Consolidated Financial Statements

Years Ended
March 31, 2017 and 2016

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards outlined in the notes to the consolidated financial statements. The consolidated financial statements include certain estimates that reflect management's best judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards. The financial information contained in the annual report is consistent with that in the consolidated financial statements.

Management is also responsible for establishing and maintaining appropriate systems of internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to management regarding the preparation and presentation of the consolidated financial statements. Management tested and evaluated the effectiveness of its disclosure controls and procedures and internal controls over financial reporting as at March 31, 2017. During this evaluation, management identified material weaknesses due to the limited number of finance and accounting personnel at the Company dealing with complex and non-routine accounting transactions that may arise and due to a lack of segregation of duties and as a result the controls are not considered effective. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable but not absolute assurance that financial information is accurate and complete.

KPMG LLP, an independent firm of Chartered Professional Accountants, has been engaged, as approved by a vote of the shareholders at the Company's most recent annual general meeting, to examine the consolidated financial statements in accordance with Canadian generally accepted auditing standards and provide an independent professional opinion.

The audit committee of the Board of Directors with all of its members being independent directors, have reviewed the consolidated financial statements including notes thereto with management and KPMG LLP. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

(signed) "Chayan Chakrabarty"
Chayan Chakrabarty
President & Chief Executive Officer

(signed) "Jerrad Blanchard"
Jerrad Blanchard
Chief Financial Officer

To the Shareholders of Bengal Energy Ltd.

We have audited the accompanying consolidated financial statements of Bengal Energy Ltd., which comprise the consolidated statements of financial position as at March 31, 2017 and March 31, 2016, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bengal Energy Ltd. as at March 31, 2017 and March 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
June 15, 2017
Calgary, Canada

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Thousands of Canadian dollars)

As at March 31,	Notes	2017	2016
ASSETS			
Current assets:			
Cash and cash equivalents	3	$ 3,903	$ 3,010
Restricted cash		140	140
Accounts receivable		3,575	3,187
Prepaid expenses and deposits		193	155
Fair value of financial instruments	12	820	5,806
		8,631	12,298
Non-current assets:			
Exploration and evaluation assets	4	20,529	19,626
Petroleum and natural gas properties	5	28,546	24,875
Fair value of financial instruments	12	-	1,294
		49,075	45,795
Total assets		$ 57,706	$ 58,093
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		$ 1,484	$ 2,669
Current portion of credit facility	7	3,332	10,049
		4,816	12,718
Non-current liabilities:			
Decommissioning liability	8	1,516	1,422
Credit facility	7	13,168	7,816
Fair value of financial instruments	12	102	-
		14,786	9,238
Shareholders' equity:			
Share capital	9	98,100	94,151
Contributed surplus		7,645	7,442
Warrants		-	167
Accumulated other comprehensive income		2,085	1,335
Deficit		(69,726)	(66,958)
		38,104	36,137
Total liabilities and shareholders' equity		$ 57,706	$ 58,093

Commitments and contingencies (note 15)

Subsequent event (note 16)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

Director
Chayan Chakrabarty

Director
James B. Howe

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Thousands of Canadian dollars, except per share amounts)

For the years ended March 31,	Notes	2017	2016
Income			
Petroleum and natural gas revenue		**$9,294**	$11,187
Royalties		**213**	(728)
		9,507	10,459
Realized gain on financial instruments		**4,712**	3,840
Unrealized (loss) gain on financial instruments		**(6,308)**	1,861
		7,911	16,160
Operating expenses			
General and administrative		**2,740**	2,663
Operating and transportation		**4,864**	6,480
Depletion and depreciation	5	**2,309**	4,543
Pre-licensing & impairment	4,5	**-**	11,223
Share-based compensation		**29**	91
		9,942	25,000
Operating loss		**(2,031)**	(8,840)
Other expenses			
Other		**378**	(2)
Finance expenses	11	**(1,027)**	(1,318)
Foreign exchange		**(88)**	(220)
		(737)	(1,540)
Net loss		**(2,768)**	(10,380)
Exchange differences on translation of foreign operations		**750**	1,465
Total comprehensive loss for the year		**$(2,018)**	$(8,915)
Loss per share			
- Basic & diluted	9	**$(0.04)**	$(0.15)
Weighted average number of shares outstanding (000s)			
- Basic & diluted	9	**76,770**	68,178

See accompanying notes to the consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Thousands of Canadian dollars)

	Shares outstanding	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at April 1, 2015	68,177,796	$94,151	$167	$7,341	$ (130)	$(56,578)	$44,951
Net loss for the year	-	-	-	-	-	(10,380)	(10,380)
Comprehensive income for the year	-	-	-	-	1,465	-	1,465
Share-based compensation – expensed	-	-	-	91	-	-	91
Share-based compensation – capitalized	-	-	-	10	-	-	10
Balance at March 31, 2016	68,177,796	$94,151	$167	$7,442	$1,335	$(66,958)	$36,137
Balance at April 1, 2016	**68,177,796**	**$94,151**	**$167**	**$7,442**	**$1,335**	**$(66,958)**	**$36,137**
Net loss for the year	**-**	**-**	**-**	**-**	**-**	**(2,768)**	**(2,768)**
Comprehensive income for the year	**-**	**-**	**-**	**-**	**750**	**-**	**750**
Rights offering	**34,088,898**	**4,091**	**-**	**-**	**-**	**-**	**4,091**
Share issue costs		**(142)**	**-**	**-**	**-**	**-**	**(142)**
Expiry of warrants	**-**	**-**	**(167)**	**167**	**-**	**-**	**-**
Share-based compensation – expensed	**-**	**-**	**-**	**29**	**-**	**-**	**29**
Share-based compensation – capitalized	**-**	**-**	**-**	**7**	**-**	**-**	**7**
Balance at March 31, 2017	**102,266,694**	**$98,100**	**$ -**	**$7,645**	**$2,085**	**$(69,726)**	**$38,104**

See accompanying notes to the consolidated financial statements.

BENGAL ENERGY LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of Canadian dollars)

For the years ended March 31,	Notes	2017	2016
Operating activities			
Net loss for the year		**$ (2,768)**	$ (10,380)
Non-cash items:			
Depletion and depreciation		**2,309**	4,543
Pre-licensing & impairment		**-**	11,223
Accretion on decommissioning liability		**37**	33
Accretion on notes payable and credit facility /change in fair value of VARs		**278**	428
Share-based compensation		**29**	91
Loss (profit) on disposition of petroleum and natural gas properties		**(62)**	-
Unrealized loss (gain) on financial instruments		**6,308**	(1,861)
Unrealized foreign exchange (gain) loss		**65**	(29)
Funds from operations		**6,196**	4,048
Change in non-cash working capital	**14**	**(1,681)**	1,350
Net cash from operating activities		**4,515**	5,398
Investing activities			
Exploration and evaluation expenditures	**4**	**(407)**	(761)
Petroleum and natural gas properties	**5**	**(5,211)**	(2,586)
Changes in non-cash working capital	**14**	**(178)**	(579)
Net cash (used) in investing activities		**(5,796)**	(3,926)
Financing activities			
Proceeds from issuance of shares, net of issuance costs	**9**	**3,949**	-
Repayment of credit facility	**7**	**(1,984)**	-
Facility extension fees	**7**	**(150)**	-
Changes in non-cash working capital	**14**	**285**	(282)
Net cash (used in) from financing activities		**2,100**	(282)
Impact of foreign exchange on cash and cash equivalents		**74**	71
Net increase (decrease) in cash equivalents		**893**	1,261
Cash and cash equivalents, beginning of year		**3,010**	1,749
Cash and cash equivalents, end of year		**$ 3,903**	$ 3,010

See accompanying notes to the 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 for and development and production of oil and gas reserves in Australia, India and Canada. The consolidated financial statements (the "financial statements") of the Company as at March 31, 2017 and 2016 and for the years ended March 31, 2017 and 2016 are comprised of the Company and its wholly owned subsidiaries Bengal Energy International Inc., which are incorporated in Canada and Bengal Energy Australia (Pty) Ltd., Avery Resources (Northern Ireland) Ltd. and Northstar Energy Pty Ltd. which are incorporated in Australia respectively. The Company conducts many of its activities jointly with others; these financial statements reflect only the Company's proportionate interest in such activities.

Bengal's principal place of business and registered office is located at 2000, 715 5th Ave SW, Calgary, Alberta, Canada, T2P 2X6.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved and authorized for issuance by the Board of Directors on June 15, 2017.

b) Basis of measurement

These financial statements have been prepared on a historical cost basis, except for commodity contracts as discussed in Note 19.

c) Functional and presentation currency

The Company's presentation currency is Canadian dollars. The functional currency of the Canadian parent entity is Canadian dollars; the functional currency of the Indian subsidiary is US dollars; and the functional currency of the Australian subsidiary is Australian dollars.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and in banks and investments with an original maturity date of 90 days or less. Cash and cash equivalents at the end of the reporting period as shown in the statement financial position are comprised of:

As at ($000s)	March 31, 2017	March 31, 2016
Cash and bank balances	**1,655**	3,003
Short-term deposits	**2,248**	7
	3,903	3,010

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

($000s)	
Balance at March 31, 2015	28,245
Additions	651
Acquisition	110
Capitalized share-based compensation	4
E&E impairment loss	(10,475)
Exchange adjustments	1,091
Balance at March 31, 2016	**19,626**
Additions	**407**
Capitalized share-based compensation	**3**
Exchange adjustments	**493**
Balance at March 31, 2017	**20,529**

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.

In the process of management's internal analysis of prospectivity and planning for scheduled relinquishment in 2017 for ATP 732 Tookoonooka, Bengal identified several areas deemed to have low potential for future exploration at March 31, 2016. All historical costs associated with exploration in these select areas were impaired during fiscal 2016. No further impairments were incurred during fiscal 2017.

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

($000s)	**Australia**
ATP 732 - Tookoonooka	16,163
ATP 752 - Barta	1,243
ATP 934 - Barrolka	781
Other(1)	1,439
March 31, 2016 ($000)	19,626
	Australia
ATP 732 - Tookoonooka	16,573
ATP 752 - Barta	1,273
ATP 934 - Barrolka	1,114
Other(1)	1,569
March 31, 2017 ($000)	**20,529**

(1) Other includes capitalized G&A, share-based compensation and foreign exchange effects on assets denominated in foreign currencies.

5. PETROLEUM AND NATURAL GAS PROPERTIES

$000s	Petroleum and Natural Gas Properties	Corporate Assets	Total
Cost:			
Balance at April 1, 2015	38,701	342	39,043
Additions	2,586	-	2,586
Capitalized share-based compensation	6	-	6
Change in decommissioning obligation	(95)	-	(95)
Exchange adjustments	622	2	624
Balance at March 31, 2016	41,820	344	42,164
Additions	**5,211**	**-**	**5,211**
Capitalized share-based compensation	**4**	**-**	**4**
Change in decommissioning obligation	**80**	**-**	**80**
Exchange adjustments	**760**	**-**	**760**
Balance at March 31, 2017	**47,875**	**344**	**48,219**

$000s	Petroleum and Natural Gas Properties	Corporate Assets	Total
Accumulated depletion, depreciation and impairment losses:			
Balance at April 1, 2015	11,678	243	11,921
Depletion and depreciation charge	4,519	24	4,543
Impairment	748	-	748
Exchange adjustments	75	2	77
Balance at March 31, 2016	17,020	269	17,289
Depletion and depreciation charge	**2,291**	**18**	**2,309**
Exchange adjustments	**75**	**-**	**75**
Balance at March 31, 2017	**19,386**	**287**	**19,673**
Net carrying value			
At March 31, 2016	24,800	75	24,875
At March 31, 2017	**28,489**	**57**	**28,546**

The calculation of depletion for the year ended March 31, 2017 included $73.4 million for estimated future development costs associated with proved and probable reserves in Australia (March 31, 2016 - $83.6 million).

At March 31, 2016, the reserves relating to the Toparoa CGU were determined to be uneconomic. As a result, the carrying value of $0.7 million relating to the Toparoa CGU was impaired at March 31, 2016. Toparoa CGU was disposed of in September 2016. No impairment triggers requiring an impairment test to be performed were determined to exist relating to the Cuisinier CGU at March 31, 2017.

6. INCOME TAXES

The provision for income taxes differs from the amount obtained in applying the combined federal and provincial income tax rates to the loss for the year. The difference relates to the following items:

Years Ended March 31,	2017	2016
($000s)		
(Loss) income before taxes	(2,768)	(10,380)
Statutory tax rate	27%	26.5%
Expected income tax expense (recovery)	(747)	(2,751)
Foreign exchange	(269)	(258)
Stock-based compensation	8	24
Effect of change in tax rate & other	(45)	768
Other	-	(50)
Changes in unrecognized tax asset	1,053	2,267
Income tax recovery	-	-

The temporary deductible differences included in the Company's unrecognized deferred income tax assets are as follows:

As of March 31,	2017	2016
($000s)		
Non-capital losses	32,915	30,976
Net capital losses	5,740	5,742
P&NG properties	13,150	14,386
Share issue costs	557	764
Decommissioning obligations	102	101
	52,464	51,969

The components of the Company's and its subsidiaries deferred income tax liabilities are as follows:

As of March 31,	2017	2016
($000s)		
Property, plant & equipment	14,651	13,286
Fair value of financial instruments	216	2,130
Foreign exchange	(942)	(673)
Decommissioning obligations	(418)	(390)
Non-capital losses	(13,507)	(14,353)
	-	-

At March 31, 2017, the Company had approximately $29.3 million and $48.7 million of non-capital losses in Canada and Australia respectively (2016- $23.9 million and $49.8 million), available to reduce future taxable income. The Canadian non-capital losses expire at various dates from March 31, 2026 to 2037. The Australian non-capital losses have no term to expiry. The Company's ongoing drilling activities continue to generate deferred assets related to Petroleum Resource Rent Tax ("PRRT") in its Australia subsidiary, which has not been recognized.

The Company has temporary differences associated with its investments in its foreign subsidiaries, branches, and interests in joint ventures. At March 31, 2017, the Company has no deferred tax liabilities in respect of these temporary differences.

7. CREDIT FACILITY

Facility Agreement – Issued November 12, 2014 ($000s)		
Gross proceeds		15,364
Total cash fees		(844)
		14,520
Unrealized foreign exchange loss		2,747
		17,267
Accretion		598
Balance at March 31, 2016		**17,865**
Repayment		**(1,984)**
Facility extension fees		**(150)**
Unrealized foreign exchange loss		**491**
Accretion		**278**
Balance at March 31, 2017		**16,500**
	March 31, 2017	**March 31, 2016**
Current portion of credit facility	**3,332**	10,049
Non-current portion of credit facility	**13,168**	7,816

In October 2014, Bengal closed its US $25.0 million secured credit facility with WestPac Banking Corporation (“WestPac”) and placed an initial draw on November 12, 2014 of US $14.0 million. On August 26, 2016 following a US $1.5 million repayment, the Company extended the credit facility by 18 months to December 2018 with a borrowing base of US $15 million. The facility is secured by the Company’s producing assets in the Cuisinier field in Australia’s Cooper Basin, has a three-year term and carries an interest rate of US Libor plus 3.2%.

The credit facility is structured as a reserves-based revolving facility under a predetermined reduction schedule, to be evaluated based on existing reserves at each calculation date. The next calculation date will occur on June 30, 2017. In the event that the facility is not further extended, the reduction schedule would commence on December 31, 2017 and occur every six months thereafter until December 31, 2018 with a nominal reduction of US $5 million to the facility limit at each calculation date based on the Company’s existing reserve profile. The facility limit at March 31, 2017 is US $15 million, of which US $12.5 million is currently drawn. Refer to Note 12(b) for a repayment schedule.

The credit facility’s reserves based covenants include a debt service coverage ratio (cash available for debt payments divided by mandatory debt repayments) as well as a loan life coverage ratio (net present value of future cash available for debt service divided by the available facility). These covenants impact the Company’s available facility limit, and therefore the ability to secure its debt as a percentage of reserve forecasts and are evaluated at each calculation date. These covenants are calculated using inputs as prescribed by WestPac, and a default event triggered by a breach of covenants may result in a full redemption of all outstanding borrowings under the terms of the credit facility. The Company was in compliance with the stated covenants at March 31, 2017.

8. DECOMMISSIONING AND RESTORATION LIABILITY

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

Changes to decommissioning and restoration obligations were as follows:

March 31,	2017	2016
($000s)		
Decommissioning liability, beginning of year	1,422	1,454
Change in estimate net of disposals	(259)	(95)
Additions	278	-
Accretion	37	33
Exchange adjustments	38	30
Decommissioning liability, end of year	**1,516**	1,422

The Company's decommissioning liability results 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 March 31, 2017 is approximately $2.3 million (March 31, 2016 – $1.9 million) which will be incurred between 2020 and 2044. An inflation factor of 1.5% – 1.6% and a risk-free discount rate ranging between 1.63% and 2.49% have been applied to the decommissioning liability at March 31, 2017.

9. SHARE CAPITAL

(a) Authorized:

Unlimited number of common shares with no par value.

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

(b) Issued:

The following provides a continuity of share capital:

($000s)	Number of Shares	Amount
Balance at March 31, 2015 and 2016	**68,177,796**	**94,151**
Issued on exercise of rights offering	34,088,898	4,091
Share issue costs	-	(142)
Balance at March 31, 2017	**102,266,694**	**98,100**

The Company completed a rights offering (the "Rights Offering") which closed on December 29, 2016. Under the terms of the Rights Offering, each registered holder of common shares, at the close of business on December 2, 2016, received one Right for each common share held. Two Rights, plus the sum of $0.12 (the "Subscription Price"), entitled the holder thereof to acquire one common share. The Rights Offering resulted in 34,088,898 common shares being issued (16,056,853 common shares were issued to officers and directors) for total proceeds of $4.1 million. Share issuance costs of $142,000 were incurred related to the Rights Offering and have been recognized in the carrying value of share capital on the consolidated statement of financial position.

(c) Share-based compensation – stock options:

The Company has a share option plan for directors, officers, employees and consultants 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 three to five years and vest one-third immediately and one-third on each of the next two anniversary dates. The exercise price of each option equals the market price of the Company's common shares on the date of the grant. Effective with the option grant on December 21, 2012, vesting occurs one third after the first year and one third on each of the two subsequent anniversaries. Effective with the option grant of July 30, 2015, performance criteria were introduced, which allow for the vesting of stock options contingent on meeting pre-established targets based on internal and external metrics.

Bengal accounts for its share-based compensation plan using the fair value method. Under this method, each grant results in three instalments. The fair value of the first instalment is charged to profit or loss immediately. The remaining two instalments are charged to profit or loss over their respective vesting period of one and two years respectively. For options that vest one-third each year on the first year anniversary, the fair value of the options are charged to profit and loss over the three year vesting period. 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
Outstanding at March 31, 2015	**3,515,000**	**$ 0.89**
Granted	**1,072,500**	**0.18**
Forfeited	-	-
Expired	**(230,000)**	**0.86**
Exercised	-	-
Outstanding at March 31, 2016	**4,357,500**	**$ 0.72**
Granted	**-**	**-**
Forfeited	-	-
Expired	**(1,655,000)**	**1.19**
Exercised	-	-
Outstanding at March 31, 2017	**2,702,500**	**$ 0.43**
Exercisable at March 31, 2017	**1,808,756**	**$ 0.55**

	Options Outstanding			Options Exercisable	
Option Price (1)	**Number Outstanding**	**Exercise Price (2)**	**Remaining Life (3)**	**Number Exercisable**	**Exercise Price (2)**
$0.18 - $0.46	1,072,500	$0.18	3.33	178,756	$0.18
$0.47 - $0.65	1,630,000	$0.59	1.09	1,630,000	$0.59
Total	**2,702,500**	**$0.43**	**1.98**	**1,808,756**	**$0.55**

(1) Range of option exercise prices
(2) Weighted average exercise price of options
(3) Weighted average remaining contractual life of options in years

The fair value of options granted on July 30, 2015, were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

For the Year Ended March 31,	2016
Assumptions:	
Risk free interest rate (%)	1.5%
Expected life (years)	5 yr
Expected volatility (%)[1]	78%
Estimated forfeiture rate (%)	-
Weighted average fair value of options granted	$0.18
Weighted average share price on date of grant	$0.18

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

The fair value of stock options granted during the year ended March 31, 2016 was $122. No options were granted during the year ended March 31, 2017.

(d) Per share amounts:

Loss per share is calculated based on net loss and the weighted-average number of common shares outstanding.

For the Year Ended	**2017**	2016
($000s)		
Loss for the year	**$ (2,768)**	$ (10,380)
Weighted average number of common shares (basic)	**76,770**	68,178
Weighted average number of common shares (diluted)	**76,770**	68,178
Basic and diluted loss per share	**$(0.04)**	$(0.15)

For the twelve months ended March 31, 2017, there were 2,702,500 (March 31, 2016 – 4,357,000) options respectively considered anti-dilutive.

10. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The Company considers its directors and executives to be key management personnel. The key management personnel compensation is comprised of the following:

Year ended March 31,	**2017**	2016
($000s)		
Salaries & employee benefits	**986**	974
Share-based compensation[1]	**33**	79
General & administrative expenses	**1,019**	1,053

(1) Represents the amortization of share-based payment expense associated with the company's share-based compensation plans granted to key management personnel.

11. FINANCE INCOME/EXPENSES

Year ended March 31,	2017	2016
($000s)		
Interest income	**12**	9
Accretion on decommissioning obligations	**(37)**	(33)
Letter of credit charges	**(55)**	14
Interest on notes payable and credit facility	**(947)**	(1,311)
Accretion on notes payable and change in fair value of VARs	**-**	3
Finance income (expenses)	**(1,027)**	(1,318)

12. 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 March 31, 2017, Bengal's receivables consisted of $3.1 million (March 31, 2016 - $2.6 million) from joint venture partners and $0.4 million (March 31, 2016 - $0.6 million) of other trade receivables of which $2.8 million has been subsequently collected.

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

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

The Company had no accounts considered past due at March 31, 2017, (March 31, 2016 - $nil million). Past due is considered greater than 90 days outstanding.

The carrying amount of accounts receivable and cash and cash equivalents and fair value of financial instruments 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 March 31, 2017 and did not provide for any doubtful accounts, nor was it required to write-off any receivables during the twelve months ended March 31, 2017. Exposure to the carrying value of its financial instruments relates to the Company's commodity-based derivatives held by WestPac, which carries a Standard & Poor's credit rating of AA-. Management considers the credit risk of these instruments to be adequately mitigated by the credit stating of their holder, therefore no allowance has been established.

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 accounts payable and accrued liabilities, fair value of financial instruments, and credit facility and amounted to $18.1 million at March 31, 2017, (March 31, 2016- $20.6 million).

At March 31, 2017 the Company had $3.8 million of working capital, including cash and short-term deposits of $3.9 million and restricted cash of $0.1 million, compared to a working capital deficiency of $0.4 million at March 31, 2016.

The Company has a limit of US $15 million on its WestPac credit facility, of which US $12.5 million is currently drawn. The remaining US $2.5 million is available to be drawn. Proceeds from this facility are restricted for use within the Cuisinier production licence. Refer to Note 7 for discussion on repayment terms and covenants related to the credit facility.

The majority of the Company's oil sales are benchmarked on dated Brent prices which averaged US $48.66/bbl for the twelve months ended March 31, 2017. 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 towards lower risk projects with near-term cash flow upside. The Company has also entered into derivative commodity contracts to reduce the impact of price volatility.

Bengal will continue to monitor trends in commodity prices to ensure its financial obligations are met, while continuing to grow its asset base where appropriate. Under the current commodity price environment, the Company has no plans to use its internal source of cash to fund exploration activities. These are expected to be financed through farm-out or alternative financing sources.

The table below indicates the payment schedule for the credit facility:

Credit facility (US $000s)	
Fiscal year 2018	2,500
Fiscal year 2019	10,000
	12,500

(c) Market risk:

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

Foreign Currency Risk

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

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

The table below shows the Company's exposure to foreign currencies for its financial instruments:

As at March 31, 2017 ($000s)	CAD	AUD	USD	Total
Cash and short-term deposits	112	2,458	1,333	3,903
Restricted cash	140	-	-	140
Accounts receivable	19	3,556	-	3,575
Accounts payable and accrued liabilities	(278)	(1,201)	(5)	(1,484)
Credit facility	-	-	(16,500)	(16,500)
Fair value of financial instruments	-	-	718	718
	(7)	4,813	(14,454)	(9,648)

Commodity Price Risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of a change in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events that dictate the levels of supply and demand. Australian oil prices are based on the Dated Brent reference price, which trades at a premium to WTI.

At March 31, 2017, the following derivative contracts were outstanding and recorded at estimated fair value:

Time Period	Type of Contract	Quantity Contracted (bbls)	Price Floor (US$/bbl)	Price Ceiling (US$/bbl)
April 1, 2017 – May 31, 2017	Oil - Swap	15,814	80.00	80.00
April 1, 2017 – May 31, 2017	Oil – Put option	12,937	80.00	-
($000s)		**Oil - swap**	**Oil – put**	**Total**
Current fair value of financial instruments		561	459	1,020
Non-current fair value of financial instruments		-	-	-
Total		**561**	**459**	**1,020**

Time Period	Type of Contract	Quantity Contracted (bbls)	Price Floor (US$/bbl)	Price Ceiling (US$/bbl)
July 1, 2017 – December 31, 2018	Oil - Swap	67,373	47.00	47.00
July 1, 2017 – December 31, 2018	Oil – Put option	67,373	47.00	-
($000s)		**Oil - swap**	**Oil – put**	**Total**
Current fair value of financial instruments		(295)	95	(200)
Non-current fair value of financial instruments		(291)	189	(102)
Total		**(586)**	**284**	**(302)**

A US $1.00 increase in the future crude oil price per barrel would result in an approximate US $163,000 decrease in the fair value of financial instruments at March 31, 2017 while a $ US1.00 decrease would result in an increase of approximately US $163,000 in the fair value of the instruments.

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 March 31, 2017 as the funds are not invested in interest-bearing instruments. The Company's credit facility carries a floating interest rate based on quoted US dollar Libor rates. The Company had no interest rate derivatives at March 31, 2017.

For the year ended March 31, 2017, a 1% increase in US Libor would increase interest expense by $164,000.

13. CAPITAL MANAGEMENT

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

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

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.

The Company has drawn US $12.5 million from its US $15.0 million available credit facility and typically structures its debt position below 2.0 times projected 12-month net operating cash flows. The Company is within these parameters at March 31, 2017.

14. CHANGES IN NON-CASH WORKING CAPITAL

Year ended March 31,	**2017**	2016
($000s)		
Accounts receivable	**(388)**	(78)
Prepaid expenses and deposits	**(38)**	193
Accounts payable and accrued liabilities	**(1,185)**	380
Impact of foreign exchange	**37**	(6)
Total	**(1,574)**	489
Relating to:		
Operating	**(1,681)**	1,350
Financing	**285**	(282)
Investing	**(178)**	(579)
Total	**(1,574)**	489

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

Year ended March 31,	**2017**	2016
($000s)		
Cash interest paid	**705**	870
Cash interest received	**12**	9

15. COMMITMENTS AND CONTINGENCIES

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

The Queensland Government regulatory authority granted the Company Authority to Prospect 934 ("ATP 934") under a revised work program on March 1, 2015. The Company acquired an additional 21.43% working interest and received ministerial approval for the acquisition on August 11, 2015. Currently the Company holds a 71.43% operating interest in this permit. Work program consists of 200 kilometers of 3D seismic and up to three wells, which would require a discretionary capital spend of $2.1 million in 2017 and a further discretionary $2.1 million in 2018 net to Bengal.

Country and Permit	Work Program	Obligation Period Ending	Estimated Expenditure (net) (millions CAD$)(1)
Onshore Australia – ATP 934P	200 km^2 of 3D seismic and up to three wells	March 2021	$16.3
Onshore Australia – ATP 752	Barta West 3D seismic program	November 2017	$1.5

(1) Translated at March 31, 2017 at an exchange rate of AUS $1.00 = CAD $1.0187.

At March 31, 2017 the Company had the following lease commitment for office space in Canada.

($000s)					
April 2017 to November 2023	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Office lease	**944**	**52**	**311**	**311**	**270**

16. SUBSEQUENT EVENT

Effective June 1, 2016, Bengal and its joint venture partner unanimously agreed and provided notice to the applicable Government of India authorities of its intention to exit the CY-ONN-2005/1 exploration block. The joint venture was unable to acquire the land rights required for exploration causing a force majeure condition for the duration of the first term of exploration, and is therefore entitled to exit the permit without penalty for unfinished work program commitments. Subsequent to March 31, 2017, this exit without penalty has been approved by the Director General of Hydrocarbons and is awaiting final approval from the Indian Ministry of Petroleum and Natural Gas. With the exit from the permit, the Company will effectively cease all operations in India.

17. SUPPLEMENTAL DISCLOSURE

Bengal's consolidated statement of income (loss) and comprehensive income (loss) is prepared primarily by nature of expense. All salaries for the Company are included in general and administrative expenses and for the year ended March 31, 2017 amount to $1.3 million (March 31, 2016 - $1.3 million).

18. SEGMENTED INFORMATION

As at March 31, 2017, the Company has three reportable operating segments being the Australian and Indian 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 central administration costs and directors' salaries, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

For the year ended March 31, 2017 ($000s)				
	Australia	**Corporate**	**India**	**Total**
Revenue	9,294	-	-	9,294
Interest revenue	11	1	-	12
Interest expense	947	-	-	947
Depletion and depreciation	2,291	18	-	2,309
Net earnings (loss)	(1,425)	(1,153)	(190)	(2,768)
Exploration and evaluation expenditures	407	-	-	407
Petroleum and natural gas property expenditures	5,211	-	-	5,211
March 31, 2017				
Petroleum and natural gas properties				
Cost	43,582	4,637	-	48,219
Accumulated impairment losses	(796)	(310)	-	(1,106)
Accumulated depletion and depreciation	(14,297)	(4,270)	-	(18,567)
Net book value	28,489	57	-	28,546
Exploration and evaluation assets	29,850	-	8,415	38,265
Accumulated impairment losses	(9,321)	-	(8,415)	(17,736)
Net book value	20,529	-	-	20,529

For the year ended March 31, 2016 ($000s)				
	Australia	**Canada**	**India**	**Total**
Revenue	11,187	-	-	11,187
Interest revenue	8	1	-	9
Interest expense	1,311	-	-	1,311
Depletion and depreciation	4,519	24	-	4,543
Net (earnings) loss	(1,342)	(1,305)	(7,733)	(10,380)
Exploration and evaluation expenditures	741	-	20	761
Petroleum and natural gas property expenditures	2,586	-	-	2,586
Impairment losses (recovery)	3,848	-	7,375	11,223
March 31, 2016 ($000s)				
Petroleum and natural gas properties				
Cost	37,527	4,638	-	42,165
Accumulated impairment losses	(796)	(310)	-	(1,106)
Accumulated depletion and depreciation	(11,931)	(4,253)	-	(16,184)
Net book value	24,800	75	-	24,875
Exploration and evaluation assets	28,831	-	8,188	37,019
Accumulated impairment losses	(9,205)	-	(8,188)	(17,393)
Net book value	19,626	-	-	19,626

19. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company and its subsidiaries.

(a) Basis of consolidation:

The financial statements incorporate the financial statements of the Company and its wholly and majority-owned subsidiaries Bengal Energy Australia (Pty) Ltd., Bengal Energy International Inc., and Northstar Energy Pty Ltd. respectively.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain the benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The Company recognizes in the financial statements its proportionate share of the assets, liabilities, revenues and expenses of its joint operations.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Cash and cash equivalents

Cash and cash equivalents include cash and all investments with a maturity of three months or less.

(c) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk-free" rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense. Provisions are not recognized for future operating losses.

Decommissioning and restoration liabilities:

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the period end date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the asset retirement obligations are charged against the provision to the extent the provision was established.

(d) Oil and natural gas exploration and evaluation expenditures

Exploration and evaluation costs ("E&E" assets)

All costs incurred prior to obtaining the legal right to explore an area are expensed when incurred.

Generally, costs directly associated with the exploration and evaluation of crude oil and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability have not yet been demonstrated. These costs generally include unproved property acquisition costs, geological and geophysical costs, sampling and appraisals, drilling and completion costs and capitalized decommissioning costs.

Costs are held in exploration and evaluation until the technical feasibility and commercial viability of the project is established. Amounts are generally reclassified to petroleum and natural gas properties once probable reserves have been assigned to the field. If probable reserves have not been established through the completion of exploration and evaluation activities and there are no future plans for activity in that field, then the exploration and evaluation expenditures are determined to be impaired and the amounts are charged to profit or loss.

(e) Petroleum and natural gas properties

Carrying value

Costs incurred subsequent to the determination of technical feasibility and commercial viability are recognized as petroleum and natural gas properties in the specific asset to which they relate. Petroleum and natural gas properties are stated at cost less accumulated depreciation and depletion and accumulated impairment losses. The initial cost of a petroleum and natural gas property is comprised of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given up to acquire the asset.

Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depletion and depreciation

The net book value of producing assets are depleted on a field-by-field basis using the unit of production method with reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. For purposes of these calculations, production and reserves of natural gas are converted to barrels on an energy equivalent basis.

Other assets are depreciated on a declining basis at rates ranging from 20% to 30% per annum.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as separate line items in profit or loss.

(f) Impairment

E&E and petroleum and natural gas properties

E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount and when they are reclassified to Development and Production (“D&P”) assets. For the purpose of impairment testing, E&E assets are grouped by concession or field with other E&E assets belonging to the same concession or field. The impairment loss will be calculated as the excess of the carrying value over recoverable amount of the E&E impairment grouping and any resulting impairment loss is recognized in profit or loss. Recoverable amount is determined as the higher of the value in use or fair value less costs to sell.

At the end of each reporting period, the Company reviews the petroleum and natural gas properties for circumstances that indicate that the assets may be impaired. Assets are grouped together into cash generating units ("CGU"s) for the purpose of impairment testing, which is the lowest level at which there are identifiable cash inflows that are largely independent of the cash flows of other groups of assets. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. A CGU's recoverable amount is the higher of its fair value less selling costs and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from the production of proved and probable reserves.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down. Consideration is given to acquisition metrics or recent transactions completed on similar assets to those contained with the relevant CGU.

When the recoverable amount is less than the carrying amount, the asset or CGU is impaired. For impairment losses identified based on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU(s). The impairment loss is recognized as an expense in profit or loss.

At the end of each subsequent reporting period these impairments are assessed for indicators of reversal. Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss have been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(g) Financial instruments

Financial assets and liabilities are classified as either financial assets or liabilities at fair value through profit and loss (“FVTPL”), loans and receivables, held-to-maturity investments, available-for -sale financial assets, or other liabilities, as appropriate. Financial assets and liabilities are recognized initially at fair value.

Subsequent measurement of financial instruments is based on their initial classification. FVTPL financial assets and liabilities are measured at fair value and changes in fair value are recognized in profit or loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive loss until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

The transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability classified as FVTPL are expensed immediately. For a financial asset or financial liability carried at amortized cost, transaction costs directly attributable to acquiring or issuing the asset or liability are added to or deducted from the fair value on initial recognition and amortized through profit or loss income over the term of the financial instrument.

(i) Non-derivative financial instruments

Cash and cash equivalents, restricted cash as well as accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, and the credit facility are classified as other financial liabilities, which are measured at amortized cost.

(ii) Derivative financial instruments

The Company enters into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company does not designate its financial derivative contracts as effective accounting hedges and therefore will not apply hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all derivative contracts are classified as FVTPL and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein will be recognized immediately in profit or loss.

The Company may enter into physical delivery sales contracts for the purposes of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and will not be recorded at fair value on the statement of financial position. Settlements on these physical delivery contracts will be recognized in petroleum and natural gas revenue in the period of settlement.

Fair value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the valuation date. For financial instruments that have no active market, fair value is determined using valuation techniques including the use of recent arm’s length market transactions, reference to the current market value of equivalent financial instruments and discounted cash flow analysis.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

(h) Foreign currency translation:

The financial statements are presented in Canadian dollars, which is the Canadian parent entity's functional and presentation currency; the functional currency of the Indian subsidiary is US dollars and the functional currency of the Australian subsidiary is Australian dollars. For the accounts of foreign operations, assets and liabilities are translated at period end exchange rates, while revenues and expenses are translated using average rates over the period. Translation gains and losses relating to the foreign operations are included in accumulated other comprehensive income, a component of equity. Foreign currency transactions are translated into the legal entity's functional currency at the exchange rate in effect at the transaction; and any gains or losses are recorded in profit or loss.

(i) Share-based compensation:

The Company accounts for share-based compensation granted to directors, officers, employees and consultants using the Black-Scholes option-pricing model to determine the fair value of the plan at grant date. An estimated forfeiture rate is incorporated into the fair value calculated and adjusted to reflect the actual number of options that vest. Share-based compensation expense is recorded and reflected as share-based compensation expense over the vesting period with a corresponding amount reflected in contributed surplus. At exercise, the associated amounts previously recorded as contributed surplus are reclassified to common share capital.

(j) Revenue recognition:

Revenue from the sale of natural gas, natural gas liquids and crude oil is recognized when the significant risks and rewards of ownership are transferred, which is when title passes to the customer in accordance with the terms of the sales contract. This generally occurs when the product is physically transferred into a pipe, truck or other delivery mechanism.

(k) Per share amounts:

Basic per share amounts are computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options or other dilutive instruments were exercised into common shares. The treasury stock method assumes that any proceeds upon the exercise of dilutive instruments, including remaining unamortized compensation costs, would be used to purchase common shares at the average market price of the common shares during the period.

(l) Income taxes:

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Finance income and expenses:

Finance income consists of interest earned on term deposits. Finance expenses include fees on Performance Security Guarantees issued by Export Development Canada, bank fees on Bank Guarantees issued to the Government of India, letter of credit charges, interest on notes payable and the credit facility, and accretion of the discount on decommissioning obligations.

(n) Determination of fair value:

A number of the Company's accounting policies and disclosures required the determination of fair value, both for financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into three categories based on the degree to which fair value is observable:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis;

Level 2 - Valuations are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; including forward prices for commodities, time value and volatility factors which can be substantially observed or corroborated in the marketplace;

Level 3 - Inputs that are not based on observable data for the asset or liability.

Financial instruments comprise cash, cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, credit facility and derivatives.

The Company's policy is to recognize transfers in and out of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfer. There were no such transfers during the period.

Fair values have been determined for measurement and disclosure purposes as follows:

i. **Cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities**

The fair values of these financial instruments approximate their carrying amounts due to their short-term maturity.

ii. **Credit facility**

The fair value of the Company's credit facility approximates its carrying value as it bears interest at floating rates and the applicable margin is indicative of the Company's current credit risk.

iii. **Derivatives**

The Company's commodity contracts (swaps and put options) are measured at level 2 of the fair value hierarchy. The fair value of the swap component is determined by discounting the difference between the contracted prices and published forward price curves as at the period end date, using the remaining contracted oil volumes and a risk-free interest rate. The fair value of puts are based on option models that use publish information with respect to volatility, prices and interest rates.

(o) New standards and interpretations not yet adopted:

Standards that are issued but not yet effective and that the Company reasonably expects to be applicable at a future date are listed below.

Revenue from contracts with customers

In April 2016, the IASB issued its final amendments to IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and related interpretations. The new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue; at appoint in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is to be recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and timing of the revenue recognized. The new standard applies to contracts with customers and does not apply to insurance contracts, financial instruments or lease contracts. The new standard is to be adopted either retrospectively or using a modified retrospective approach for annual periods beginning on or after January 1, 2018, with early adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.

Financial instruments: recognition and measurement

In July 2014, the IASB issued the complete IFRS 9 *Financial Instruments* to replace IAS 9 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes a principle-based approach for the classification and measurement of financial assets, a single 'expected credit loss' impairment model and a new hedge accounting standard which aligns hedge accounting more closely with risk management. The new standard is to be adopted retrospectively with some exemptions for annual periods on or after January 1, 2018, with early adoption permitted. Bengal intends to adopt IFRS 9 on a retrospective basis on April 1, 2018. The extent of the adoption of IFRS 9 on the classification and measurement of the Company's financial assets and financial liabilities and related disclosures has not yet been determined. Bengal does not currently apply hedge accounting to its financial instrument contracts and does not currently intend to apply hedge accounting to any of its financial instrument contracts upon adoption of IFRS 9.

Leases

In January 2016, the IASB issued IFRS 16 *Leases*. This standard introduces a single recognition and measurement model for leases, which would require the recognition of assets and liabilities for most leases with a term of more than 12 months. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the initial adoption date of January 1, 2018. The new standard is to be adopted either retrospectively or using a modified retrospective approach. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on April 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

20. 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.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these financial statements.

i) Identification of Cash-generating units

Bengal's assets are aggregated into cash-generating units, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

ii) Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. The application of the Company's accounting policy for exploration and evaluation, petroleum and natural gas properties required management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found.

iii) Recognition of deferred income tax assets

The recognition of deferred income tax assets requires judgments regarding the likelihood and applicability of future income tax deductions. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and ability to apply income tax deductions.

Key sources of uncertainty

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

i) Decommissioning provisions

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

ii) Impairment of petroleum and natural gas assets

For the purposes of determining whether impairment of petroleum and natural gas assets occurred, and the extent of any impairment or its reversal, the key assumptions the Company uses in estimating future cash flows are future petroleum and natural gas prices, expected production volumes and anticipated recoverable quantities of proved and probable reserves. These assumptions are subject to change as new information becomes available. Changes in economic conditions can also affect the rate used to discount future cash flow estimates. Changes in the aforementioned assumptions could affect the carrying amount of assets, and impairment charges and reversal will affect profit or loss.

iii) Reserves

The estimate of petroleum and natural gas reserves is integral to the calculation of the amount of depletion charged to the statement of operations and is also a key determinant in assessing whether the carrying value of any of the Company's development and production assets has been impaired. Changes in reported reserves can impact asset carrying values due to changes in expected future cash flows.

The Company's reserves are evaluated and reported on by independent reserve engineers at least annually in accordance with Canadian Securities Administrators' National Instrument 51-101. Reserve estimation is based on a variety of factors including engineering data, geological and geophysical data, projected future rates of production, commodity pricing and timing of future expenditures, all of which are subject to significant judgment and interpretation.

iv) Share-based payments

The Company measures the cost of its share-based payments to directors, officers, employees and certain consultants by reference to the fair value of the equity instruments at the date at which they are granted. The assumptions used in determining fair value include: share price, expected lives of options, risk-free rates of return, share price volatility and the estimated forfeiture rate. Changes to assumptions may have a material impact on the amounts presented.

CORPORATE INFORMATION

AUDITORS

KPMG LLP • Calgary, Canada

LEGAL COUNSEL

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

BANKERS

Royal Bank of Canada • Calgary, Canada
WestPac • Sydney, Australia
ICICI Bank Ltd. • Calgary, Canada and Mumbai, India

REGISTRAR AND TRANSFER AGENT

Computershare • Toronto, Canada

INVESTOR RELATIONS

5 Quarters Investor Relations, Inc. • Calgary, 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

All Directors are members of the Committee

AUDIT COMMITTEE

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

RESERVES COMMITTEE

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

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OFFICERS

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

STOCK EXCHANGE LISTING – TSX: BNG