581**	**$ (53,556)**	**$ 40,762**
Net income for the period	-	-	-	-	-	-	1,954	1,954
Comprehensive loss for the period	-	-	-	-	-	(3,687)	-	(3,687)
Common share issuance	12,205,238	7,200	-	-	-	-	-	7,200
Share issue costs	-	(422)	-	-	-	-	-	(422)
Warrants	-		25	(25)	167	-	-	167
Share-based compensation – expensed	-	-	408	-	-	-	-	408
Share-based compensation – capitalized	-	-	124	-	-	-	-	124
Balance at December 31, 2013	**64,315,415**	**$ 93,024**	**$ 7,023**	**$ -**	**$ 167**	**$ (2,106)**	**$ (51,602)**	**$ 46,506**

See accompanying notes to the condensed consolidated interim financial statements.

BENGAL ENERGY LTD.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Thousands of Canadian dollars)

(unaudited)

For the periods ended December 31	Notes	Three months 2013	Three months 2012	Nine months 2013	Nine months 2012
Operating activities					
Net Income (loss)		**$ 573**	$ (151)	**$ 1,954**	$ (1,207)
Non-cash items:					
Depletion and depreciation		**1,190**	521	**3,257**	710
Pre-licensing and impairment		**990**	10	**992**	99
Accretion on decommissioning liability		**2**	1	**(10)**	5
Accretion on note payable		**(7)**	-	**106**	-
Share-based compensation		**95**	107	**408**	360
Deferred income tax recovery		**-**	-	**(55)**	-
Unrealized foreign exchange (gain) loss		**19**	(7)	**5**	(19)
Funds flow from (used in) operating activities		**2,862**	481	**6,657**	(52)
Change in non-cash working capital	11	**(692)**	(859)	**(1,172)**	(770)
Net cash flow from (used in) operating activities		**2,170**	(378)	**5,485**	(822)
Investing activities					
Exploration and evaluation expenditures		**7**	(7,236)	**(1,582)**	(15,713)
Petroleum and natural gas properties		**(6,469)**	(2,085)	**(13,017)**	(6,899)
Property, plant & equipment		**-**	(154)	**-**	(4,488)
Change in restricted cash		**-**	(5)	**-**	(5)
Changes in investing non-cash working capital	11	**(376)**	(192)	**(721)**	3,195
Net cash flow used in investing activities		**(6,838)**	(9,672)	**(15,320)**	(23,910)
Financing activities					
Proceeds from issuance of shares, net of issuance costs		**-**	-	**5,278**	-
Proceeds from issuance of debt, net of issuance costs		**-**	-	**7,743**	-
Repayment of convertible debt		**-**	-	**(250)**	-
Changes in financing non-cash working capital	11	**(27)**	-	**160**	-
Net cash flow from financing activities		**(27)**	-	**12,931**	-
Impact of foreign exchange on cash and cash equivalents		**(66)**	88	**(76)**	143
Net increase/(decrease) in cash and cash equivalents		**$ (4,761)**	$ (9,962)	**$ 3,020**	$ (24,589)
Cash and cash equivalents, beginning of period		**10,395**	12,307	**2,614**	26,934
Cash and cash equivalents, end of period		**$ 5,634**	$ 2,345	**$ 5,634**	$ 2,345

See accompanying notes to condensed consolidated interim financial statements.

1. REPORTING ENTITY:

Bengal Energy Ltd (the “Company” or “Bengal”) is incorporated under the laws of the Province of Alberta and is involved in the exploration for and development of oil and gas reserves in Australia, India and Canada. The condensed consolidated interim financial statements (the “financial statements”) of the Company as at December 31, 2013 and for the three and nine months ended December 31, 2013 and 2012 are comprised of the Company and its wholly-owned subsidiaries Bengal Energy International Inc. and Bengal Energy (Australia) Pty Ltd. which are incorporated in Canada and Australia respectively. The Company conducts many of its activities jointly with others; these financial statements reflect only the Company’s proportionate interest in such activities.

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

2. BASIS OF PREPARATION

a) Statement of compliance

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

These condensed consolidated interim financial statements are stated in Canadian dollars and have been prepared following the same accounting policies and methods of computation as the consolidated financial statements of the Company for the year ended March 31, 2013. The disclosures provided below are incremental to those included with the annual consolidated financial statements and certain disclosures, which are normally required to be included in the notes to the annual consolidated financial statements, have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto in the Company’s annual filings for the year ended March 31, 2013.

The condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on February 12, 2014.

On April 1, 2013, the Company adopted new standards with respect to consolidation (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at April 1, 2013 or on the comparative periods other than additional disclosures.

b) Basis of measurement

These condensed consolidated financial statements have been prepared on a historical cost basis.

c) **Functional and presentation currency**

The Company's presentation currency is Canadian dollars ($). The functional currency of the Canadian parent entity is Canadian dollars, the functional currency of the India subsidiary is U.S. dollars and the functional currency of the Australian subsidiary is Australian dollars.

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

		Exploration and Evaluation Expenditures
Balance at March 31, 2012	$	10,526
Additions		16,017
Capitalized share-based compensation		166
E&E impairment loss		(927)
Exchange adjustments		634
Balance at March 31, 2013	**$**	**26,416**
Additions		1,582
Capitalized share-based compensation		46
E&E impairment loss		(992)
Exchange adjustments		(1,953)
Balance at December 31, 2013	**$**	**25,099**

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

The offshore India permit CY-OSN-2009/1 is schedule to expire on August 15, 2014. Management has no capital allocated to this asset in its current budget and has not been successful in attracting a partner to share exploration costs, therefore an impairment to exploration and evaluation assets of $1.0 million, which represents the entire carrying value of this asset, has been recorded In Q3 2014.

4. PETROLEUM AND NATURAL GAS PROPERTIES

		Petroleum and Natural Gas Properties		Corporate Assets		Total
		$000s		**$000s**		**$000s**
Cost:						
Balance at March 31, 2012		5,497		301		5,798
Additions		7,727		126		7,853
Capitalized share-based compensation		19		–		19
Change in decommissioning obligation		85		–		85
Exchange adjustments		482		-		482
Balance at March 31, 2013	**$**	**13,810**	**$**	**427**	**$**	**14,237**
Additions		13,116		(99)		13,017
Capitalized share-based compensation		78		-		78
Change in asset retirement obligation		111		-		111
Exchange adjustments		(1,889)		-		(1,889)
Balance at December 31, 2013	**$**	**25,226**	**$**	**328**	**$**	**25,554**

	Petroleum and Natural Gas Properties	Corporate Assets	Total
	$000s	**$ 000s**	**$000s**
Accumulated depletion, depreciation and impairment losses:			
Balance at March 31, 2012	975	88	1,063
Depletion and depreciation charge	1,300	75	1,375
Exchange adjustments	172	(3)	169
Balance at March 31, 2013	**$ 2,447**	**$ 160**	**$ 2,607**
Depletion and depreciation charge	3,210	47	3,257
Exchange adjustments	(389)	(24)	(413)
Balance at December 31, 2013	**$ 5,268**	**$ 183**	**$ 5,451**
Net book value			
At March 31, 2013	**$ 11,363**	**$ 267**	**$ 11,630**
At December 31, 2013	**$ 19,958**	**$ 145**	**$ 20,103**

The calculation of depletion for the three and nine months ended December 31, 2013 included $24.6 million and $0.5 million for estimated future development costs associated with proved and probable reserves in Australia and Canada respectively (March 31, 2013 - $31.1 million and $0.5 million).

Bengal closed its agreement to acquire an incremental 5.357% working interest in the Cuisinier oil field on December 18, 2013 for a purchase price of AUS $7.5 million / C$ 7.2 million less final closing adjustments currently estimated at $0.6 million. The Acquisition also includes a further 8.08% interest in the Wompi Block (ATP 752), resulting in working interests in those two projects of 30.357% and 38.08% respectively. The acquisition was accounted for as a business combination under IFRS 3 – “Business Combinations” and had the acquisition closed on April 1, 2013, the Company estimates that its pro forma revenue and earnings before tax for the nine month period ended December 31, 2013 would have been $17.4 million and $3.9 million respectively. Between the acquisition closing date and December 31, 2013, approximately $44,000 of production revenue and $13,000 of earnings before tax were recognized relating to the acquired properties.

	$000s
Net assets acquired	6,760
Decommissioning liabilities	(44)
Total net assets acquired	**6,716**
Consideration	**$ 6,716**

5. PROPERTY, PLANT AND EQUIPMENT

	Rig Equipment
Balance at March 31, 2012	$ 230
Additions	4,511
Capitalized share-based compensation	15
Balance at March 31 and December 31, 2013	**$ 4,756**
Accumulated depletion, depreciation and impairment losses:	
Balance at March 31, 2012	$ -
Depreciation charge	73
Balance at March 31 and December 31, 2013	**$ 73**
Net book value	
Balance at March 31 and December 31, 2013	**$ 4,683**

On April 5, 2012 the Company purchased an Ideco H-44 drilling rig. The purchase price was US $1.75 million. Additional costs were incurred to transport the rig from its point of purchase, prepare the rig and acquire certain ancillary equipment required for drilling operations. This rig was used to drill, case and test the Caracal-1 well on permit ATP 732 in 2012.

6. CONVERTIBLE AND NON-CONVERTIBLE NOTES

On January 25, 2013 the Company closed a non-brokered private placement of $3.5 million short-term, unsecured convertible and non-convertible notes. The private placement consisted of the placement of: (i) $1,750,000 aggregate principal amount of non-convertible notes bearing an interest rate of prime plus 3% per annum and having a term of 180 days; and (ii) $1,750,000 aggregate principal amount of convertible notes bearing an interest rate of prime plus 3% per annum, convertible into common shares of the Company based on the closing price of the Company's common shares on a certain date and having a term of 180 days. On July 18, 2013 $1.5 million of the convertible notes were converted into 2,678,572 common shares of the Company at a conversion price of $0.56 per share. On July 22, 2013 the remaining $250,000 of outstanding convertible notes were repaid.

Convertible Note – Issued January 24, 2013	**Total**	**Liability component**	**Equity Component**
	$000s	**$ 000s**	**$000s**
Gross proceeds	$ 1,750	$ 1,716	$ 34
Total cash fees	(20)	(19)	(1)
	1,730	1,697	33
Accretion on debt	22	22	-
Deferred tax impact	(8)	-	(8)
Balance at March 31, 2013	**$ 1,744**	**$ 1,719**	**$ 25**
Accretion on debt	31	31	-
Conversion of debt	(1,500)	(1,500)	-
Repayment of debt	(250)	(250)	-
Transfer to contributed surplus	(25)	-	(25)
Balance at December 31, 2013	**$ -**	**$ -**	**$ -**

Non-Convertible Note – Issued January 24, 2013	**Total**
	$000s
Gross proceeds	$ 1,750
Total cash fees	(19)
Implied discount on note	(34)
	1,697
Accretion on debt	23
Balance at March 31, 2013	**$ 1,720**
Accretion on debt	30
Balance at December 31, 2013	**$ 1,750**

On April 18, 2013 the non-convertible note holders agreed to extend the term of the note from July 24, 2013 to January 24, 2014 and, as consideration for the extension, the Company has agreed to increase the interest rate payable on the note to 10% effective July 25, 2013. The extension of the debt term is a substantial modification to the debt however the fair value approximated the original carrying value of the debt therefore no adjustment was recognized.

On July 5, 2013 the Company closed a non-brokered private placement of 8,000 units at a price of $1,000 per unit for aggregate gross proceeds of $8.0 million. The proceeds from the private placement was used to fund the Company's purchase of an additional 5.357% interest in its key property, Cuisinier, located in the Cooper-Eromanga Basin in Queensland, Australia. The acquisition has an effective date of March 15, 2013 and closed on December 18, 2013.

Each unit consists of $1,000 principal amount of 10% unsecured non-convertible redeemable notes and either: (i) 156.25 common share purchase warrants, in the case of subscriptions by non-insiders, or (ii) 156.25 value appreciation rights ("VARs"), in the case of subscriptions by insiders. The notes bear interest at a rate of 10% per annum, payable quarterly, and have a term of 36 months. Following the first anniversary of the closing date of the private placement, the Company shall be required to make quarterly repayments of the outstanding principal of Notes in an amount equal to 6.25% of the principal amount of notes outstanding on the last day of each applicable quarter. Each whole warrant entitles the holder thereof, for a period of 36 months following the closing date, to acquire one common share in the capital of the Company at a purchase price equal to $0.75 per share. Each whole VAR entitles the holder thereof, for a period of 36 months following the closing date, to exercise the VAR and thereby receive a cash payment equal to the difference between the market price of one common share on the exercise date and $0.75. Certain insiders of the Company purchased 3,500 Units and received 546,875 VARs, and 4,500 Units were purchased by non-insiders who received 703,125 warrants.

Non-Convertible Note – Issued July 5, 2013	**Total**	**Debt Component**	**Other long term liability**	**Warrants**
	$000s	**$000s**	**$000s**	**$000s**
Gross proceeds	$ 8,000	$ 7,593	$ 178	$ 229
Total cash fees	(257)	(256)	6	(7)
	7,743	7,337	184	222
Accretion on debt/Change in fair value of VARs	45	104	(59)	-
Deferred tax impact	(55)	-	-	(55)
Balance at December 31, 2013	**$ 7,733**	**$ 7,441**	**$ 125**	**$ 167**
Current portion of notes	**$ 969**	**$ 969**	**$ -**	**$ -**
Long-term portion of notes	**$ 6,764**	**$ 6,472**	**$ 125**	**$ 167**

7. DECOMMISSIONING AND RESTORATION LIABILITIES

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

Changes to decommissioning and restoration obligations were as follows:

	December 31, 2013	**March 31, 2013**
Decommissioning liabilities, beginning of period	**$ 320**	$ 228
Revision	**(49)**	(55)
Decommissioning expenditures	**-**	(55)
Additions	**111**	140
Accretion	**(10)**	7
Decommissioning liabilities, end of period	**$ 372**	$ 320

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas assets, including well sites and gathering systems. The Company has estimated the net present value of the decommissioning liability to be $372,000 as at December 31, 2013 (March 31, 2013 - $320,000) based on an undiscounted inflation-adjusted total future liability of $548,000 (March 31, 2013 - $421,000). These payments are expected to be made over the next 30 years with the majority of costs to be incurred between 2028 and 2043. At December 31, 2013, the liability has been calculated using an inflation rate of between 1% and 2% (March 31, 2013 – 1% to 2%) and discounted using a risk-free rate of 1.5% to 2.75%.

8. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares with no par value.

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

(b) Issued:

The following provides a continuity of share capital:

($000s)	Number of Shares		Amount
Balance at March 31, 2013	52,110,177	$	86,246
Shares issued for cash	9,500,666		5,700
Shares issued on conversion of debt	2,678,572		1,500
Shares issued on cashless exercise of stock options	26,000		-
Share issue costs	-		(422)
Balance at December 31, 2013	**64,315,415**	**$**	**93,024**

On April 16, 2013 the Company issued a total of 9,500,666 common shares at a price of $0.60 per common Share for aggregate gross proceeds of approximately $5,700,400. The Company paid the agents a cash commission of approximately $282,000, being 6.0% of the gross proceeds of the offering excluding $1,000,000 of President's list subscriptions. A total of 2,400,300 shares of the offering were purchased by insiders of the Company.

On July 18, 2013 $1,500,000 of convertible debentures were converted into 2,678,572 common shares at a price of $0.56 per common share.

(c) Share-based compensation – stock options:

A summary of stock option activity is presented below:

	Options	Weighted Average Exercise Price	
Outstanding at March 31, 2013	**4,196,665**	**$**	**0.98**
Granted	985,000		0.65
Expired	(633,331)		1.06
Forfeited	(178,334)		3.38
Exercised	(50,000)		0.36
Outstanding at December 31, 2013	**4,320,000**	**$**	**0.87**
Exercisable at December 31, 2013	**2,688,339**	**$**	**0.96**

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:

For the Period Ended	December 31, 2013	March 31, 2013
Assumptions:		
Risk free interest rate (%)	**2.0%**	2.0%
Expected life (years)	**5 yr**	5 yr
Expected volatility (%)(1)	**70%**	86%
Estimated forfeiture rate (%)	**7.1%**	6.5%
Weighted average fair value of warrants granted	**$0.38**	$0.40
Weighted average share price on date of grant	**$0.65**	$0.58

(d) Warrants:

A summary of warrant activity is presented below:

Warrants	Number of Warrants		Exercise price		Amount
					$000s
Warrants	703,125	$	0.75	$	167
Balance at December 31, 2013	**703,125**	**$**	**0.75**	**$**	**167**

The fair value of the warrants, issued together with the notes described in note 6, was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values (net of transaction costs):

For the Year Ended	December 31, 2013	March 31, 2013
Assumptions:		
Risk free interest rate (%)	**1.28%**	-
Expected life (years)	**3 yr**	-
Expected volatility (%)(1)	**75%**	-
Estimated forfeiture rate (%)	**-**	-
Weighted average fair value of options granted	**$0.33**	-
Weighted average share price on date of grant	**$0.69**	-

(e) Per share amounts:

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

($000s)	Three months ended December 31 2013		Three months ended December 31 2012		Nine months ended December 31 2013		Nine months ended December 31 2012
Earnings (loss) for the period	**$**	**573**	**$**	**(151)**	**$**	**1,954**	**$**	**(1,207)**
Weighted average number of common shares (basic)		64,315		52,110		62,715		52,110
Weighted average number of common shares (diluted)		64,496		52,110		62,973		52,110
Basic and diluted earnings (loss) per share	**$**	**0.01**	**$**	**(0.00)**	**$**	**0.03**	**$**	**(0.02)**

At December 31, 2013, there were 2,905,000 (March 31, 2013 – 4,196,665) options considered anti-dilutive. In addition, there were 703,125 warrants and 546,875 value appreciation rights considered anti-dilutive.

9. FINANCE EXPENSES

($000s)		Three months ended December 31 2013		2012		Nine months ended December 31 2013		2012
Interest on notes payable	$	245	$	-	$	537	$	-
Performance security guarantee fee		-		4		-		27
Accretion on decommissioning obligations		2		1		(11)		5
Accretion on notes payable		52		-		165		-
Change in fair value on VARs		(59)		-		(59)		-
Finance expenses	**$**	**240**	**$**	**5**	**$**	**632**	**$**	**32**

10. FINANCIAL RISK MANAGEMENT

Foreign currency Risk

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

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

The table below shows the Company's exposure to foreign currencies for its financial instruments (denominated in local currencies):

As at December 31, 2013 ($000s)						
		CAD		**AUD**		**USD**
Cash and short-term deposits	$	87	$	1,415	$	3,949
Restricted cash		140		-		-
Accounts receivable		122		814		4,063
Accounts payable and accrued liabilities		(547)		(3,917)		(823)
Notes payable		(9,191)		-		-
Other long-term liability		(125)		-		-
	$	**(9,514)**	**$**	**(1,688)**	**$**	**7,189**

Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Bengal's cash calls paid to joint venture partners and receivables from petroleum and natural gas marketers. As at December 31, 2013, Bengal's receivables consisted of $5.0 million (March 31, 2013 - $3.4 million) from joint venture partners and $0.2 million (March 31, 2013 - $0.2 million) of other trade receivables.

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, 2013, the Company had $0.1 million (March 31, 2013 - $0.1 million) that was considered past due (past due is considered greater than 90 days outstanding). The Company does not believe there is any collection risk with the past due receivable.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. Bengal establishes an allowance for doubtful accounts as determined by management based on their assessment of collection. Bengal does not have an allowance for doubtful accounts as at December 31, 2013 (March 31, 2013 - $nil) and did not write-off any receivables at December 31, 2013 or March 31, 2013.

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

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, accrued liabilities, current notes payable and other long term liabilities and amounted to $7.9 million at December 31, 2013 (March 31, 2013 - $8.1 million). Bengal had $5.6 million in cash (March 31, 2013 - $2.6 million), $0.1 million in restricted cash (March 31, 2013 - $0.1 million) resulting in a working capital surplus of $3.6 million at December 31, 2013 (March 31, 2013 - $1.6 million). All accounts payable, accrued liabilities and the current portion of notes payable are due within one year. As the Company is in the early stages of exploration as well as development of its Cuisinier light oil resource play, and although it is generating operating revenue, funding of most activities to date has been supplemented through the issuance of share capital and more recently by debt instruments. It is expected that further equity and debt 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 provide additional borrowing capacity.

11. SUPPLEMENTAL CASH FLOW INFORMATION

For the Nine Months Ended ($000s)	December 31, 2013		December 31, 2012	
Accounts receivable	**$**	**(1,785)**	$	(1,865)
Prepaid expenses and deposits		**(402)**		34
Accounts payable and accrued liabilities		**454**		4,256
Total	**$**	**(1,733)**	$	2,425
Relating to:				
Operating	**$**	**(1,172)**	$	(770)
Financing		**(721)**		–
Investing		**160**		3,195
Total	**$**	**(1,733)**	$	2,425

Note – changes in working capital consider elements of unrealized foreign exchange differences on assets and liabilities denominated in a foreign currency.

The following represents the cash interest received in each period.

For the Nine Months Ended ($000s)	December 31, 2013		December 31, 2012	
Cash interest received	**$**	**69**	$	272
Cash interest paid	**$**	**104**	$	-

12. COMMITMENTS

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

Country and Permit	Work Program	Obligation Period Ending	Estimated Expenditure (net) (millions CAD$)(1)
Onshore India – CY-ONN-2005/1	Three wells	February 25, 2015(1)	$ 4.0
Offshore India – CY-OSN-2009/1	310km 2D seismic & 81km^2 3D seismic	August 15, 2014(2)	$ 5.2

(1) If the Company did not participate in the drilling of three wells, costs of up to $5.0 million could be impaired and the Company's interest in the permit would decline proportionately to the amount of non-participation. A 359 day extension was granted for this permit on January 31, 2014.

(2) The Company is looking for a partner to participate in this permit and share the costs and has recorded an impairment of $1.0 million related to these assets

At December 31, 2013 the Company had the following lease commitment for office space in Canada:

($000s)	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Office lease	$ 812	$ 245	$ 504	$ 63	$ -

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

13. CONTINGENCIES

Final application for the grant of permit ATP 934 has been filed with the Queensland Government regulatory authority. No further activity is planned on this permit until the final Ministerial Grant of the tenement is received. Potential legislative changes may result in a lower commitment than shown in the table below; The Company holds a 50% operating interest in this permit. The Work program consists of 500 km of 2D seismic and up to seven wells.

Country and Permit	Work Program	Obligation Period Ending	Estimated Expenditure (net) (millions CAD$)
Onshore Australia – ATP 934P	Awaiting Ministerial approval before granting of ATP	4 years after grant of ATP	$ 11.1

14. RELATED PARTY TRANSACTIONS

On April 16, 2013 the Company closed a brokered private placement of common shares. The Company issued a total of 9,500,666 common shares at a price of $0.60 per common share for aggregate gross proceeds of approximately $5,700,400. A total of 2,400,300 shares of the offering were purchased by insiders of the Company.

On April 18, 2013, the term of the Company's non-convertible notes were extended from July 24, 2013 to January 24, 2014. As consideration for the extension of the maturity date, the interest rate payable under the non-convertible notes was increased to 10.0% per annum from prime plus 3% effective July 25, 2013. Insiders hold approximately 85% of these notes. Insiders had acquired $1,500,000 of non-convertible notes. During the three and nine months ended December 31, 2013, the Company paid or accrued interest on the non-convertible notes to insiders of $38,000 and $94,000 respectively.

On July 5, 2013 the Company closed a non-brokered private placement of 8,000 units of the Company at a price of $1,000 per unit for aggregate gross proceeds of $8.0 million. Certain insiders of the Company acquired $3,500,000 principal amount of 10% unsecured non-convertible redeemable notes and 546,875 value appreciation rights ("VAR's) (approximately 44% of the private placement). The notes bear interest at a rate of 10% per annum, payable quarterly, and have a term of 36 months. Following the first anniversary of the closing date of the private placement, the Company shall be required to make quarterly repayments of the outstanding principal of notes in an amount equal to 6.25% of the principal amount of notes outstanding on the last day of each applicable quarter. Each whole VAR entitles the holder thereof, for a period of 36 months following the closing, to exercise the VAR and thereby receive a cash payment equal to the difference between the market price of one common share on the exercise date and $0.75. During the three months and nine months ended December 31, 2013, the Company paid or accrued interest on the notes to insiders of $88,000 and $173,000 respectively.

On July 18, 2013, the $1.5 million of convertible notes held by insiders were converted into 2,678,572 common shares at an exercise price of $0.56 per common share. During the three and nine months ended December 31, 2013, the Company paid or accrued interest on the convertible notes to insiders of nil and $28,000 respectively.

All transactions with insiders were done at market value.

15. SUBSEQUENT EVENT

On January 24, 2014 Bengal agreed with the holders of Bengal's $1.8 million non-convertible notes to extend the terms from January 24, 2014 to January 24, 2015 and to provide the holder with the right to demand repayment on at least 15 business days' prior written notice to Bengal.

16. SEGMENTED INFORMATION

As at December 31, 2013, the Company has three reportable operating segments being the Australian, Canadian and Indian oil and gas operations. India is considered to be in the pre-production stage.

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

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

For the nine months ended December 31, 2013 ($000s)								
		Australia		Canada		India		Total
Revenue	$	14,306	$	244	$	-	$	14,550
Interest revenue		68		1		-		69
Interest expense		-		536		-		536
Depletion and depreciation		3,181		76		-		3,257
Net earnings (loss)		5,686		(2,291)		(1,441)		1,954
Exploration and evaluation expenditures		648		-		934		1,582
Petroleum and natural gas property expenditures		13,017		-		-		13,017
Impairment loss		-		-		992		992
Property, plant & equipment expenditures		-		-		-		-
As at December 31, 2013 ($000s)								
Petroleum and natural gas properties								
Cost	$	24,693	$	651	$	-	$	25, 344
Impairment losses		-		-		-		-
Accumulated depletion, depreciation and accretion		(4,930)		(311)		-		(5,241)
Net book value	$	19,763	$	340	$	-	$	20,103
Exploration and evaluation assets		24,859		-		6,352		31,211
Accumulated impairment loss		(5,122)		-		(990)		(6,112)
Net book value	$	19,737	$	-	$	5,362	$	25,099
Property, plant & equipment		-		4,756		-		4,756
Accumulated depletion, depreciation and accretion		-		(73)		-		(73)
Net book value	$	-	$	4,683	$	-	$	4,683

For the nine months ended December 31, 2012 ($000s)								
		Australia		Canada		India		Total
Revenue	$	2,721	$	151	$	–	$	2,872
Interest revenue		81		87		(3)		165
Interest expense		-		-		-		-
Depletion and depreciation		547		163		–		710
Net earnings (loss)		1,071		(1,708)		(570)		(1,207)
Exploration and evaluation expenditures		13,101		–		2,612		15,713
Petroleum and natural gas property expenditures		6,879		20		–		6,899
Recovery of impairment loss		748		–		–		748
Property, plant & equipment expenditures	$	–	$	4,488	$	–	$	4,488
As at December 31, 2012 ($000s)								
Petroleum and natural gas properties								
Cost	$	11,750	$	1,215	$	–	$	12,965
Impairment losses		–		(311)	–			(311)
Accumulated depletion, depreciation and accretion		(1,037)		(437)	–			(1,474)
Net book value	$	10,713	$	467	$	–	$	11,180
Exploration and evaluation assets	$	25,644	$	–	$	4,941	$	30,585
Accumulated impairment loss		(4,293)		–		–		(4,293)
Net book value	$	21,351	$	–	$	4,941	$	26,292
Property, plant & equipment	$	–	$	4,733	$	–	$	4,733
Accumulated depletion, depreciation and accretion		–		(73)		–		(73)
Net book value	$	–	$	4,660	$	–	$	4,660

CORPORATE INFORMATION

AUDITORS

KPMG LLP • Calgary, Canada

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Johnson Winter & Slattery, Lawyers

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

5 Quarters Investor Relations • Calgary, Canada

DIRECTORS

Chayan Chakrabarty
Peter D. Gaffney
James B. Howe
Stephen N. Inbusch
Dr. Brian J. Moss
R. D. (Bob) Steele
Ian J. Towers (Chairman)
W.B. (Bill) Wheeler

DISCLOSURE COMMITTEE

All Directors are members of the Committee

AUDIT COMMITTEE

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

RESERVES COMMITTEE

Peter D. Gaffney (Chairman)
Stephen N. Inbusch
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R. D. (Bob) Steele (Chairman)
Ian J. Towers

OFFICERS

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

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