



International exploration & production

Management's Discussion & Analysis

**Three Months Ended
June 30, 2021 and 2020**

The following Management's Discussion and Analysis ("MD&A") of the consolidated financial results of Bengal Energy Ltd. ("Bengal" or the "Company") is at and for the three months ended June 30, 2021.

This MD&A dated August 9, 2021 should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes for the quarter ended June 30, 2021. The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard No. 34, *Interim Financial Reporting* ("IAS 34").

The functional currency of the Company's operating subsidiary, Bengal Energy (Australia) Pty Ltd. ("Bengal Australia"), is the Australian dollar; the functional currency of the Company is the Canadian dollar ("CAD"). The Company's presentation currency is the CAD. In this MD&A, all dollar amounts are expressed in CAD unless otherwise noted.

This MD&A contains non-IFRS measures, abbreviations and forward-looking information relating to future events and the Company's future performance. Please refer to "*Non-IFRS Measurements*", "*Abbreviations*" and "*Advisories*" sections at the end of this MD&A for further information.

Additional information relating to Bengal, including Bengal's audited March 31, 2021 consolidated financial statements and other filings are available on SEDAR at www.sedar.com.

In the following discussion, the three months ended June 30, 2021 may be referred to as "first quarter of fiscal 2022", "Q1 fiscal 2022", "current quarter", and "the quarter". The comparative three months ended June 30, 2020, may be referred to as "first quarter of fiscal 2021", "Q1 fiscal 2021", and "prior year's quarter".

FIRST QUARTER FISCAL 2022 SUMMARY

Financial Summary:

- **Sales Revenue** – Crude oil sales revenue was \$1.5 million in the first quarter of fiscal 2022, which is 41% higher than the \$1.1 million recorded in Q1 fiscal 2021. The higher sales revenue is due to a 90% increase in realized crude oil prices only partially offset by a 26% decline in production compared to the previous quarter.
- **Funds Used and Cash from Operations** – Bengal generated funds from operations of \$0.1 million during Q1 fiscal 2022 compared to \$0.2 million of funds used in Q1 fiscal 2021. Bengal used \$0.8 million of cash from operations during Q1 fiscal 2022 compared to \$0.3 million of cash generated from operations in Q1 fiscal 2021.
- **Net Income** – Bengal reported a net loss of \$0.2 million for the current quarter compared to a net income of \$0.4 million in Q1 fiscal 2021.

Operational Summary:

- **Production Volumes** – The Company's share of total production in the current quarter was 15,981 bbls, which is a 26% decline from the 21,617 bbls produced in the first quarter of fiscal 2021. The current quarter production averaged 176 bbls/d compared to 238 bbls/d produced in the first quarter of fiscal 2020. Suspended production at three wells due to workover activities resulted in a loss of approximately 30 bbls/d during the quarter. These wells were brought online in July 2021.
- **Capital Expenditures** – Bengal completed the construction of its water injection pilot project during the fourth quarter of fiscal 2021 and completed the necessary remediation activities to commence injection by the end of June 2021. Development drilling in Cuisinier is expected to commence during calendar 2022 following the evaluation of the recent water injection pilot.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Overview

Bengal's producing and non-producing assets are situated in Australia's Cooper Basin, a region featuring large accumulations of very light and high-quality crude oil and natural gas. The Company's core Australian assets, Petroleum Lease ("PL") 303 Cuisinier, ATP 934 Barrolka, ATP 732 Tookoonooka, and four recently acquired petroleum licenses are situated within an area of the Cooper Basin that is well served with production infrastructure and take-away capacity for produced crude oil and natural gas. Still in early stages in terms of appraisal and development, Bengal believes these assets offer attractive upside potential for both oil and gas. Australia presents a stable political, fiscal and economic environment in which to operate, and a favourable royalty regime for oil and gas production.

Under the State of Queensland Regulatory process, ATPs (Authority to Prospect) are granted by the State generally for a period of twelve years with one third of the original grant area expiring every four years. At the end of the final term of the ATP, an application can be made to continue a portion of the permit in the form of a PCA (Potential Commercial Area). PCAs have a life span of five to fifteen years. PCA applications include a commercial viability report that indicates that the area is likely to be commercially viable within the applied term. This allows for extra time to commercialize the resource. These PCA's remain a part of the ATP until expiry. If a discovery of oil or gas is made, an application for a PL (petroleum lease) is made to allow for production. PLs are granted for up to a thirty-year term.

Bengal has two PLs on the former ATP 752 Barta block, PL 303 and PL 1028, in addition to three PCAs, PCA 206, PCA 207 Barta West and PCA 155 Wompi block-Nubba/Yilgarn. Bengal also holds four PLs including a pipeline license PPL 138 adjacent to the 100% owned ATP 934 in Q2 FY 2020.

AUSTRALIA – Cooper Basin, Queensland

PL 303 Barta Block Cuisinier (controlling permit ATP 752) (30.357% WI)

A pilot reservoir pressure maintenance scheme (water flood pilot) is now underway. This pilot well encountered mechanical disruptions during initial attempts to commence water injection, which have been addressed through additional water filtration at the injection site. The location of this pilot is in the southeast quadrant of the Cuisinier pool, with injection of water to take place at the Cuisinier 24 well. The broad nature of the Cuisinier structure combined with variable flank aquifer pressure support has resulted in pressure depletion within the central portion of the Cuisinier pool. The injection of produced formation water is anticipated to both increase production in up to four offsetting wells and reduce water handling charges. On establishing success of the pilot, the Joint Venture will begin a multi phase water injection scheme, targeted fracture stimulation and more commercially efficient development drilling.

Bengal will participate in the 3D seismic controlled Chef exploration drilling project, which has been proposed by the Joint Venture operator (Santos) and is expected to commence in calendar Q4 2021. This target is in the northeast portion of the block which is immediately adjacent to the Cook and Cocinero fields also operated by Santos. This well will target the Jurassic age reservoirs of the Birkhead-Hutton formations which have proven to be prolific producers in the neighboring Cook and Cocinero fields.

ATP 934 Barrolka (100% WI)

ATP 934 is the Company's 100% owned natural gas exploration block. In order to mitigate both financial and development risk, Bengal conducted extensive state-of-the-art geophysical work that has not been widely applied in Australia which gives a higher degree of confidence in the block and high grading prospects.

Bengal received special amendment approved for ATP 934 in March 2021 which relinquished 50% of the existing ATP area and extended the term of the ATP by entering into an outcome based Later Work Program (LWP) for another 6 years. The LWP includes the drilling of up to 3 wells and 260 km² of 3D seismic.

Bengal entered into an agreement with Santos in July of 2020 to farm-in on a portion of the ATP 934 block. This farm-out finances and de-risks the Company's initial field exploration by the basin leading gas explorer, with whom Bengal has an existing and successful partnership at the Cuisinier field. Additionally, and of equal importance, the partnership offers extensive operating experience backed by Santos' recent exploration success in neighboring fields analogous to the joint venture's exploration targets. Santos will carry the drilling costs of one well to earn a 60% operated interest in the ATP 934 southern farm-out block, which represents 57.8% of the total block post April 2020 relinquishment. This well is currently scheduled for drilling in calendar Q4 2021 and if successful, Bengal would pay its 40% share of any well tie in costs to nearby gathering infrastructure.

PL 1110 (previously 114) Wareena, PL 1109 (previously 157) Ghina, PL 188 Ramses, PL 411 Karnak, PPL 138 pipeline (100% WI)

The Company is currently finalizing a schedule of development plans for its recently acquired 100% working interest in four PLs near to ATP 934. While not currently producing, all PLs have existing wells indicating log pay, drill stem test (“DST”) results and or gas production from the Permian formation. Bengal has identified four wells to be tested and re-completed for production in its first phase of development.

Specifically, this program is expected to include the following development activities; (a) recommissioning of a 26km pipeline to tie two previously producing Wareena liquids rich gas wells into a nearby compression station accessing the Eastern Australia local and export market; (b) work-over of the Ramses well that demonstrated both a Permian gas discovery and oil-zone completion in a cased well, which recovered 588 bbls/d of light crude oil, based on a 105-minute drill stem test. Upon completion of a successful test, this well is expected to be immediately equipped for production and the oil sold into the regional market; (c) work-over of the Ghina well to evaluate the previous Permian liquids rich gas discovery and assess the economics of tie-in and field recovery; and finally (d) twin drilling of the existing Karnak well that showed a liquids rich gas pay zone in the Permian formation. Bengal expects that with the application of advanced underbalanced drilling techniques now commonplace in the Cooper Basin, a successful new well could be immediately tied into nearby gathering infrastructure.

The 100% ownership of these assets presents an appraisal and development opportunity that will be operated by the Company and is seen not only to be complementary to our proven producing, non-operated Cuisinier asset, but also as a key stepping stone for Bengal’s natural gas platform with immediate market access to an existing pipeline upon which future exploration growth through ATP 934 can be undertaken.

ATP 732 Tookoonooka (100% WI)

In June 2019, the Company applied for an amendment to the Later Work Program (LWP) for the third term of ATP 732 permit. On October 22, 2019, the Company received approval from the Queensland regulatory authority for an amended LWP for the third, four-year term commencing April 1, 2019 to March 31, 2023. The approved LWP was revised to minimum activities of reprocessing seismic and inversion work with an estimated cost of \$50K and geological and geophysical investigation at an estimated cost of \$50K during the four-year term.

OPERATING SUMMARY

(\$000s except per share, %, volumes and operating netback amounts)

	Three months ended June 30	
	2021	2020
Oil revenue	\$ 1,547	\$ 1,099
Operating netback ⁽¹⁾	\$ 660	\$ 683
Cash (used in) from operations	\$ (774)	\$ 335
Funds from (used in) operations ⁽²⁾	\$ 119	\$ (210)
Per share (\$) (basic and diluted)	\$ 0.00	\$ (0.00)
Net (loss) income	\$ (182)	\$ 400
Per share (\$) (basic and diluted)	\$ (0.00)	\$ 0.00
Capital expenditures	\$ 137	\$ 99
Oil volumes (bbl/d)	176	238
Operating netback ⁽¹⁾ (\$/bbl)	\$ 41.30	\$ 31.60

(1) Operating netback is a non-IFRS measure and includes realized gain (loss) on financial instruments. Operating netback per bbl is calculated by dividing revenue (including realized gain (loss) on financial instruments) less royalties and operating costs by the total production of the Company measured in bbls.

(2) Funds from (used in) operations is a non-IFRS measure which is calculated by adding back all non-cash expense deductions to the net income (loss) for the quarter and year-to-date. Funds from (used in) operations per share is a non-IFRS measure calculated by dividing funds from operations by weighted average basic and diluted shares outstanding for the periods disclosed. A reconciliation of the measures can be found in the table on page 14.

RESULTS OF OPERATIONS

Production

	Three months ended June 30	
	2021	2020
Oil production (bbls/d)	176	238
Oil production (bbls)	15,981	21,617

Revenue/Pricing

The following table outlines the oil lifting from bills of lading, pipeline oil estimates, applicable prices and oil sales reflected in the Company's financials:

	Three months ended June 30	
	2021	2020
Oil lifting		
Volume (000s bbls)	15.0	18.4
Weighted average price (\$US/bbl)	69.27	30.49
A. Sales (\$000's)	1,330	631
Pipeline oil		
Volume (000s bbls), change	1.0	3.2
Price (\$US/bbl), change	9.93	15.97
B. Net sales (\$000's)	217	468
A.+B. Total oil sales (\$000s)	1,547	1,099

The price received for Bengal's Australian oil sales is benchmarked on US Brent for the month in which the bill of lading occurs, plus a realized premium due to oil quality differences. Pipeline oil is the term used to describe oil moving along the pipeline from the wellhead to the port which has been legally transferred to the buyer but not priced and waiting to be sold. Lifting occurs when the oil is moved from the port to the ship.

Realized crude oil price during Q1 fiscal 2022 was significantly impacted by the increase in US Brent as compared to Q1 fiscal 2021. The realized weighted average price of oil lifting sales was US\$ 69.27/bbl and US\$30.49/bbl for Q1 FY 2022 and 2021 respectively. During the current quarter, the value of the pipeline oil decreased by \$0.3 million due to a decrease in pipeline oil volume.

The following table outlines average benchmark prices:

	Three months ended June 30	
	2021	2020
Brent oil (\$/bbl)	84.66	39.32
Brent oil (US\$/bbl)	68.83	29.34
Number of CAD\$ for 1 AUS\$	0.95	0.91
Number of CAD\$ for 1 US\$	1.23	1.34

(\$000s)

Operating netbacks

	Three months ended June 30	
	2021	2020
Oil sales	1,547	1,099
Realized gain on financial instruments	-	545
Royalties	93	66
Operating expenses	794	895
Operating netback	660	683

(\$/bbl)

Oil sales	96.80	50.84
Realized gain on financial instruments	-	25.21
Royalties	5.82	3.05
Operating expenses	49.68	41.40
Operating netback	41.30	31.60

Operating netbacks in Q1 fiscal 2021 were \$0.7 million or \$41.30/bbl compared to Q1 fiscal 2020 at \$0.7 million or \$31.60/bbl. The primary reason for the higher operating netbacks per barrel during the current quarter compared to Q1 fiscal 2020 was the realization of a higher dollar per barrel on oil sales. During the current quarter, Bengal realized an average of \$96.80/bbl as compared to \$50.84/bbl on oil sales revenue for Q1 fiscal 2020.

Risk Management Activities

During fiscal Q4 2021, the Company completed its debt settlement transaction between its wholly-owned subsidiary Bengal Australia Ltd. Pty and Westpac Banking Corporation (“Westpac”) under its secured credit facility (the “Credit Facility”), which eliminated all hedging requirements. There were no realized or unrealized gains or losses on financial instruments during the quarter ended June 30, 2021 compared to a gain of \$0.5 million realized in the quarter ended June 30, 2020.

Royalties

Royalties

	Three months ended June 30	
	2021	2020
Royalty expense (\$000s)	93	66
\$/bbl	5.82	3.05
% of revenue	6	6

In Queensland Australia, oil royalties are based on a government-established rate which scales according to benchmark oil prices plus a Native Title royalty of 1%.

Royalty rates approximate 6% of oil sales for Q1 fiscal 2022 consistent with Q1 fiscal 2021.

Operating Expenses

(\$000s)

Operating expenses

	Three months ended June 30	
	2021	2020
Production	294	183
Transportation	500	712
	794	895
Production - \$/bbl	18.40	8.47
Transportation - \$/bbl	31.29	32.93
	49.69	41.40

Total operating expense during the first quarter of fiscal 2022 was \$0.8 million or \$49.69/bbl compared to \$0.9 million or \$41.40/bbl for Q1 fiscal 2021. The increased operating expense per barrel resulted from workover activities on two key wells during the quarter as well as certain fixed operating costs that did not reduce consistently with decreased production.

General and Administrative (G&A) Expenses

(\$000s)

G&A

	Three months ended June 30	
	2021	2020
Total G&A	586	506
Capitalized G&A	(51)	(7)
Net G&A	535	499

G&A expenses have been consistent through Q1 fiscal 2022 resulting from management's efforts to reduce all discretionary spending.

Share-based Compensation ("SBC")

(\$000s)

SBC

	Three months ended June 30	
	2021	2020
Expensed share-based compensation	30	5
Capitalized share-based compensation	2	-
	32	5

The Company uses the Black-Scholes pricing model to estimate the fair value of options on the date of grant and amortizes the estimated expense over the vesting period with a corresponding charge to contributed surplus. Options expire five years from the grant date.

Depletion and Depreciation (DD&A)

(\$000s) DD&A	Three months ended June 30	
	2021	2020
Petroleum and natural gas properties	253	334
Other assets	1	2
Right-of-use assets	8	12
	262	348
Petroleum and natural gas properties - \$/bbl	15.83	15.45

Production in Q1 fiscal 2022 was 15,981 bbls compared with 21,617 bbls in Q1 fiscal 2021. The lower production in Q1 fiscal 2022 when compared to Q1 fiscal 2021 resulted in slightly higher depletion expense per bbl, as reserve values have stayed consistent quarter over quarter.

Finance Expense

(\$000s) Finance expense	Three months ended June 30	
	2021	2020
Accretion expense on decommissioning and restoration liability	8	4
Interest on lease liability	1	3
Interest on Credit Facility	-	265
	9	272

Following the settlement of the Company's Westpac debt facility during Q4 fiscal 2021 there was no interest booked in Q1 fiscal 2022.

CAPITAL EXPENDITURES

(\$000s) Capital expenditures	Three months ended June 30	
	2021	2020
Geological and geophysical	58	57
Drilling	-	12
Completions	79	30
	137	99
Exploration and evaluation expenditures	(7)	-
Development and production expenditures	144	99
	137	99

The development and production expenditure of \$0.1 million in Q1 fiscal 2022 relates to the waterflood pilot on the C24 Cuisinier well.

SHARE CAPITAL

Trading history	Three months ended June 30	
	2021	2020
High (\$)	0.14	0.06
Low (\$)	0.07	0.02
Close (\$)	0.12	0.05
Volume (000s)	3,981	3,676
Shares outstanding (000s)	432,987	102,267
Weighted average shares outstanding (000s) - basic and diluted	432,987	102,267

At August 9, 2021, there were 432,986,694 common shares issued and outstanding, together with 13,475,000 outstanding options.

LIQUIDITY RISK AND CAPITAL RESOURCES

Liquidity risk is the risk that the Company will not be able to meet its financial obligations, including work commitments, as they are due. 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 trade and other payables and lease liability and amounted to \$1.5 million at June 30, 2021 (March 31, 2021 - \$2.0 million).

At June 30, 2021, the Company had working capital of \$4.2 million, including cash and short-term deposits of \$3.6 million and restricted cash of \$0.04 million, compared to working capital of \$4.3 million at March 31, 2021.

At March 31, 2020, the Company had capital spending commitments to be incurred by February 2021 on ATP 934P of \$12.3 million. During fiscal 2021, the Company received confirmation that the commitment on ATP 934 was reduced in exchange for a 50% relinquishment of the non-potential acreage of ATP 934 at the end of the first term expiry date of February 28, 2021. Current commitments are \$7.9 million over the next six years.

In February 2021, the Company raised \$16.54 million on the issuance of common shares and extinguished the credit facility. Management anticipates that operating and capital requirements will be met out of working capital and operating cash flows.

The majority of the Company's oil sales are benchmarked on US Brent prices. The Company incurs most of its expenditures in Australian dollars whereas the Company generates most of its revenues in US dollars. To mitigate the net impact of low crude prices, the Company is acting with its joint venture partners to reduce discretionary spending and focus capital on lower risk projects with near-term cash flow upside.

COMMITMENTS

The Queensland Government regulatory authority granted the Company Authority to Prospect 934 ("ATP 934") under a revised work program on March 1, 2015. In Q4 fiscal 2018, the Company consolidated its ownership of ATP 934 and now holds a 100% operating interest in this permit. The purchase consideration was AUS\$0.3 million cash and potential future cash payments of up to AUS\$1.0 million, which is made up of a AUS\$0.2 million on certification by an independent competent person appointed by Bengal Energy (Australia) Pty Ltd. of not less than 25 billion cubic feet of proved reserves and AUS\$0.8 million due upon the delivery of the first shipments of gas to market. The work program consists of 260 km² of 3D seismic and up to three wells. At June 30, 2021, the Company had the following capital work commitments:

Country and permit	Work program	Obligation period ending	Estimated expenditure (net) (millions CAD\$) ⁽¹⁾
Onshore Australia – ATP 934	260 km ² 3D seismic and up to three wells	February 2027	7.9 ⁽²⁾
Onshore Australia – ATP 732	Geological and geophysical studies	March 2023	0.1
Offshore Australia AC/RL 10	Geological and geophysical studies	March 2023	0.1

(1) Translated at June 30, 2021 at an exchange rate of AUS\$1.00 = CAD\$0.9304.

(2) During fiscal 2021, the Company received confirmation that the commitment on ATP 934 was reduced in exchange for a 50% relinquishment of the non-potential acreage of ATP 934 at the end of the first term expiry date of February 28, 2021. During Q2 fiscal 2021, the Company entered into a farm-in agreement with Santos whereby Santos will pay 100% of the well costs of a one well work program with an estimated cost of AUS\$2.7 million planned for the second half of calendar 2021. The \$7.9 million of estimated expenditures is net of the estimated carried cost of AUS\$2.7 million.

At June 30, 2021, the contractual obligations for which the Company is responsible are as follows:

(\$000s)						
Contractual obligations						
	April 2021 to March 2054	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Office lease		278	97	181	-	-
Decommissioning and restoration		3,386	-	715	58	2,613
		3,664	97	896	58	2,613

OFF BALANCE SHEET TRANSACTIONS

The Company does not have any off balance sheet transactions.

SELECTED QUARTERLY INFORMATION

	Jun 30 2021	Mar 31 2021	Dec 31 2020	Sep 30 2020	June 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019
Fiscal quarter (\$000s)	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020
Oil sales	1,547	1,601	1,274	1,260	1,099	1,140	2,425	2,576
Cash flow from (used in) operations	(774)	70	62	(166)	335	27	259	527
Funds from (used in) operations ⁽¹⁾	119	(158)	130	(67)	(210)	(849)	599	724
Per share – basic and diluted (\$)	0.00	0.00	0.00	0.00	0.00	(0.01)	0.01	0.01
Net income (loss)	(182)	3,040	670	(182)	400	(2,196)	556	(506)
Per share – basic and diluted (\$)	(0.00)	0.01	0.01	(0.00)	0.00	(0.02)	0.01	(0.00)
Capital expenditures	137	533	498	124	99	(68)	346	477
Working capital (deficiency)	4,218	4,270	(15,068)	(15,129)	(14,908)	(14,434)	(13,823)	(14,120)
Total assets	42,429	44,246	41,914	41,138	41,097	39,572	41,391	40,849
Shares outstanding (000s)	432,987	432,987	102,267	102,267	102,267	102,267	102,267	102,267
Operations:								
Oil volumes (bbls/d)	176	202	211	231	238	254	280	333
Operating netback ⁽¹⁾ (\$/bbl)	41.30	36.77	42.37	27.15	31.60	10.77	59.68	53.78

(1) See "Non-IFRS Measurements" on page 14 of this MD&A.

Oil sales and production over the last eight quarters peaked during the second quarter of fiscal 2020 (calendar Q3 2019). Natural declines in the Cuisinier oil field have been responsible for the steady decline in production since the peak. Significant volatility in US Brent prices during the past eight quarters resulted in volatile oil sales and funds from operations. Cash flow from operations has been consistent over most quarters except for Q4 fiscal 2020 when revenue and cash flow were significantly impacted by low commodity prices. Over the years, net losses have been affected by fluctuations in foreign exchange, hedging gains and losses and capital development. Net income in both Q3 fiscal 2020 and Q1 fiscal 2021 were the result of favorable changes in foreign exchange. Working capital deficiency began in Q4 fiscal 2019 due to the reclassification of the Company's debt from long term to current due to the delay in negotiating an extension to the maturity date. The collapse of oil prices and the onset of COVID-19 in early March 2020 significantly affected both production and in particular pricing, impacting sales revenue in Q1 fiscal 2021. Settlement of the Company's debt facility restored the Company's working capital position as of Q4 Fiscal 2021.

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

Disclosure Controls and Procedures

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

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

Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer of Bengal are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting ("ICFR") or causing them to be designed and operating effectively under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Bengal's certifying officers have assessed the design and operating effectiveness of internal controls over financial reporting and concluded that the Company's ICFR were not effective at June 30, 2021 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; and
- Bengal does not have full-time in-house personnel to address all complex and non-routine financial accounting issues and tax matters that may arise. It is not deemed as economically feasible at this time to have such personnel. Bengal relies on external experts for review and advice on complex financial accounting issues and for tax planning, tax provision and compilation of corporate tax returns.

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

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates, which are reviewed on an ongoing basis. A full discussion of the Company's critical judgments and accounting estimates is included in its fiscal 2021 annual Management's Discussion and Analysis dated June 17, 2021.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the previous financial year as described in Note 3 of the Company's consolidated financial statements for the year ended March 31, 2021.

NON-IFRS MEASUREMENTS

Within this MD&A, references are made to terms commonly used in the oil and gas industry. Operating netback, operating netback per barrel, funds from operations, funds from operations per share, adjusted net income and adjusted net income per share do not have any standardized meaning under IFRS and are referred to as non-IFRS measures. Operating netback equals total revenue (including realized gain (loss) on financial instruments) less royalties and operating expenses. Operating netback per barrel equals operating netback divided by the applicable number of barrels. Management utilizes these measures for operational performance. Funds from operations is a non-IFRS measure which is calculated by adding back all non-cash expense deductions to the net income (loss) for the quarter and year. Funds from operations per share is a non-IFRS measure calculated by dividing funds from operations by weighted average basic and diluted shares outstanding for the periods disclosed. Adjusted net income (loss) is a non-IFRS measure, which should not be considered an alternative to "Net income (loss)" as presented in the consolidated statement of income (loss) and comprehensive income (loss), and is presented in the Company's financial reports to assist management and investors in analyzing financial performance net of gains and losses outside of management's immediate control. Adjusted net income equals net income (loss) less unrealized gain (losses) on foreign exchange and unrealized gain (losses) on financial instruments plus non-cash impairment of non-current assets. Adjusted net income per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of earnings (loss) per share.

Management believes the presentation of the non-IFRS measures above provide useful information to investors and shareholders as the measures provide increased transparency and the ability to better analyze performance against prior periods on a comparable basis.

The above non-IFRS measures do not have any standardized meaning under GAAP (as that term is defined in National Instrument 52-107 – *Acceptable Accounting Principles and Auditing Standards*) and therefore may not be comparable to similar measures presented by other issuers.

The following table reconciles cash from (used in) operations to funds from (used in) operations, which is used in this MD&A:

(\$000s)	Three months ended	
	2021	June 30 2020
Cash (used in) from operating activities	(774)	335
Changes in non-cash working capital	893	(545)
Funds from (used in) operations	119	(210)

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

(\$000s)	Three months ended	
	2021	June 30 2020
Net (loss) income	(182)	400
Unrealized loss on financial instruments	-	951
Unrealized foreign exchange loss	-	(1,958)
Non-cash impairment of non-current assets	-	-
Adjusted net loss	(182)	(607)

ABBREVIATIONS

The following abbreviations used in this MD&A have the meanings set forth below:

bbl	-	barrel
bbls	-	barrels
bbls/d	-	barrels per day
\$/bbl	-	dollars per barrel
ft ³	-	cubic feet
bopd		barrels of oil per day
FY	-	fiscal year
K	-	thousand
km	-	kilometres
km ²	-	square kilometres
Q1	-	three months ended June 30
Q2	-	three months ended September 30
Q3	-	three months ended December 31
Q4	-	three months ended March 31
WI	-	working interest

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 is provided in Bengal's Annual Information Form dated June 29, 2021 filed on SEDAR at www.sedar.com.

Bengal monitors and updates its cash projection models on a regular basis, which assists in the timing decision of capital expenditures. Farm-outs of projects may be arranged if capital constraints are an issue or if the risk profile dictates that Bengal wishes to hold a lesser working interest position. Equity, if available and if on favorable terms, may be utilized to help fund Bengal's capital program.

An investment in the shares of the Company should be considered speculative due to the nature of the Company's involvement in the exploration for and the acquisition, development and production of oil and natural gas in foreign countries, and its current stage of development. An investor should consider carefully the risk factors set out in the annual information form and consider all other information contained herein and in the Company's other public filings before making an investment decision. Additional risks and uncertainties not currently known to the management of the Company may also have an adverse effect on Bengal's business and the information set out in the annual information form does not purport to be an exhaustive summary of the risks affecting Bengal.

COVID-19

The COVID-19 pandemic has resulted in emergency actions taken by governments worldwide, which has had an effect on the Company. The actions taken by these governments have typically included, but is not limited to travel bans, mandatory and self-imposed quarantines and isolations, social distancing, and the closing of non-essential businesses which has had significant negative effects on economies, including a substantial decline in crude oil and natural gas demand. Additionally, such actions have resulted in volatility and disruptions in regular business operations, supply chains and financial markets as well as declining trade and market sentiment. COVID-19 as well as other factors have resulted in the deepest drop in crude oil prices that global markets have seen since 1991. With the rapid spread of COVID-19, oil prices and the global equity markets have deteriorated significantly and are expected to remain under pressure. The extreme supply/demand imbalance is anticipated to cause a reduction in industry spending in 2021. COVID-19 also poses a risk on the financial capacity of Bengal's contract counterparties and potentially their ability to perform contractual obligations.

The full extent of the risks surrounding the COVID-19 pandemic is continually evolving. The following risks disclosed in our Annual Information Form for the year ended March 31, 2021 may be exacerbated as a result of the COVID-19 pandemic: market risks related to the volatility of oil and gas prices, volatility of foreign exchange rates, volatility of the market price of common shares, and hedging arrangements; operational risks related to increasing operating costs or declines in production levels, operator performance and payment delays, government regulations, ability to obtain additional financing, and variations in foreign exchange rates; and other risks related to cyber-security as our workforce moves to remote connections, accounting adjustments, effectiveness of internal controls, and reliance on key personnel, management, and labour.

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 1110, 715 5th Avenue SW., Calgary, Alberta T2P 2X6, by email to info@bengalenergy.ca or by accessing Bengal's website at www.bengalenergy.ca.

Forward-looking Statements – Certain statements contained within this MD&A constitute "forward-looking statements" or "forward-looking information" ("forward-looking statements") as defined by applicable securities laws. These statements relate to future events or Bengal's future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek," "anticipate," "budget," "plan," "continue," "estimate," "expect," "forecast," "may," "will," "project," "predict," "potential," "targeting," "intend," "could," "might," "should," "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Bengal believes the expectations 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 this MD&A should not be unduly relied upon. The projections, estimates and beliefs contained in such forward-looking statements are based on management's estimates, opinions, and assumptions at the time the statements were made, including assumptions relating to: the impact of economic conditions in North America and Australia and globally; industry conditions; changes in laws and regulations including, without limitation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof; results of exploration and testing activities; and the ability to obtain required approvals and extensions from regulatory authorities.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- Oil and natural gas production levels;
- The size of the oil and natural gas reserves;
- The adverse impacts on the Company as a result of the current challenging economic climate;
- The forecasted covenant breach with respect to the Credit Facility;
- Bengal's drilling program and waterflood pilot;
- The belief that the Cooper Basin assets offer attractive upside potential for oil and gas;
- Timing and re-assessment of restarting the planning and drilling selection for the 2021 multi-well development and appraisal drilling campaign:
- The timing of the planned injection of produced formation water on the Barta Block PL 303 and the anticipated resulting production increases, future waterflood expansion phases, and reduced operating costs;
- The timing of the planned extended production test on the Nubba gas discovery well and plans to tie in the well;
- Expected extensions and amendments to the Credit Facility and the results of discussions with Westpac;
- The planned 100% free carried well on the ATP 934 Barrolka and the expected assistance in de-risking the natural gas potential of the permit;
- The timing of equipping for production cased wells;

- The continued engagement in early stage discussions with third parties with respect to potential business combination transactions;
- The continued integration of subsurface data from production licenses in the selection of exploration and appraisal drilling locations;
- Projections of market prices and costs including, but not limited to, expected royalty rates;
- Expectations regarding the ability to raise capital and to continually add to reserves through acquisitions and development;
- That required payments will be met out of operation cash flows and alternative forms of financing;
- Bengal's ability to finance its working capital deficiency and to source funds for the same;
- Treatment under governmental regulatory regimes and tax laws;
- Capital expenditures programs and estimates of costs; and
- That funding of working capital requirements, commitments and other planned expenses will be by cash on hand, cash flows, farm-outs, joint ventures, share issuances or other alternative forms of capital raising and funds will be sufficient to meet requirements including but not limited to Bengal's exploration activities through fiscal 2021 and capital program.

The forward-looking statements contained herein are subject to numerous known and unknown risks and uncertainties that may cause Bengal's actual results, performance or achievement to differ materially from those expectations expressed in, or implied by, these forward-looking statements, including but not limited to, risks associated with:

- The continuing adverse impact of COVID-19 on economic activity and demand for oil and natural gas;
- Uncertainties associated with the COVID-19 pandemic;
- Willingness of the Company's lenders to negotiate;
- Fluctuations in commodity prices, foreign exchange or interest rates;
- Changes in the demand for or supply of Bengal's products;
- Liabilities inherent in oil and natural gas operations;
- The failure to obtain required regulatory approvals or extensions;
- The failure to satisfy the conditions under farm-in and joint venture agreements;
- The failure to secure required equipment and personnel;
- Changes in general global economic conditions including, without limitations, the economic conditions in North America and Australia;
- Uncertainties associated with estimating oil and natural gas reserves;
- Increased competition for, among other things: capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- The availability of qualified operating or management personnel;
- Incorrect assessment of the value of acquisitions;
- Inability to meet commitments due to inability to raise funds or complete farm-outs;
- Geological, technical, drilling and processing problems;
- Bengal's development and exploration opportunities;
- The results of exploration and development drilling and related activities;
- Changes in laws and regulations including, without limitation, the adoption of new environmental, royalty and tax laws and regulations and changes in how they are interpreted and enforced;
- The ability to access sufficient capital from internal and external sources; and
- Counter-party credit risk, stock market volatility and market valuation of Bengal's stock.

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, which the resources and reserves described, can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A 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).

Disclosure of Oil and Gas Information

Unless otherwise specified, reserves data set forth in this document is based upon an independent reserve assessment and evaluation prepared by GLJ with an effective date of March 31, 2021 (the "GLJ Report"). The GLJ Report has been prepared in accordance with the standards contained in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") and the reserve definitions contained in National Instrument 51-101 – Standards of Disclosure For Oil and Gas Activities.

This document discloses unbooked drilling locations. Unbooked locations are internal estimates based on the Company's prospective acreage and an assumption as to the number of wells that can be drilled per area based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. There is no certainty that the Company will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources or production. The drilling locations on which the Company actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors.

Test Rates

References in this MD&A to production test rates are useful in confirming the presence of hydrocarbons; however, such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long term performance or ultimate recovery. Readers are cautioned not to place reliance on such rates in calculating the aggregate production for the Company. A pressure transient analysis or well-test interpretation has not been carried out in respect of all wells. Accordingly, the Company cautions that the test results are historical and not indicative of expected production.

Internal Estimates

Certain information contained herein is based on estimated values the Company believes to be reasonable and are subject to the same limitations as discussed under "Forward-looking Statements" above.

CORPORATE INFORMATION

AUDITORS

KPMG LLP • Calgary, Canada

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP • Calgary, Canada
Piper Alderman • Sydney, Australia

BANKERS

Royal Bank of Canada • Calgary, Canada
WestPac • Sydney, Australia

REGISTRAR AND TRANSFER AGENT

Computershare • Toronto, Canada

DIRECTORS

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

DISCLOSURE COMMITTEE

Chayan Chakrabarty
Jerrad Blanchard

AUDIT COMMITTEE

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

RESERVES COMMITTEE

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

GOVERNANCE AND COMPENSATION COMMITTEE

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

OFFICERS

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

STOCK EXCHANGE LISTING – TSX: BNG



**Interim Condensed Consolidated Financial
Statements**

(Unaudited)

**Three Months Ended
June 30, 2021 and 2020**

BENGAL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Thousands of Canadian dollars)

(unaudited)

As at	Notes	June 30 2021	March 31 2021
Assets			
Current assets:			
Cash and cash equivalents		\$ 3,593	\$ 4,531
Restricted cash		40	40
Trade and other receivables		1,570	1,224
Prepaid expenses and deposits		425	445
		5,628	6,240
Exploration and evaluation assets	5	9,601	9,890
Property, plant and equipment	6	27,200	28,116
Total assets		\$ 42,429	\$ 44,246
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables		\$ 1,378	\$ 1,939
Current portion of lease liability		32	31
		1,410	1,970
Decommissioning and restoration liability	7	3,386	3,478
Lease liability		59	68
		4,855	5,516
Shareholders' equity:			
Share capital	8	114,636	114,636
Contributed surplus		7,902	7,870
Accumulated and other comprehensive loss		(1,342)	(336)
Deficit		(83,622)	(83,440)
		37,574	38,730
Total liabilities and shareholder's equity		\$ 42,429	\$ 44,246

Commitments (Note 16)

See accompanying notes to the interim condensed consolidated financial statements.

BENGAL ENERGY LTD.

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

(Thousands of Canadian dollars, except per share amounts)

(unaudited)

For the three months ended June 30	Notes	2021	2020
Revenue			
Oil sales	10	\$ 1,547	\$ 1,099
Royalties		(93)	(66)
		1,454	1,033
Realized gain on financial instruments	13	-	545
Unrealized (loss) on financial instruments	13	-	(951)
		1,454	627
Expenses			
General and administrative		535	499
Operating		794	895
Depletion and depreciation	6	262	348
Share-based compensation		30	5
Loss (gain) on foreign exchange		6	(1,792)
		1,627	(45)
Other expense			
Finance expense	12	9	272
Net (loss) income		(182)	400
Exchange differences on translation of foreign operations		(1,006)	1,321
Comprehensive (loss) income		\$ (1,188)	\$ 1,721
(Loss) income per share – basic & diluted	11	\$ (0.00)	\$ 0.00
Weighted average shares outstanding (000s) – basic & diluted	11	432,987	102,267

See accompanying notes to the interim condensed consolidated financial statements.

BENGAL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Thousands of Canadian dollars)

(unaudited)

For the three months ended June 30	Notes	2021	2020
Share capital			
Balance at beginning and end of period		\$ 114,636	\$ 98,100
Contributed surplus			
Balance at beginning of period		7,870	7,861
Share-based compensation - expensed		30	5
Share-based compensation – capitalized		2	-
Balance at end of period		7,902	7,866
Accumulated other comprehensive loss			
Balance at beginning of period		(336)	(1,651)
Exchange differences translation of foreign operations		(1,006)	1,321
Balance at end of period		(1,342)	(330)
Deficit			
Balance at beginning of period		(83,440)	(87,368)
Net (loss) income		(182)	400
Balance at end of period		(83,622)	(86,968)
Total shareholders' equity		\$ 37,574	\$ 18,668

See accompanying notes to the interim condensed consolidated financial statements.

BENGAL ENERGY LTD.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Canadian dollars)

(unaudited)

For the three months ended June 30	Notes	2021	2020
Operating activities:			
Net (loss) income		\$ (182)	\$ 400
Add (deduct) non-cash items			
Depletion and depreciation		262	348
Accretion on decommissioning and restoration liability		8	4
Accretion on credit facility		-	37
Share-based compensation		30	5
Interest on lease liability		1	3
Unrealized loss on financial instruments		-	951
Unrealized foreign exchange gain		-	(1,958)
Funds from (used in) operations		119	(210)
Change in non-cash working capital	15	(893)	545
Net cash (used in) from operating activities		(774)	335
Investing activities:			
Exploration and evaluation expenditures	5	7	-
Petroleum and natural gas property expenditures	6	(144)	(99)
Change in restricted cash		-	100
Change in non-cash working capital	15	(7)	(148)
Net cash used in investing activities		(144)	(147)
Financing activities:			
Lease payments		(9)	(14)
Net cash used in financing activities		(9)	(14)
Net (decrease) increase in cash and cash equivalents		(927)	174
Cash and cash equivalents, beginning of period		4,531	998
Impact of foreign exchange on cash and cash equivalents		(11)	58
Cash and cash equivalents, end of period		\$ 3,593	\$ 1,230

See accompanying notes to the interim condensed consolidated financial statements.

BENGAL ENERGY LTD.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended June 30, 2021 and 2020

(Tabular amounts are stated in thousands of Canadian dollars except share and per share amounts)
(unaudited)

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, development and production of oil and gas reserves in Australia. The interim condensed consolidated financial statements (the “financial statements”) of the Company for the three months ended June 30, 2021 and 2020 are comprised of the Company and its wholly-owned subsidiaries including Bengal Energy Australia (Pty) Ltd. (“Bengal Pty”) and Bengal Energy International Inc., which are incorporated in Australia and Canada respectively. The Company conducts many of its activities jointly with others; these financial statements reflect only the Company’s proportionate interest in such activities.

The Company has its registered office at 2400, 525 – 8th Avenue SW, Calgary, Alberta T2P 1G1 and its head and principal office at 1110, 715 5th Ave SW, Calgary, Alberta, Canada, T2P 2X6.

2. BASIS OF PREPARATION

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

The financial statements were approved and authorized for issuance by the Board of Directors on August 9, 2021.

These financial statements have been prepared on a historical cost basis, except for commodity contracts as discussed in Note 13.

The Company’s presentation currency is Canadian dollars. The functional currency of the Canadian parent entity is Canadian dollars; the functional currency of the Australian subsidiary is Australian dollars.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used are consistent with those of the previous financial year as described in Note 3 of the Company’s consolidated financial statements for the year ended March 31, 2021.

4. MANAGEMENT JUDGMENTS AND ESTIMATES

The timely preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are out-lined below.

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. As a result of the global pandemic, in addition to numerous other factors, global commodity prices have experienced abnormal volatility over the past 24 months. Governments worldwide, including those in Canada and Australia, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in economic instability. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not currently determinable.

The current challenging economic climate may have significant adverse impacts on the Company, including material declines in revenue and cash flows, and related impacts to working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows to meet the Company's current and future obligations. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time.

A full list of the critical judgments in applying accounting policies and key sources of estimation uncertainty can be found in the Company's consolidated financial statements for the year ended March 31, 2021. Estimates and judgements made by management in the preparation of the financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

5. EXPLORATION AND EVALUATION ASSETS ("E&E ASSETS")

(\$000s)

Balance, April 1, 2020	8,930
Additions	61
Exchange adjustments	899
Balance, March 31, 2021	9,890
Additions	(7)
Exchange adjustments	(282)
Balance, June 30, 2021	9,601

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

(\$000s)	
ATP 732P – Tookoonooka	5,224
PL 303 – Barta Block Cuisinier (controlling permit ATP 752)	2,683
ATP 934 – Barrolka	1,983
Balance, March 31, 2021	9,890

(\$000s)	
ATP 732P – Tookoonooka	5,076
PL 303 – Barta Block Cuisinier (controlling permit ATP 752)	2,606
ATP 934 – Barrolka	1,919
Balance, June 30, 2021	9,601

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

6. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

(\$000s)				
	Petroleum and natural gas properties	Other assets	Right-of-use assets	Total
<i>Cost:</i>				
Balance, April 1, 2020	43,822	344	219	44,385
Additions	1,193	-	-	1,193
Disposals	-	-	(76)	(76)
Change in decommissioning and restoration liability	(623)	-	-	(623)
Exchange adjustments	6,388	-	-	6,388
Balance, March 31, 2021	50,780	344	143	51,267
Additions	144	-	-	144
Capitalized share-based compensation	2	-	-	2
Exchange adjustments	(2,008)	-	-	(2,008)
Balance, June 30, 2021	48,918	344	143	49,405

(\$000s)				
	Petroleum and natural gas properties	Other assets	Right-of-use assets	Total
<i>Accumulated depletion, depreciation and impairment losses:</i>				
Balance, April 1, 2020	17,727	319	47	18,093
Depletion and depreciation	1,285	6	42	1,333
Disposals	-	-	(28)	(28)
Exchange adjustments	3,753	-	-	3,753
Balance, March 31, 2021	22,765	325	61	23,151
Depletion and depreciation	253	1	8	262
Exchange adjustments	(1,208)	-	-	(1,208)
Balance, June 30, 2021	21,810	326	69	22,205

(\$000s)				
<i>Net carrying amount:</i>				
At March 31, 2021	28,015	19	82	28,116
At June 30, 2021	27,108	18	74	27,200

At June 30, 2021, the Company determined that there were no external or internal indicators of impairment. As a result, no impairment testing was conducted.

During the three months ended June 30, 2021, the Company capitalized \$0.1 million general and administrative expense (2020 - \$nil million).

The calculation of depletion for the three months ended June 30, 2021 included \$60.9 million for estimated future development costs associated with proved and probable reserves in Australia (March 31, 2021 - \$60.9 million).

7. DECOMMISSIONING AND RESTORATION LIABILITY

Changes to decommissioning and restoration obligations were as follows:

(\$000s)	
Balance, April 1, 2020	3,690
Change in estimate	(623)
Accretion	19
Exchange adjustments	392
<hr/>	
Balance, March 31, 2021	3,478
Accretion	8
Exchange adjustments	(100)
<hr/>	
Balance, June 30, 2021	3,386

The Company's decommissioning liabilities result from ownership interests in petroleum and natural gas properties. The Company estimates the total inflation-adjusted undiscounted amount of cash flows required to settle its decommissioning and restoration costs at June 30, 2021 is approximately \$4.0 million (March 31, 2021 – \$4.1 million) which will be incurred between 2023 and 2057. An inflation factor of 1.1% (March 31, 2021 – 1.1%) and a risk-free discount rate of 1.74% (March 31, 2021 – 1.74%) have been applied to the decommissioning liability at June 30, 2021.

8. SHARE CAPITAL

Authorized:

Unlimited number of common shares with no par value.

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

Issued:

The following provides a continuity of share capital:

(\$000s)	Number of common shares	Amount
Balance at March 31, 2021 and June 30, 2021	432,986,694	114,636

9. SHARE-BASED COMPENSATION

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

Stock options granted under the plan can be exercised on a cashless basis, whereby the employee receives a lesser amount of shares in lieu of paying the exercise price based on the deemed market price of the shares on the exercise date, and withholding taxes if the employee so elects.

A summary of stock option activity is presented below:

	Options	Weighted average exercise price
		\$
Balance, March 31, 2021	13,716,667	0.08
Expired	(241,667)	0.11
Balance, June 30, 2021	13,475,000	0.08
Exercisable, June 30, 2021	2,135,000	0.10

10. REVENUE

Revenue from the sales of crude oil is based on the consideration specified in the Crude Oil Sales and Purchase Agreement (“COSP Agreement”) with the joint venture operator. The Company recognizes revenue when it transfers control of the product to the joint venture operator, which is generally at the time the joint venture operator obtains legal title of the crude oil and when it is physically delivered to the pipeline at an estimated transaction price based on average US Brent price and is adjusted for quality and other factors specified in the COSP Agreement once the product is shipped to the end customer and lifted.

The transaction price as prescribed in the COSP Agreement is a variable price based on the benchmark US Brent commodity price index, and may be adjusted for quality, location, delivery method or other factors depending on the agreed upon terms of the contract. The amount of revenue recorded can vary depending on the grade, quality and quantity of crude oil transferred to the joint venture operator. The COSP Agreement has an initial term to March 31, 2022, whereby delivery takes place through the contract period. Revenues are typically collected 60 days following delivery to Port Bonython.

11. PER SHARE AMOUNTS

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

(\$000s except per share amounts)

Three months ended June 30	2021	2020
Net (loss) income for the period	(182)	400
Weighted average number of common shares – basic and diluted (000s)	432,987	102,267
Basic and diluted income per share	\$ (0.00)	\$ 0.00

For the three months ended June 30, 2021, there were 13,475,000 (2020 – 3,472,500) options considered anti-dilutive.

12. FINANCE EXPENSE

(\$000s)		
For the three months ended June 30	2021	2020
Accretion on decommissioning and restoration liability	8	4
Interest on lease liability	1	3
Interest on credit facility	-	265
	9	272

13. FINANCIAL RISK MANAGEMENT

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

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Bengal's cash calls paid to joint venture partners and receivables from petroleum and natural gas marketers. As at June 30, 2021, Bengal's receivables consisted of \$1.5 million (March 31, 2021 - \$1.2 million) from joint venture partners (of which \$0.4 million has been collected subsequent to year end) and \$0.03 million (March 31, 2021 - \$nil million) of other receivables.

Bengal has a COSP Agreement with a purchaser and has not experienced any collection problems to date.

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

The Company had no accounts considered past due at June 30, 2021 (March 31, 2021 - \$nil). Past due is considered greater than 90 days outstanding.

The carrying amount of accounts receivable and cash and cash equivalents represents the maximum credit exposure. Bengal establishes an allowance for doubtful accounts as determined by management based on their assessment of collection. Bengal does not have an allowance for doubtful accounts as at June 30, 2021 and did not provide for any doubtful accounts, nor was it required to write-off any receivables during the three months ended June 30, 2021 (March 31, 2021 - \$nil).

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

(b) Liquidity risk

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

Bengal's financial liabilities consist of trade and other payables and lease liability and amounted to \$1.5 million at June 30, 2021 (March 31, 2021 - \$2.0 million).

At June 30, 2021, the Company had working capital of \$4.2 million, including cash and short-term deposits of \$3.6 million and restricted cash of \$0.04 million, compared to working capital of \$4.3 million at March 31, 2021.

Management anticipates that operating and capital requirements will be met out of working capital and operating cash flows.

The majority of the Company's oil sales are benchmarked on US Brent prices. The Company incurs most of its expenditures in Australian dollars whereas the Company generates most of its revenues in US dollars. The Company is acting with its joint venture partners to reduce discretionary spending and focus capital towards lower risk projects with near-term cash flow upside.

(c) Market risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Bengal receives US dollars for Australian oil sales and incurs expenditures in Australian and Canadian currencies. The Company may enter into derivative foreign currency contracts in order to manage foreign currency risk but has not done so to date.

The table below shows the Company's exposure in Canadian dollar equivalent to foreign currencies for its financial instruments at June 30, 2021:

(\$000s)				
	CAD\$	AUS\$	US\$	Total
Cash and cash equivalents	3,328	-	265	3,593
Restricted cash	40	-	-	40
Trade and other receivables	13	-	1,557	1,570
Trade and other payables	(110)	(1,268)	-	(1,378)
Lease liability	(91)	-	-	(91)
	3,180	(1,268)	1,822	3,734
Exchange rates as at Jun 30:			2021	2020
Number of CAD\$ for 1 AUS\$			0.93	0.94
Number of CAD\$ for 1 US\$			1.24	1.36

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of a change in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world

economic events that dictate the levels of supply and demand. Australian oil prices are based on the US Brent reference price, which currently trades at a premium to WTI.

During the three months ended June 30, 2020, the Company recorded a realized gain of \$0.5 million and an unrealized loss of \$1.0 million on its derivative contracts. At March 31, 2021 and June 30, 2021, the Company had no derivative contracts outstanding.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is not exposed to interest rate risk on its cash and cash equivalents at June 30, 2021 as the funds are not invested in interest-bearing instruments. The Company had no interest rate derivatives at June 30, 2021.

14. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility which will allow it to execute on its capital investment program, provide creditor and market confidence and to sustain future development of the business. Following the February 2021 recapitalization transaction, the Company has materially realigned its capital structure eliminated all outstanding debt while adding \$4.0 million of working capital. This provides additional financial and capital flexibility further to the Company's strategy described above. Through the first quarter of fiscal 2022, the Company has maintained its working capital position at \$4.2 million at June 30, 2021.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling inventory, the efficiencies of past investments, the efficiencies of forecasted investments and the timing of such investments, the forecasted cash balances, the forecasted commodity prices and resulting cash flow.

In order to maintain or adjust the capital structure, the Company may from time to time issue shares (if available on reasonable terms), issue debt instruments, sell assets, farm out properties and adjust its capital spending to manage current and projected cash levels. There can be no assurance that equity financing will be available or sufficient to meet capital commitments, or for other corporate purposes, or if equity financing is available, that it will be on terms acceptable to the Company.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash working capital items		
(\$000s)		
For the three months ended June 30	2021	2020
Trade and other receivables	(346)	219
Prepaid expenses and deposits	-	1
Trade and other payables	(561)	115
Effect of change in foreign exchange rates	7	62
	(900)	397
Attributable to:		
Operating	(893)	545
Investing	(7)	(148)
	(900)	397

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

Cash interest paid and received		
(\$000s)		
For the three months ended June 30	2021	2020
Cash interest paid	-	234

16. COMMITMENTS

The Queensland Government regulatory authority granted the Company Authority to Prospect 934 ("ATP 934") under a revised work program on March 1, 2015. In Q4 fiscal 2018, the Company consolidated its ownership of ATP 934 and now holds a 100% operating interest in this permit. The purchase consideration was AUS\$0.3 million cash and potential future cash payments of up to AUS\$1.0 million, which is made up of a AUS\$0.2 million on certification by an independent competent person appointed by Bengal Energy (Australia) Pty Ltd. of not less than 25 billion cubic feet of proved reserves and AUS\$0.8 million due upon the delivery of the first shipments of gas to market. The work program consists of 260 km² of 3D seismic and up to three wells.

At June 30, 2021, the Company had the following capital work commitments:

Country and permit	Work program	Obligation period ending	Estimated expenditure (net) (millions CAD\$) ⁽¹⁾
Onshore Australia – ATP 934	260 km ² 3D seismic and up to three wells	February 2027	7.9 ⁽²⁾
Onshore Australia – ATP 732	Geological and geophysical studies	March 2023	0.1
Offshore Australia AC/RL 10	Geological and geophysical studies	March 2023	0.1

(1) Translated at June 30, 2021 at an exchange rate of AUS\$1.00 = CAD\$0.9304.

(2) During fiscal 2021, the Company received confirmation that the commitment on ATP 934 was reduced in exchange for a 50% relinquishment of the non-potential acreage of ATP 934 at the end of the first term expiry date of February 28, 2021. During Q2 fiscal 2021, the Company entered into a farm-in agreement with Santos whereby Santos will pay 100% of the well costs of a one well work program with an estimated cost of AUS\$2.7 million planned for the second half of calendar 2021. The \$7.9 million of estimated expenditures is net of the estimated carried cost of AUS\$2.7 million.

At June 30, 2021, the contractual obligations for which the Company is responsible are as follows:

(\$000s)					
Contractual obligations					
July 2021 to March 2054	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Office lease	278	97	181	-	-
Decommissioning and restoration	3,386	-	715	58	2,613
	3,664	97	896	58	2,613

17. SEGMENTED INFORMATION

As at June 30, 2021, the Company has two reportable operating segments being the Australian oil and gas operations and corporate.

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 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.

(\$000s)	For the three months ended June 30, 2021		
	Australia	Corporate	Total
Revenue	1,547	-	1,547
Interest expense	-	1	1
Depletion and depreciation	253	9	262
Net income (loss)	48	(230)	(182)
Exploration and evaluation expenditures	(7)	-	(7)
Petroleum and natural gas property expenditures	144	-	144

(\$000s)

As at June 30, 2021

Exploration and evaluation assets	9,601	-	9,601
Petroleum and natural gas properties	27,108	-	27,108
Total assets	38,935	3,494	42,429
Total liabilities	4,654	201	4,855

(\$000s) For the three months ended June 30, 2020

	Australia	Corporate	Total
Revenue	1,099	-	1,099
Interest expense	265	3	268
Depletion and depreciation	336	12	348
Net income (loss)	629	(229)	400
Petroleum and natural gas property expenditures	99	-	99

(\$000s)

As at June 30, 2020

Exploration and evaluation assets	9,628	-	9,628
Petroleum and natural gas properties	27,892	-	27,892
Total assets	40,646	451	41,097
Total liabilities	21,918	511	22,429

CORPORATE INFORMATION

AUDITORS

KPMG LLP • Calgary, Canada

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP • Calgary, Canada
Piper Alderman • Sydney, Australia

BANKERS

Royal Bank of Canada • Calgary, Canada
WestPac • Sydney, Australia

REGISTRAR AND TRANSFER AGENT

Computershare • Toronto, Canada

DIRECTORS

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

DISCLOSURE COMMITTEE

Chayan Chakrabarty
Jerrad Blanchard

AUDIT COMMITTEE

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

RESERVES COMMITTEE

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

GOVERNANCE AND COMPENSATION COMMITTEE

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

OFFICERS

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

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