Bengal
ENERGY LTD.

International exploration & production

# Management's Discussion & Analysis

## Three and Nine Months Ended
## December 31, 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 and nine months ended December 31, 2021.

This MD&A dated February 9, 2022, should be read in conjunction with the Company's interim condensed consolidated financial statements and related notes for the quarter ended December 31, 2021. The interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS) 34.

The functional currency of the Company's operating subsidiary is the Australian dollar ("AUS"); 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 December 31, 2021, may be referred to as "third quarter fiscal 2022", "Q3 fiscal 2022", "current quarter", and "the quarter". The comparative three months ended December 31, 2020, may be referred to as "third quarter fiscal 2021", and "Q3 fiscal 2021. The nine months ended December 31, 2021, may be referred to as "nine months ended Q3 fiscal 2022". The comparative nine months ended December 31, 2020, may be referred to as "nine months ended Q3 fiscal 2021".

## THIRD QUARTER FISCAL 2022 SUMMARY

### Financial Summary:

- **Sales Revenue** – Crude oil sales revenue was $1.8 million in the third quarter fiscal 2022, which is 45% higher than the $1.3 million recorded in Q3 fiscal 2021 as decreased production was offset by increased commodity prices. Benchmark Brent price during the current quarter averaged US $85.11 per barrel of crude oil ("bbl") compared to US $47.38 per bbl for the same quarter in fiscal 2021.
- **Funds[1] and Cash from Operations** – Bengal generated $0.6 million of cash from operating activities during Q3 fiscal 2022 compared to $0.1 million in Q3 fiscal 2021. Funds from operations were $0.4 million during fiscal Q3 2022 compared to $0.1 million in Q3 fiscal 2021.
- **Net Income** – Bengal reported net loss of $0.5 million for the current quarter compared to net income of $0.7 million in the third quarter fiscal 2021. During the current quarter there were no gains on hedging activity and an impairment charge of $0.6 million associated with uneconomic drilling results.

### Operational Summary:

- **Production Volumes** – The Company's share of light crude oil production in the current quarter was 16,865 bbls, which represents a 13% decrease from the 19,444 bbls produced in the third quarter fiscal 2021. The current quarter production averaged 183 bbls/d compared to 211 bbls/d produced in the third quarter fiscal 2021. The decline in production is a result of natural reservoir decline.
- **Capital Expenditures** – Bengal incurred $1.4 million in capital expenditures during Q3 fiscal 2022 as compared to $0.5 million in Q3 fiscal 2021. The majority of the current quarter expenditures relate to site preparation and preliminary activities to support the Company's future development plans at its recently acquired 100% working interest Petroleum Lease ("PL") 1110 Wareena, Authority to Prospect ("ATP") 732, and Producing Pipeline ("PPL") 138 pipeline. During the quarter, the Company recorded $0.6 million of impairment associated with uneconomic drilling results at the Chef-1 location in ATP 752.
- **934 Exploration Well -** During the quarter Santos drilled the Legbar exploration well at no cost to Bengal to earn a 60% interest in the southern portion of the block. The well was plugged and abandoned.

[1] Refer to non-IFRS measures on page 14

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, Production 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 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, and under certain conditions relative to exploration success, 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 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.

**AUSTRALIA – Cooper Basin, Queensland**

**PL 303 and PL 1028 Cuisinier (controlling permit ATP 752) (30.357% WI)**

A pilot reservoir pressure maintenance scheme was initiated during the prior fiscal year and after resolving mechanical issues, water injection activities resumed during calendar Q4 2021. The location of this pilot is in the southeast quadrant of the Cuisinier pool, with injection of water taking 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 ("JV") will begin a multi phase water injection scheme, targeted fracture stimulation and more commercially efficient development drilling. Since inception, 21,800 barrels of water have been injected into the C24 well at a rate of approximately 300 barrels of water per day. Nearby wells are being monitored for total fluid produced and water cut to help to determine which wells are being affected by the pilot program. Mechanical issues through commissioning have caused periods of downtime and full injection capability is expected to resume by mid-February.

During the quarter, Bengal participated in the Chef exploration drilling project. Following a review of the well logs, the ATP 752 JV parties have decided to plug and abandon the well. This exploration well is located outside of the producing Cuisinier field PL 303, in a location 4 km to the northeast with primary targets in the Jurassic Birkhead Formation and Hutton Sandstone, and secondary targets within the Triassic Nappamerri Group. The well encountered multiple oil shows in the primary and secondary targets; however, no commercial pay was identified at this location. While not a commercial success, the identified oil shows may support continued exploration targeting both the Jurassic Birkhead and newly discovered oil-bearing Triassic Nappamerri formations.

**ATP 934 Barrolka (100% WI)**

ATP 934 is the Company's 100% owned natural gas exploration block. 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 to February 28, 2027. The LWP includes the drilling of up to 3 wells and 260 km$^2$ of 3D seismic.

**ATP 934 Durham Downs East Farmout Block (40% WI)**

Bengal entered into an agreement with Santos in July of 2020 to farm-in on a portion of the ATP 934 block. Santos carried 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. On October 14, 2021, Santos completed the drilling of the Legbar-1 exploration well. Santos paid 100% of the costs to drill, plug and abandon the well and has accordingly earned a 60% working interest in 103,760 $km^2$ gross exploration land.

While the Legbar-1 Well did not indicate commercial quantities of hydrocarbons, thick, high quality reservoir sands were encountered in the primary Permian Toolachee formation and in the Jurassic Birkhead zone, with evidence of residual hydrocarbon saturation in both zones. In addition, fluorescence shows and elevated gas readings through the Jurassic lower Birkhead Fm/Top Hutton Sandstone indicate oil has passed through the reservoir, supporting the search for a valid closure to test this play. The findings from the Legbar-1 well will help Bengal refine its exploration targets going forward, both with Santos in the Santos Farm-in Block, and across the balance of ATP 934 which is 100% owned by Bengal.

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

As announced in the Bengal press release dated September 12, 2019, the Company acquired a 100% working interest in four PLs and a natural gas pipeline connected to transportation infrastructure into the Eastern Australia Gas Market (collectively, the "Assets"). These non-productive PLs are highly compatible with and in close proximity to ATP 934. Bengal continues to integrate subsurface data from the PLs to enhance the Company's understanding of ATP 934 and to finalize the selection of exploration and appraisal drilling locations.

Included in this program is the reinstatement of two gas wells and an existing gas pipeline to produce raw gas into existing infrastructure. Commercial negotiations, planning and execution of the project are well advanced with materials being delivered and fabrication starting. The company is investing in a proprietary proof of concept arrangement to allow commercial gas production prior to a pipeline connection.

The 100% ownership of the Assets presents an appraisal and development opportunity that will be operated by the Company and is seen to be not only complementary to our proven producing, non-operated Cuisinier asset, but also as a key steppingstone for Bengal's natural gas platform 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 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 $0.05 million and geological and geophysical investigation at an estimated cost of $0.05 million during the four-year term.

The Company is currently evaluating the opportunity to stimulate the Caracal-1 well, a 53 API oil discovery in the Wyandra zone. Following stimulation, the well could commence production using the Company's Early Oil Production System with the addition of storage and load-out infrastructure.

**Business development**

The Company is in discussions with potential industry and financial partners to fund some of these oil and gas related activities.

## OPERATING SUMMARY

| ($000s except per share, %, volumes and operating netback amounts) | | Three months ended December 31 | | | | Nine months ended December 31 | | |
|---|---|---|---|---|---|---|---|---|
| | | 2021 | | 2020 | | 2021 | | 2020 |
| Oil revenue | $ | 1,845 | $ | 1,274 | $ | 5,276 | $ | 3,633 |
| Operating netback[(1)] | $ | 1,089 | $ | 824 | $ | 2,684 | $ | 2,084 |
| Cash flow from operations | $ | 607 | $ | 62 | $ | 398 | $ | 231 |
| Funds from (used in) operations[(2)] | $ | 381 | $ | 130 | $ | 917 | $ | (147) |
| Per share ($) (basic and diluted) | $ | 0.00 | $ | 0.00 | $ | 0.00 | $ | (0.00) |
| Net (loss) income | $ | (494) | $ | 670 | $ | (591) | $ | 888 |
| Per share ($) (basic and diluted) | $ | (0.00) | $ | 0.01 | $ | (0.00) | $ | 0.01 |
| Capital expenditures | $ | 1,392 | $ | 498 | $ | 2,178 | $ | 721 |
| Oil production volumes (bbls/d) | | 183 | | 211 | | 186 | | 227 |
| Operating netback[(1)]($/bbl) | $ | 64.58 | $ | 42.37 | $ | 52.47 | $ | 33.45 |

(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 December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Oil production (bbls/d) | 183 | 211 | 186 | 227 |
| Oil production (bbls) | 16,865 | 19,444 | 51,150 | 62,308 |

**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 December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|---|
| | | 2021 | 2020 | 2021 | 2020 |
| | **Oil lifting** | | | | |
| | Volume (000s bbls) | 18.4 | 22.9 | 53.3 | 68.7 |
| | Weighted average price (US$/bbl) | 85.11 | 47.38 | 77.43 | 38.15 |
| **A.** | Sales ($000's) | 2,004 | 1,324 | 5,267 | 3,638 |
| | **Pipeline oil** | | | | |
| | Volume (000s bbls), change | (1.5) | (3.5) | (2.1) | (5.9) |
| | Price (US$/bbl), change | 0.71 | 14.24 | 69.32 | 29.66 |
| **B.** | Net sales ($000's) | (159) | (50) | 9 | (5) |
| **A.+B.** | Total oil sales ($000s) | 1,845 | 1,274 | 5,276 | 3,633 |

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 that 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 prices during the current quarter increased by 80% compared to the previous year's quarter based on increased benchmark Brent pricing. The realized weighted average price of oil lifting sales was US $85.11/bbl for the current quarter compared to US $47.38/bbl during Q3 fiscal 2021. This increase in pricing was partially offset by a 13% decrease in production.

During the current quarter, the value of pipeline oil decreased by $0.2 million as a 1,500 bbl decrease was partially offset by a US $0.71/bbl increase in pricing. After adjusting for changes in pipeline oil, sales for the current quarter are $1.9 million, which is a 50% increase from the $1.3 million recorded during the prior year's quarter.

The following table outlines average benchmark prices:

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Brent oil ($/bbl) | 100.28 | 57.58 | 92.45 | 52.09 |
| Brent oil (US$/bbl) | 79.59 | 44.29 | 73.96 | 38.87 |
| Number of CAD$ for 1 AUS$ | 0.92 | 0.95 | 0.93 | 0.94 |
| Number of CAD$ for 1 US$ | 1.26 | 1.30 | 1.25 | 1.34 |

**($000s)**

**Operating netbacks**

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Oil sales | 1,845 | 1,274 | 5,276 | 3,633 |
| Realized gain (loss) on financial instruments | - | 227 | - | 1,033 |
| Royalties | (111) | (76) | (317) | (218) |
| Operating expenses | (645) | (601) | (2,275) | (2,364) |
| Operating netback | 1,089 | 824 | 2,684 | 2,084 |
| **($/bbl)** | | | | |
| Oil sales | 109.40 | 65.52 | 103.15 | 58.31 |
| Realized gain (loss) on financial instruments | - | 11.67 | - | 16.58 |
| Royalties | (6.58) | (3.91) | (6.20) | (3.50) |
| Operating expenses | (38.24) | (30.91) | (44.48) | (37.94) |
| Netback | 64.58 | 42.37 | 52.47 | 33.45 |

Operating netbacks in Q3 fiscal 2022 were $1.1 million or $64.58/bbl compared to Q3 fiscal 2021 at $0.8 million or $42.37/bbl. For the nine months ended Q3 fiscal 2022, operating netback was $2.7 million or $52.47/bbl. This compares to $2.1 million or $33.45/bbl for the nine months ended Q3 fiscal 2021. The primary reason for the higher operating netbacks per barrel during the current quarter compared to Q3 fiscal 2021 was the realization of a higher dollar per barrel on oil sales. During the current quarter, Bengal realized an average of $109.40/bbl as compared to $65.52/bbl on oil sales revenue for Q3 fiscal 2021. For the nine months ended Q3 fiscal 2022, Bengal realized an average price of $65.52/bbl compared to $58.31/bbl for the nine months ended Q3 fiscal 2021, excluding gains on financial instruments.

**Royalties**

**Royalties**

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Royalty expense ($000s) | 111 | 76 | 317 | 218 |
| $/bbl | 6.58 | 3.91 | 6.20 | 3.50 |
| % of revenue | 6 | 6 | 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 Q3 fiscal 2022 consistent with Q3 fiscal 2021.

**Operating Expenses**

| ($000s) Operating expenses | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Production | 91 | (24) | 637 | 354 |
| Transportation | 554 | 625 | 1,638 | 2,010 |
| | 645 | 601 | 2,275 | 2,364 |
| Production - $/bbl | 5.40 | (1.23) | 12.45 | 5.68 |
| Transportation - $/bbl | 32.85 | 32.14 | 32.02 | 32.26 |
| | 38.25 | 30.91 | 44.47 | 37.94 |

Total operating expense during the third quarter fiscal 2022 was $0.6 million or $38.25/bbl. This compares to $0.6 million of operating expenses for the third quarter fiscal 2021 or $30.91/bbl. Operating expenses per barrel were higher in the current quarter due to the impact of joint venture audit adjustments from the 12 months ended December 2020. The Company has not completed an audit for the 12 months ended December 2021 and have therefore not recorded any corresponding adjustments. The Company's ability to conduct joint venture audits has been impacted by the global COVID-19 pandemic and the audit process is expected to commence as soon as practical.

**General and Administrative (G&A) Expenses**

| ($000s) G&A | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Total G&A | 762 | 452 | 1,893 | 1,498 |
| Capitalized G&A | (54) | - | (133) | (7) |
| Net G&A | 708 | 452 | 1,760 | 1,491 |

Total G&A expense for Q3 fiscal 2022 was $0.7 million as compared to $0.5 million for Q3 fiscal 2021. The increase in G&A reflects the addition of Australian based employees to manage the Company's operated development programs as well as legal and consulting fees supporting the review of strategic growth opportunities.

**Share-based Compensation ("SBC")**

| ($000s) SBC | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Expensed share-based compensation | 36 | 1 | 98 | 6 |
| Capitalized share-based compensation | 2 | - | 5 | - |
| | 38 | 1 | 103 | 6 |

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. 11,340,000 stock options were issued on March 22, 2021, with an additional 1,050,000 granted in the current quarter with a fair value of $0.07 per option. These options only vest one-third on the first, second and third year following the grant.

**Depletion and Depreciation (DD&A)**

| ($000s)<br>DD&A | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Petroleum and natural gas properties | 255 | 315 | 791 | 992 |
| Other assets | 1 | 2 | 3 | 5 |
| Right-of-use assets | 7 | 11 | 22 | 35 |
| | 263 | 328 | 816 | 1,032 |
| Petroleum and natural gas properties - $/bbl | 15.12 | 16.20 | 15.46 | 15.92 |

Production in Q3 fiscal 2022 was 16,865 bbls compared with 19,444 bbls in Q3 fiscal 2021. The lower production in Q3 fiscal 2022 when compared to Q3 fiscal 2021 resulted in the lower depletion expense. The depletable costs base is slightly lower during the current quarter, resulting in a lower DD&A per bbl when compared to Q3 fiscal 2021.

**Impairment Expense**

| ($000s)<br>Impairment expense | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Exploration and evaluation assets | 568 | - | 568 | - |
| Petroleum and natural gas properties | - | - | - | - |
| | 568 | - | 568 | - |

During the quarter, the Company recorded $0.6 million of impairment associated with uneconomic drilling results at the Chef-1 location in the ATP 752 block. During Q3 fiscal 2021, the Company did not identify any impairment or impairment reversal triggers.

**Finance Expense**

| ($000s)<br>Finance expense | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Accretion expense on decommissioning and restoration liability | 7 | 5 | 23 | 14 |
| Interest on lease liability | 2 | 2 | 4 | 8 |
| Interest on credit facility | - | 224 | - | 745 |
| Interest – other | - | - | 5 | - |
| | 9 | 231 | 32 | 767 |

Following the settlement of the Company's Westpac debt facility during Q4 fiscal 2021, there was no outstanding credit facility.

## CAPITAL EXPENDITURES

| ($000s)<br>Capital expenditures | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Preparation, geological and geophysical | 789 | 34 | 1,359 | 133 |
| Drilling | 571 | - | 575 | 12 |
| Completions | 32 | 464 | 244 | 576 |
| Acquisition | - | - | - | - |
| | 1,392 | 498 | 2,178 | 721 |
| Exploration and evaluation expenditures | 633 | - | 643 | - |
| Development and production expenditures | 759 | 498 | 1,535 | 721 |
| | 1,392 | 498 | 2,178 | 721 |

Bengal incurred $1.4 million in capital expenditures during Q3 fiscal 2022 as compared to $0.5 million in Q3 fiscal 2021. The majority of the current quarter expenditures relate to site preparation and preliminary activities to support the Company's future development plans at its recently acquired 100% working interest PL 1110 Wareena, PL 1109 Ghina, PL 188 Ramses, PL 411 Karnak, PPL 138 pipeline.

## SHARE CAPITAL

| Trading history | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| High ($) | 0.12 | 0.04 | 0.14 | 0.06 |
| Low ($) | 0.07 | 0.03 | 0.07 | 0.02 |
| Close ($) | 0.08 | 0.04 | 0.08 | 0.04 |
| Volume (000s) | 2,897 | 3,246 | 8,293 | 9,392 |
| Shares outstanding (000s) | 432,987 | 102,267 | 432,987 | 102,267 |
| Weighted average shares outstanding (000s) - basic and diluted | 432,987 | 102,267 | 432,987 | 102,267 |

At February 9, 2022, there were 432,986,394 common shares issued and outstanding, together with 12,625,000 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 $2.5 million at December 31, 2021 (March 31, 2021 - $2.0 million).

At December 31, 2021, the Company had working capital, comprised of current assets less current liabilities, of $2.9 million, including cash and short-term deposits of $3.3 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.

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 $8.2 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 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 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 ATP 934 work program consists of 260 $km^2$ of 3D seismic and up to three wells.

At December 31, 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 | 8.2 (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 December 31, 2021, at an exchange rate of AUS$1.00 = CAD$0.9220.

(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.

At December 31, 2021, the contractual obligations for which the Company is responsible are as follows:

| **($000s) Contractual obligations January 2022 to March 2057** | **Total** | **Less than 1 year** | **1-3 years** | **4-5 years** | **After 5 years** |
|---|---|---|---|---|---|
| Office lease | 232 | 101 | 131 | - | - |
| Decommissioning and restoration | 3,371 | - | 715 | 58 | 2,598 |
| | 3,603 | 101 | 846 | 58 | 2,598 |

**OFF BALANCE SHEET TRANSACTIONS**

The Company does not have any off-balance sheet transactions.

**SELECTED QUARTERLY INFORMATION**

| **Fiscal quarter ($000s)** | Dec 31 2021 Q3 2022 | Sep 30 2021 Q2 2022 | Jun 30 2021 Q1 2022 | Mar 31 2020 Q4 2021 | Dec 31 2020 Q3 2021 | Sep 30 2020 Q2 2021 | June 30 2020 Q1 2021 | Mar 31 2020 Q4 2020 |
|---|---|---|---|---|---|---|---|---|
| Oil sales | 1,845 | 1,884 | 1,547 | 1,601 | 1,274 | 1,260 | 1,099 | 1,140 |
| Cash flow from (used in) operations | 607 | 565 | (774) | 70 | 62 | (166) | 335 | 27 |
| Funds from (used in) operations(1) | 381 | 417 | 119 | (158) | 130 | (67) | (210) | (849) |
| Per share – basic and diluted ($) | 0.00 | 0.00 | 0.00 | (0.00) | 0.00 | (0.00) | (0.00) | (0.01) |
| Net (loss) income | (494) | 85 | (182) | 3,040 | 670 | (182) | 400 | (2,196) |
| Per share – basic and diluted ($) | (0.00) | 0.00 | (0.00) | 0.01 | 0.01 | (0.00) | 0.00 | (0.02) |
| Capital expenditures | 1,392 | 649 | 137 | 533 | 498 | 124 | 99 | (68) |
| Working capital (deficiency) | 2,943 | 3,961 | 4,218 | 4,270 | (15,068) | (15,129) | (14,908) | (14,434) |
| Total assets | 42,835 | 42,321 | 42,429 | 44,246 | 41,914 | 41,138 | 41,097 | 39,572 |
| Shares outstanding (000s) | 432,987 | 432,987 | 432,987 | 432,987 | 102,267 | 102,267 | 102,267 | 102,267 |
| Operations: | | | | | | | | |
| Oil volumes (bbls/d) | 183 | 199 | 176 | 202 | 211 | 231 | 238 | 254 |
| Operating netback(1) ($/bbl) | 64.58 | 51.08 | 41.30 | 36.77 | 42.37 | 27.15 | 31.60 | 10.77 |

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

Production has been declining over the past eight quarters due to natural reservoir declines in the Cuisinier oil field, with the exception of Q2 fiscal 2022, which benefited from incremental production from two wells offline for work-over activity in Q1 fiscal 2022. Ongoing volatility with a generally increasing trend in US Brent prices during the past eight quarters resulted in a trend towards increased oil sales and operating netbacks. Cash flow from operations has been consistent over most quarters except for Q1 fiscal 2022 when revenue and cash flow were significantly impacted by low commodity prices. Over the years, net (losses)/income have been affected by fluctuations in foreign exchange, hedging gains and losses and capital development. Net income from Q4 fiscal 2020 through Q4 fiscal 2021 was materially impacted by the impact of US/CAD exchange rates to the Company's US dollar Westpac Credit facility as well as the impact of gains and losses on derivative financial instruments. After the repayment of debt and cancellation of all derivative instruments in Q4 fiscal 2021, net income is less subject to foreign exchange and commodity price volatility. 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.

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

### Disclosure Controls and Procedures

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

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

**Internal Controls over Financial Reporting**

The Chief Executive Officer and Chief Financial Officer of Bengal are responsible for designing and ensuring the operating effectiveness of internal controls over financial reporting ("ICFR") or causing them to be designed and operating effectively under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Bengal's certifying officers have assessed the design and operating effectiveness of internal controls over financial reporting and concluded that the Company's ICFR were not effective at December 31, 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 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 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 (loss) on foreign exchange and unrealized gain (loss) on financial instruments plus non-cash impairment of non-current assets. Adjusted net income (loss) per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of earnings (loss) per share. The objective of calculating adjusted net income is provides guidance towards net income in the absence of foreign exchange and financial instrument gains or losses which are outside of the Company's immediate control.

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 operations to funds from operations, which is used in this MD&A:

| **($000s)** | **Three months ended December 31** | | **Nine months ended December 31** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Cash from operating activities | 607 | 62 | 398 | 231 |
| Changes in non-cash working capital | (226) | 68 | 519 | (378) |
| Funds from (used in) operations | 381 | 130 | 917 | (147) |

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

| **($000s)** | **Three months ended December 31** | | **Nine months ended December 31** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Net (loss) income | (494) | 670 | (591) | 888 |
| Unrealized loss on financial instruments | - | 285 | - | 1,539 |
| Unrealized foreign exchange gain | - | (1,218) | - | (3,814) |
| Non-cash impairment of non-current assets | 568 | - | 568 | - |
| Adjusted net income (loss) | 74 | (263) | (23) | (1,387) |

## ABBREVIATIONS

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

| | | |
|---|---|---|
| bbl | - | barrel |
| bbls | - | barrels |
| bbls/d | - | barrels per day |
| bopd | - | barrels of oil per day |
| $/bbl | - | dollars per barrel |
| $ft^3$ | - | cubic feet |
| 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 are 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. Additionally, such actions have resulted in volatility and disruptions in regular business operations, supply chains and financial markets.

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;*
- *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 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;*
- *The future development prospects generated by the initial development activities at PL 1110 (previously 114) Wareena, PL 1109 (previously 157) Ghina, PL 188 Ramses, PL 411 Karnak, PPL 138 pipeline;*
- *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 2022 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;*
- *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
James B. Howe
Peter Lansom
Dr. Brian J. Moss
Robert D. Steele (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

Dr. Brian J. Moss (Chairman)
Peter Lansom
Robert D. Steele

## COMPENSATION COMMITTEE

Dr. Brian J. Moss (Chairman)
Robert D. Steele
Peter Lansom

## GOVERNANCE AND NOMINATING COMMITTEE

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

## HEALTH SAFETY AND ENVIRONMENT COMMITTEE

Peter Lansom (Chairman)
Robert D. Steele
Dr. Brian J. Moss

## 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

Bengal
ENERGY LTD.

# Interim Condensed Consolidated Financial Statements

## (Unaudited)

### Three and Nine Months Ended December 31, 2021 and 2020

# BENGAL ENERGY LTD.

## INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Thousands of Canadian dollars)

(unaudited)

| As at | Notes | December 31 2021 | March 31 2021 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | $ 3,317 | $ 4,531 |
| Restricted cash | | 40 | 40 |
| Trade and other receivables | | 1,538 | 1,224 |
| Prepaid expenses and deposits | | 548 | 445 |
| | | 5,443 | 6,240 |
| Exploration and evaluation assets | 5 | 9,597 | 9,890 |
| Property, plant and equipment | 6 | 27,795 | 28,116 |
| Total assets | | $ 42,835 | $ 44,246 |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities: | | | |
| Trade and other payables | | $ 2,465 | $ 1,939 |
| Current portion of lease liability | | 35 | 31 |
| | | 2,500 | 1,970 |
| Decommissioning and restoration liability | 7 | 3,371 | 3,478 |
| Lease liability | | 41 | 68 |
| | | 3,412 | 5,516 |
| Shareholders' equity: | | | |
| Share capital | 8 | 114,636 | 114,636 |
| Contributed surplus | | 7,973 | 7,870 |
| Accumulated other comprehensive loss | | (1,655) | (336) |
| Deficit | | (84,031) | (83,440) |
| | | 36,923 | 38,730 |
| Total liabilities and shareholders' equity | | $ 42,835 | $ 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)

| | Notes | Three months ended December 31 2021 | Three months ended December 31 2020 | Nine months ended December 31 2021 | Nine months ended December 31 2020 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Oil sales | 10 | $ 1,845 | $ 1,274 | $ 5,276 | $ 3,633 |
| Royalties | | (111) | (76) | (317) | (218) |
| | | 1,734 | 1,198 | 4,959 | 3,415 |
| Realized gain on financial instruments | 13 | - | 227 | - | 1,033 |
| Unrealized loss on financial instruments | 13 | - | (285) | - | (1,539) |
| | | 1,734 | 1,140 | 4,959 | 2,909 |
| Expenses | | | | | |
| General and administrative | | 708 | 452 | 1,760 | 1,491 |
| Operating | | 645 | 601 | 2,275 | 2,364 |
| Depletion and depreciation | 6 | 263 | 328 | 816 | 1,032 |
| Impairment | 5 | 568 | - | 568 | - |
| Share-based compensation | | 36 | 1 | 98 | 6 |
| Foreign exchange (gain) loss | | (1) | (1,143) | 1 | (3,540) |
| | | 2,219 | 239 | 5,518 | 1,353 |
| Other (income) expense | | | | | |
| Other | | - | - | - | (99) |
| Finance expense | 12 | 9 | 231 | 32 | 767 |
| Net (loss) income | | (494) | 670 | (591) | 888 |
| Exchange differences on translation of foreign operations | | 208 | 563 | (1,319) | 2,199 |
| Comprehensive (loss) income | | $ (286) | $ 1,233 | $ (1,910) | $ 3,087 |
| Income (loss) per share - basic & diluted | 11 | $ (0.00) | $ 0.01 | (0.00) | $ 0.01 |
| Weighted average shares outstanding (000s) – basic and diluted | 11 | 432,987 | 102,267 | 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 nine months ended December 31 | 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 | 98 | 6 |
| Share-based compensation – capitalized | 5 | - |
| Balance at end of period | 7,973 | 7,867 |
| **Accumulated other comprehensive (loss) income** | | |
| Balance at beginning of period | (336) | (1,651) |
| Exchange differences translation of foreign operations | (1,319) | 2,199 |
| Balance at end of period | (1,655) | 548 |
| **Deficit** | | |
| Balance at beginning of period | (83,440) | (87,368) |
| Net (loss) income | (591) | 888 |
| Balance at end of period | (84,031) | (86,480) |
| **Total shareholders' equity** | $ 36,923 | $ 20,035 |

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)

| | Notes | Three months ended December 31 2021 | Three months ended December 31 2020 | Nine months ended December 31 2021 | Nine months ended December 31 2020 |
|---|---|---|---|---|---|
| Operating activities: | | | | | |
| Net (loss) income | | $ (494) | $ 670 | $ (591) | $ 888 |
| Add (deduct) non-cash items | | | | | |
| Depletion and amortization | | 263 | 328 | 816 | 1,032 |
| Accretion on decommissioning and restoration liability | | 7 | 5 | 23 | 14 |
| Accretion on credit facility | | - | 57 | - | 180 |
| Share-based compensation | | 36 | 1 | 98 | 6 |
| Interest on lease liability | | 2 | 2 | 4 | 8 |
| Impairment | | 568 | - | 568 | - |
| Unrealized loss on financial Instruments | | - | 285 | - | 1,539 |
| Unrealized foreign exchange gain | | (1) | (1,218) | (1) | (3,814) |
| Funds from (used in) operations | | 381 | 130 | 917 | (147) |
| Change in non-cash working capital | 15 | 226 | (68) | (519) | 378 |
| Net cash from operating activities | | 607 | 62 | 398 | 231 |
| Investing activities: | | | | | |
| Exploration and evaluation expenditures | 5 | (633) | - | (643) | - |
| Petroleum and natural gas property expenditures | 6 | (759) | (498) | (1,535) | (721) |
| Change in restricted cash | | - | - | - | 100 |
| Change in non-cash working capital | 15 | 348 | 283 | 606 | 252 |
| Net cash used in investing activities | | (1,044) | (215) | (1,572) | (369) |
| Financing activities: | | | | | |
| Lease payments | | (9) | (15) | (27) | (44) |
| Change in non-cash working capital | 15 | - | - | - | (4) |
| Net cash used in financing activities | | (9) | (15) | (27) | (48) |
| Net decrease in cash and cash equivalents | | (446) | (168) | (1,201) | (186) |
| Cash and cash equivalents, beginning of period | | 3,758 | 1,055 | 4,531 | 998 |
| Impact of foreign exchange on cash and cash equivalents | | 5 | 21 | (13) | 96 |
| Cash and cash equivalents, end of period | | $ 3,317 | $ 908 | $ 3,317 | $ 908 |

See accompanying notes to the interim condensed consolidated 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, 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 and nine months ended December 31, 2021, and 2020 are comprised of the Company and its wholly owned subsidiaries including Bengal Energy Australia (Pty) Ltd. 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 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.

These financial statements were approved and authorized for issuance by the Board of Directors on February 9, 2022.

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. SUMMARY OF 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. While commodity prices have rebounded during the past year, uncertainties remain with regards to future pricing. 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 potential for challenging economic conditions may have significant adverse impacts on the Company, including material declines in revenue and cash flows, and related impacts to working capital levels 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 | 9,930 |
| Additions | 61 |
| Exchange adjustments | 899 |
| Balance, March 31, 2021 | 9,890 |
| Additions | 643 |
| Impairment | (568) |
| Capitalized share-based compensation | 1 |
| Exchange adjustments | (369) |
| Balance, December 31, 2021 | 9,597 |

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 | 5,103 |
| PL 303 – Barta Block Cuisinier (controlling permit ATP 752) | 2,583 |
| ATP 934 – Barrolka | 1,911 |
| Balance, December 31, 2021 | 9,597 |

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.

During the quarter, the Company recorded $0.6 million of impairment associated with uneconomic drilling results in the ATP 752 Barta Block.

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

| ($000s) | Petroleum and natural gas properties | Other assets | Right-of-use assets | Total |
|---|---|---|---|---|
| *Cost:* | | | | |
| Balance, April 1, 2020 | 43,822 | 344 | 219 | 44,385 |
| Additions | 1,535 | - | - | 1,535 |
| 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 | 1,535 | - | - | 1,535 |
| Capitalized share-based compensation | 4 | - | - | 4 |
| Exchange adjustments | (2,621) | - | - | (2,621) |
| Balance, December 31, 2021 | 49,695 | 344 | 143 | 50,182 |

| ($000s) | Petroleum and natural gas properties | Other assets | Right-of-use assets | Total |
|---|---|---|---|---|
| *Accumulated depletion, depreciation and impairment losses:* | | | | |
| 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 | 791 | 3 | 22 | 816 |
| Exchange adjustments | (1,580) | - | - | (1,580) |
| Balance, December 31, 2021 | 21,976 | 328 | 83 | 22,387 |

| ($000s) | | | | |
|---|---|---|---|---|
| *Net carrying amount:* | | | | |
| At March 31, 2021 | 28,015 | 19 | 82 | 28,116 |
| At December 31, 2021 | 27,719 | 16 | 60 | 27,795 |

At December 31, 2021, there were no indicators of impairment or impairment reversal. As a result, no impairment or impairment reversal testing was conducted.

During the nine months ended December 31, 2021, the Company capitalized $0.1 million of general and administrative expense (2020 - $nil).

The calculation of depletion for the three and nine months ended December 31, 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 |
| Balance, March 31, 2021 | 3,478 |
| Accretion | 23 |
| Exchange adjustments | (130) |
| Balance, December 31, 2021 | 3,371 |

The Company's decommissioning liabilities result from ownership interests in petroleum and natural gas properties. The Company estimates the total inflation-adjusted undiscounted amount of cash flows required to settle its decommissioning and restoration costs at December 31, 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 December 31, 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 December 31, 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 grant.

Stock options granted under the plan can be exercised on a cashless basis, whereby the recipient 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 recipient elects so.

A summary of stock option activity is presented below:

| | Options | Weighted average exercise price $ |
|---|---|---|
| Balance, March 31, 2021 | 13,716,667 | 0.08 |
| Expired | (641,667) | 0.10 |
| Forfeited | (1,500,000) | 0.08 |
| Granted | 1,050,000 | 0.09 |
| Balance, December 31, 2021 | 12,625,000 | 0.08 |
| Exercisable, December 31, 2021 | 1,735,000 | 0.10 |

The fair value of the options granted during fiscal 2022 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

| | |
|---|---|
| **Assumptions:** | |
| Risk-free interest rate (%) | 1.50 |
| Expected life (years) | 5 |
| Expected volatility (%)[(1)] | 119 |
| Estimated forfeiture rate (%) | 20 |
| Weighted average fair value of options granted | $0.07 |
| Weighted average share price on date of grant | $0.09 |

(1) Expected volatility is estimated by considering historic, average share price volatility.

The fair value of the 1,050,000 stock options granted during Q3 fiscal 2022 was approximately $78,000.

## 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. At the date of this report, the Company has received no official notices regarding expected COSP terms after March 31, 2022 resulting in additional uncertainty with regards to future tolls and tariffs. Along with other producers, Bengal has pre-emptively initiated discussions with the COSP joint venture seeking to limit the extent of any cost increase and is currently also evaluating alternative transportation and marketing options." 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 December 31 2021 | Three months ended December 31 2020 | Nine months ended December 31 2021 | Nine months ended December 31 2020 |
|---|---|---|---|---|
| Net (loss) income for the period ($000s) | (494) | 670 | (591) | 888 |
| Weighted average number of | | | | |

| | | | | |
|---|---|---|---|---|
| common shares - basic and diluted | 432,987 | 102,267 | 432,987 | 102,267 |
| Basic and diluted (loss) income per share | (0.00) | 0.00 | (0.00) | 0.01 |

For the three and nine months ended December 31, 2021, there were 12,625,000 options outstanding of which 12,625,000 (2020 – 2,460,000) were considered anti-dilutive.

## 12. FINANCE EXPENSE

| ($000s) | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Accretion on decommissioning and restoration liability | 7 | 5 | 23 | 14 |
| Interest on lease liability | 2 | 2 | 4 | 8 |
| Interest on credit facility | - | 224 | - | 745 |
| Interest – other | - | - | 5 | - |
| | 9 | 231 | 32 | 767 |

## 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 December 31, 2021, Bengal's receivables include $1.5 million (March 31, 2021 - $1.2 million) from joint venture partners, of which $0.6 million has been collected subsequent to December 31, 2021.

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 December 31, 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 December 31, 2021 (March 31, 2021 – $nil) and did not provide for any doubtful accounts, nor was it required to write-off any receivables during the nine months ended December 31, 2021.

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 $2.5 million at December 31, 2021 (March 31, 2021 - $2.0 million).

At December 31, 2021, the Company had working capital of $2.9 million, including cash and short-term deposits of $3.3 million and restricted cash of $0.04 million, compared to working capital of $4.3 million at March 31, 2021.

The Company has adequate working capital and anticipates sufficient cash flow to maintain operations and meet near term capital expenditures. The Company may advance its growth initiatives by accessing external sources of capital if attractive financing alternatives, either debt or equity, become available and are appropriate.

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 December 31, 2021:

| **($000s)** | **CAD$** | **AUS$** | **US$** | **Total** |
|---|---|---|---|---|
| Cash and short-term deposits | 2,569 | 47 | 701 | 3,317 |
| Restricted cash | 40 | - | - | 40 |
| Trade and other receivables | 7 | 37 | 1,494 | 1,538 |
| Trade and other payables | (154) | (2,311) | - | (2,465) |
| Lease liability | (76) | - | - | (76) |
| | 2,386 | (2,227) | 2,195 | 2,354 |

| **Exchange rates as at Dec 31:** | 2021 | 2020 |
|---|---|---|
| Number of CAD$ for 1 AUS$ | 0.92 | 0.98 |
| Number of CAD$ for 1 US$ | 1.27 | 1.27 |

**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 nine months ended December 31, 2020, the Company recorded a realized gain of $1.0 million and an unrealized loss of $1.5 million on its derivative contracts. At March 31, 2021 and December 31, 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 December 31, 2021 as the funds are not invested in interest-bearing instruments. The Company had no interest rate derivatives at December 31, 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. The February 2021 recapitalization transaction materially realigned the Company's capital structure by eliminating 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. The Company's working capital position is $2.9 million at December 31, 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

**($000s)**

**Change in non-cash working capital items**

| | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Trade and other receivables | (78) | 162 | (314) | 385 |
| Prepaid expenses and deposits | 88 | (87) | (103) | (185) |
| Trade and other payables | 742 | 132 | 526 | (348) |
| Effect of change in foreign exchange rates | (29) | 8 | 22) | 78 |
| | 574 | 215 | 87 | 626 |

**Attributable to:**

| | | | | |
|---|---|---|---|---|
| Operating | 226 | (68) | (519) | 378 |
| Investing | 348 | 283 | 606 | 252 |
| Financing | - | - | - | (4) |
| | 574 | 215 | 87 | 626 |

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

| ($000s)<br>Cash interest paid and received | Three months ended December 31 | | Nine months ended December 31 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Cash interest paid | 5 | 175 | 5 | 577 |

## 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 $km^2$ of 3D seismic and up to three wells.

At December 31, 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 | 8.2(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 December 31, 2021 at an exchange rate of AUS$1.00 = CAD$0.9220.

(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.

At December 31, 2021, the contractual obligations for which the Company is responsible are as follows:

| **($000s)**<br>**Contractual obligations January 2022 to March 2057** | **Total** | **Less than 1 year** | **1-3 years** | **4-5 years** | **After 5 years** |
|---|---|---|---|---|---|
| Office lease | 232 | 101 | 131 | - | - |
| Decommissioning and restoration | 3,371 | - | 715 | 58 | 2,598 |
| | 3,603 | 101 | 846 | 58 | 2,598 |

**17. SEGMENTED INFORMATION**

As at December 31, 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' fees, 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)**<br>**For the nine months ended December 31, 2021** | **Australia** | **Corporate** | **Total** |
|---|---|---|---|
| Revenue | 5,276 | - | 5,276 |
| Interest expense | 5 | 4 | 9 |
| Depletion and depreciation | 791 | 25 | 816 |
| Impairment | 568 | - | 568 |
| Net income (loss) | 153 | (744) | (591) |
| Exploration and evaluation expenditures | 643 | - | 643 |
| Petroleum and natural gas property expenditures | 1,535 | - | 1,535 |
| **($000s)** | | | |
| **December 31, 2021** | | | |
| Exploration and evaluation assets | 9,597 | - | 9,597 |
| Petroleum and natural gas properties | 27,719 | - | 27,719 |
| Total assets | 40,095 | 2,740 | 42,835 |
| Total liabilities | 5,682 | 230 | 5,912 |

**($000s)**

**For the nine months ended December 31, 2020**

| | Australia | Corporate | Total |
|---|---|---|---|
| Revenue | 3,633 | - | 3,633 |
| Interest expense | 745 | 8 | 753 |
| Depletion and depreciation | 992 | 40 | 1,032 |
| Impairment | - | - | - |
| Net income (loss) | 1,318 | (430) | 888 |
| Petroleum and natural gas property expenditures | 721 | - | 721 |

**($000s)**

**December 31, 2020**

| | | | |
|---|---|---|---|
| Exploration and evaluation assets | 10,080 | - | 10,080 |
| Petroleum and natural gas properties | 29,164 | - | 29,164 |
| Total assets | 41,517 | 397 | 41,914 |
| Total liabilities | 21,586 | 293 | 21,879 |

**($000s)**

**For the three months ended December 31, 2021**

| | Australia | Corporate | Total |
|---|---|---|---|
| Revenue | 1,845 | - | 1,845 |
| Interest expense | - | 2 | 2 |
| Depletion and depreciation | 254 | 9 | 263 |
| Impairment | 568 | - | 568 |
| Net loss | (195) | (299) | (494) |
| Exploration and evaluation expenditures | 633 | - | 633 |
| Petroleum and natural gas property expenditures | 759 | - | 759 |

**($000s)**

**For the three months ended December 31, 2020**

| | Australia | Corporate | Total |
|---|---|---|---|
| Revenue | 1,274 | - | 1,274 |
| Interest expense | 224 | 2 | 226 |
| Depletion and depreciation | 314 | 14 | 328 |
| Impairment | - | - | - |
| Net income (loss) | 740 | (70) | 670 |
| Petroleum and natural gas property expenditures | 498 | - | 498 |

# 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
James B. Howe
Peter Lansom
Dr. Brian J. Moss
Robert D. Steele (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

Dr. Brian J. Moss (Chairman)
Peter Lansom
Robert D. Steele

## COMPENSATION COMMITTEE

Dr. Brian J. Moss (Chairman)
Robert D. Steele
Peter Lansom

## GOVERNANCE AND NOMINATING COMMITTEE

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

## HEALTH SAFETY AND ENVIRONMENT COMMITTEE

Peter Lansom (Chairman)
Robert D. Steele
Dr. Brian J. Moss

## 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