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BENGAL ENERGY – BNG-TSX

Bengal is an international oil and gas exploration and production company based in Calgary, Alberta with a large suite of assets in India and Australia. It is newly recapitalized with new management, new board of directors and new money. With a tight share structure of only 37 million shares out, big land position and $17 million cash, it offers investors a lot of leverage to exploration success.

All of their assets are in proven basins, with nearby current or historical production.

The stock has performed much better than I anticipated since I purchased the stock several weeks ago at $1.10 – telling me the market likes the new board and management, and still sees the stock as cheap despite there only being 100 bopd net production in Australia and no significant reserves. The first sell side analyst report on the company came out February 8, 2011 with a target of $3.50 based just on the Australian assets – that was the catalyst for the stock move from $1.10 to $2.20.

The next most immediate catalyst for share price appreciation (besides market awareness and momentum) is a well in which Bengal owns a 10% WI (working interest) that will be drilled off the north west coast of Australia in late February or March.

Trading Symbols:	BNG-TSX
Share Price	$2.00
Current Production:	110 boe/d (43% oil + liquids and 57% gas)
Shares Outstanding:	~38 million shares
Market Cap:	$76 million
Net CASH:	$17 million
Enterprise Value:	$59 million
EV per flowing boe:	$154,500/boe/d

POSITIVES

- ✓ CEO Chayan Chakrabarty was previously a Vice President of Verenex Energy, a successful international E&P Company bought by Libyan government
- ✓ Diversified asset base in 2 countries and 3 separate basins—all proven, producing basins

- ✓ Sizeable acreage position with 2.2 million net undeveloped acres
- ✓ Assets are divided between lower risk onshore development & exploration and high risk high reward offshore assets
- ✓ Low share float=lots of leverage

NEGATIVES

- ✓ Time consuming processes required before initial exploratory drilling on several prospects
- ✓ Drilling deep water offshore assets is high risk and costs up to $30 million per well

THE PROPERTIES

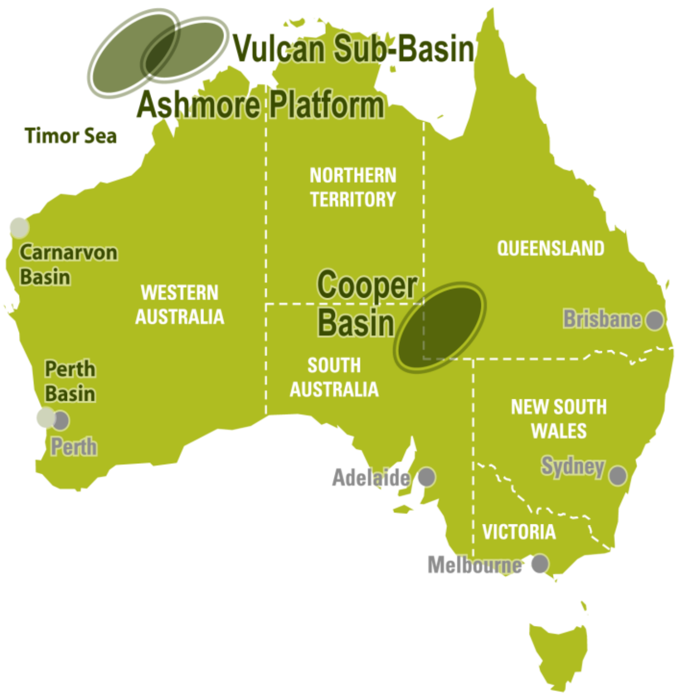
Bengal Energy has 2.2 million net acres of land in 2 separate countries, Australia and India. This is a lot of land for a small cap company – the average Canadian junior play typically has about 100,000 net acres at most. This diversified portfolio of assets covers 3 distinct basins:

1. Cooper Basin, Australia – Onshore blocks
2. Timor Sea, North of Australia – Offshore blocks
3. Cauvery Basin, India – Onshore and Offshore blocks

Bengal built its asset base with one thought in mind: He who has the land wins. Each one of these assets is potentially a company maker based on success. By keeping initial capital risk exposure small, combined with initial drilling success being reported, there's a good chance this becomes a market darling.

Cooper Basin, Australia **(this is where their production comes from)**

The Cooper Basin is located mainly in the north-east part of South Australia and extends into south-west Queensland. This proven, producing and underexploited basin contains by far Australia's largest number of onshore petroleum projects.

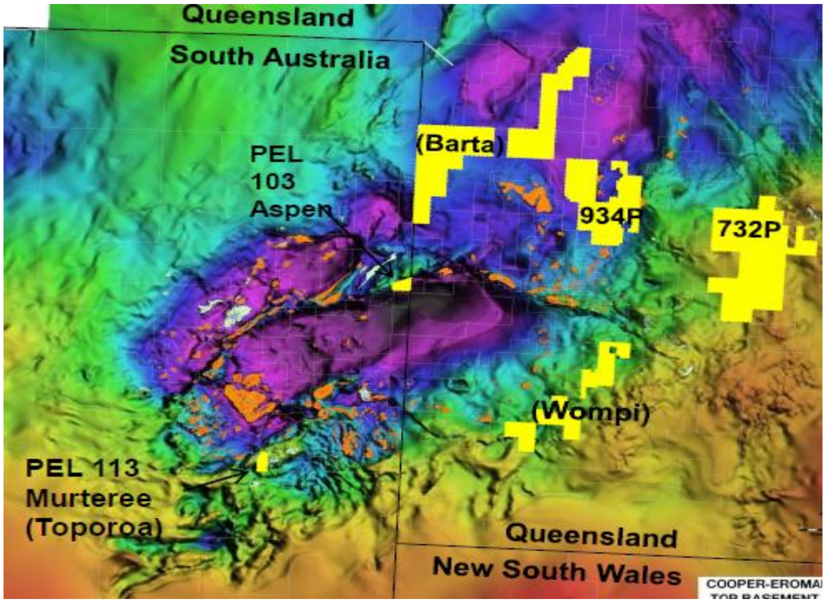


The Cooper Basin at a glance:

- Area totals 130 000 km2
- 190 gas fields and 115 oil fields now on production
- Major production and processing hub with over 800 gas and 400 oil wells on production.

Bengal owns close to 1 million net acres in the Cooper basin in 6 onshore land blocks:

- ATP752P-Barta: 360,570 acres - 25% WI (Working Interest)
- ATP752P-Wompi: 213,707 acres – 30% WI
- ATP934P-Barrolka: 361,260 acres – 50% WI - operator
- ATP732P-Tookanooka: 654,321 acres – 100% WI - operator
- PEL113-Murteree: 13,096 acres – 35% WI
- PEL103-Aspen: 13,837 acres – 25% WI



The company is focusing on conventional, simple oil and gas producing zones in the Cooper Basin; not horizontal drilling with multi-stage fracking (this could change later).

Block ATP752P-Barta & Wompi (this is where the production comes from)

The Barta block and the Wompi block are both located within the Authority to Prospect ("ATP") 752P in the Cooper Basin. The Barta block is on the northern side while the Wompi block covers the southern side. Both blocks have the same consortium members: Bengal, Bow Energy and the large Australian producer, Santos, which is the operator.

Bengal only has a 25% WI on the 360,570 acre Barta Block which has multi-zone prospects for oil (from shallowest to deepest - Murta, Birkhead, Hutton) and gas (Channel, Tight). In May 2010 Bengal hit its first light oil discovery by drilling a conventional vertical well targeting the Murta zone. The Cuisinier-1 discovery well IP'd at 340 bbl/d of 52 API (VERY light sweet oil). The well has actually increased, and is now producing 440 barrels of oil per day (110 net to Bengal) – this is about quadruple what was expected. **:0)**

Following the Cuisinier oil field discovery, Bengal and its partners moved ahead with drilling 2 more appraisal wells (Barta North-1 and Cusinier-2) targeting the Birkhead and Murta zones in late 2010. Production testing and completion operations are scheduled for early Q2 of 2011 for both wells. A third well targeting the producing Murta zone, Cuisinier-3, will spud Q1 2011 – very soon. The company has identified at least 9 additional drilling locations that will be followed upon in 2011 and 2012.

Production from the Cuisinier oil field is currently trucked on a daily basis. Recent flooding knocked off Cusiiner-1's production for several days due to road access issues. The company is planning to address these issues in 2011 following testing and completion of Barta North-1 and Cuisinier-2 wells. One option would be to tie up the wells through a pipeline to Cook field's oil battery 6 Km away. Bengal will be aggressively pursuing this play given the realized profit on each barrel of oil produced. For Q4 2010, the company reported a corporate netback of $53 per barrel of oil sold at an average price of $92.

On the Wompi Block which lies in the southern side of ATP752P, Bengal anticipates drilling a new well before October 2011. The company holds a 30% WI in 213,707 acres prospective for oil and gas.

Block ATP732P-Tookanooka – BIG GAS PLAY; BIG UPSIDE-possibly this year

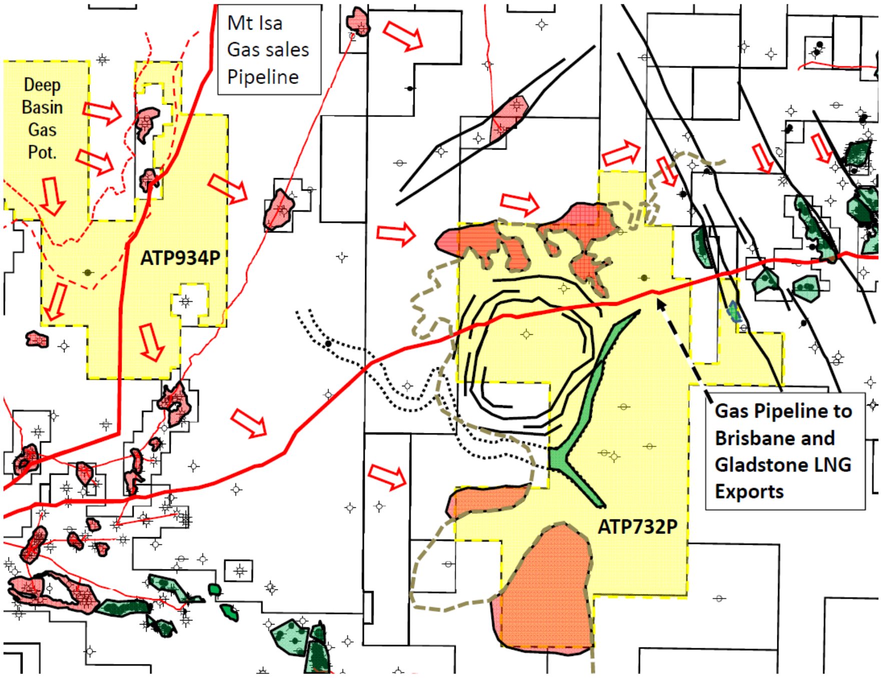
Bengal's 100% owned and operated Tookanooka block covers more than 1,000 net sections of contiguous land in the Cooper Basin, and is close to producing oil and gas fields. There are seven target plays in three formations.

The final grant of title to the ATP732 exploration permit by the government of Queensland is imminent. *While this is a giant block that can take up several years to develop, the granting of the permit could be another catalyst for the stock.*

Bengal is currently reprocessing seismic data and planning to shoot new 2D seismic by mid-year. This will enable the company *to potentially drill at least 1 exploratory well in 2011 and continue drilling up to 8 wells through 2012.* The company is expecting a lot of activity on this block in the next 2 years as a successful discovery well could prove up significant hydrocarbon resources in place and lays the ground for production. A prospect has already been identified on the north side of the block that has a target of 2 TCF of Original Gas In Place (OGIP).

Right now Australian natural gas prices are slightly higher than AECO; they are in the $3.50-$3.75/mcf range. But there is a gas pipeline near the property that could take that gas to the new Gladstone LNG export terminal in Queensland is expected to begin shipping LNG to Asia in 2015. This will push Australian natural gas prices up to the world level of $7.00+/mcf.

So if Bengal finds a big gas discovery at Tookanooka, it could either sell that asset, or end up getting bought out itself just for that asset. A discovery here could get $1.50 for 2P mcf Reserves. For example, delineating 500Bcf at $1.5/mcf adds $750 million in value or roughly $20 per share with 36.9 million shares outstanding. And this is just one asset for Bengal!



Any success on this play will be a MAJOR catalyst for the stock.

Block ATP934P-Barrolka –

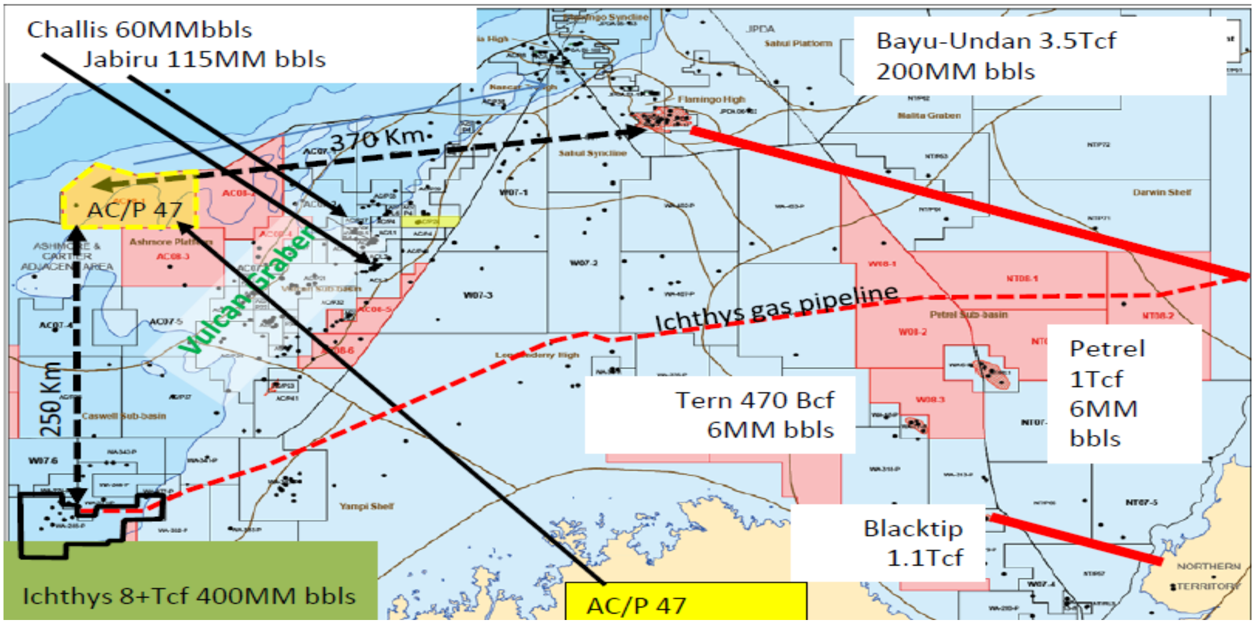
The ATP934P Barrolka block is surrounded by several gas fields and immediately offsets the multi-TCF Barrolka gas field discovery. Even though Bengal has already identified up to 5 drilling targets from 2D seismic data targeting multiple gas zones, no activity should be expected here for up to 2 years as the native title process is still ongoing. Bengal owns 50% WI in the 361,260 acre operated block which is believed to contain numerous conventional gas opportunities with a potential for deep basin gas. While gas is expected to be recovered from this block, it is interesting to note that a light oil field in proximity is producing 500+ bopd.

Blocks PEL113-Murteree & PEL103-Aspen

Bengal has very little activity on both blocks where it carries respectively 35% and 25% working interest in this relatively small acreage. The company is seeking acquisition opportunities in these areas which have several oil and gas field discoveries.

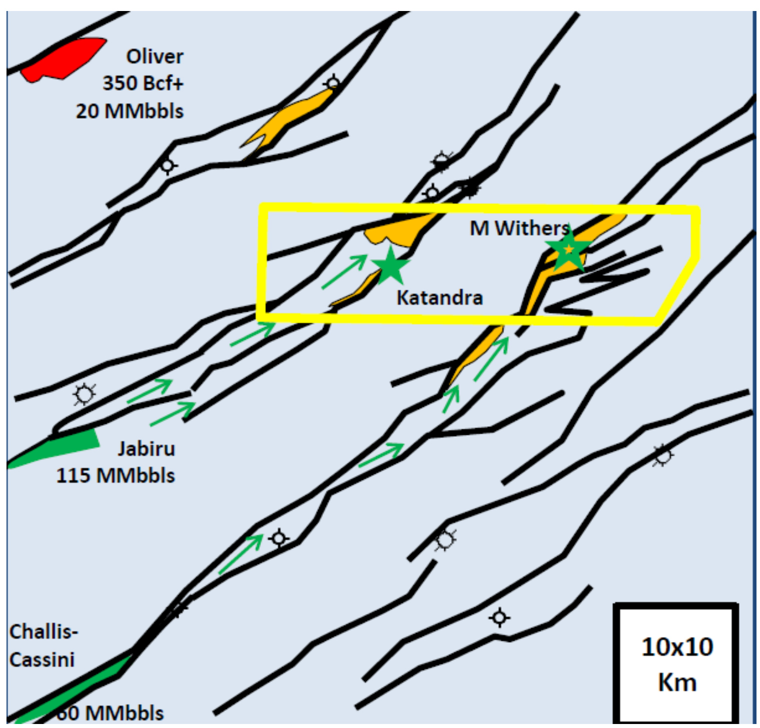
Timor Sea, Australia (where the first offshore drilling happens soon!)

The Timor Sea is off the NW coast of Australia, and has been productive since the 1970s. One of the largest discoveries is the Bayu-Undan gas field which has reserves of more than 3.5 TCF of natural gas and about 400 million barrels of condensate. The map below shows some of the big discoveries, and shows there is infrastructure in the area – for both oil and gas.



Offshore Block AC/P 24 – *this one gets drilled Q2 2011*

Bengal owns a 10% WI in offshore block AC/P24. In the map on the previous page look in the top left corner where it says Challis and Jabiru – Bengal's property is that small yellow patch just northeast of those plays, and on trend and up dip.



Along with its partners PTTEP (Thai NOC – the operator) and Nippon, Bengal will be chasing 48 API oil in the 329 km² block based on 2D seismic and 3D seismic data. To get an idea on the size of the prize, the Jabiru oil field commenced production in 1986 and is currently producing 2700 barrels of oil a day. The Challis-Cassini oil field commenced production in 1989 and currently produces about 1500 barrels of oil per day. A new well in this area averages an IP rate of 8000 bopd with 8 to 12 million barrels recoverable.

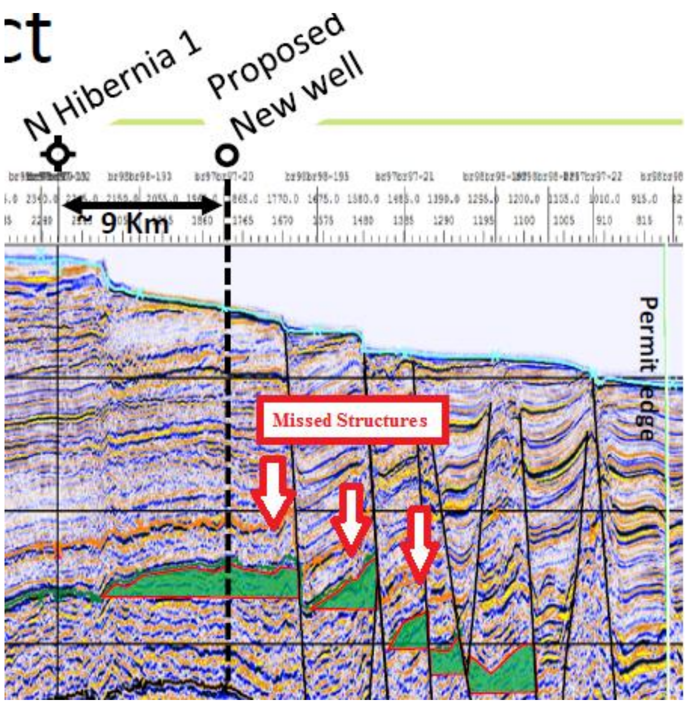
So a typical successful well - even at a 10% WI - could see Bengal quadruple its company-wide production. And if it's not productive, i.e. it misses, then the roughly $2.5 million it spent as its share won't break the bank.

The new drilling location is east of Katandra and on trend with the Challis-Cassini oil field in 110m deep water. The well will be drilled to a subsea depth of 1650m and is expected to take 22 days to complete.

Offshore Block AC/P47—BIG UPSIDE

In the Timor Sea, Bengal has a 100% working interest in a 3,485 km² offshore block AC/P47. Woodside, a large Australian E&P company, had drilled the North Hibernia 1 well in this block back in 1973. While this well showed a small amount of hydrocarbons, reprocessing the data revealed that it was drilled off structure--missing the proper location that was indicated by seismic data. This well has multiple play potential.

Third party consultants have estimated the size of the prize at **736 million barrels of recoverable oil** with a 1 in 8 chances of success in retrieving 90 million barrels.



The company recently acquired new 2D seismic data, to design and plan for a 750 km² 3D program expected to be completed later in 2011.

The cost estimate for 3D seismic is in the range of $8-$10 million on a 100% WI basis. The well would be drilled in deep water (300m) to a total depth of 2300m which comes out to $25-$30 million dollars.

In order to accelerate drilling activity on this block, Bengal contracted Indigo Pool (Schlumberger) to assist them with seeking prospective partners. ***The new JV partner is expected to be known in the next couple of months*** including the terms of the partnership as Bengal has not yet decided on the working interest % they wish to retain. ***This would be a positive catalyst for the stock*** assuming Bengal cuts a good deal.

Once a partner is identified, the **new proposed well could be drilled late 2011 or early 2012**. Bengal has indentified a total of 13 oil prospects on this block.

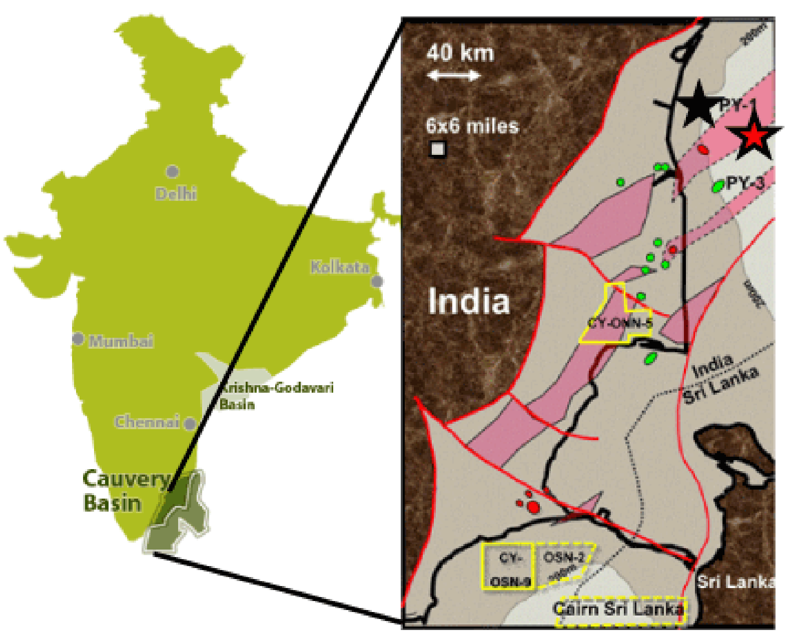
Drilling success on this block, even at a 50% WI, would mean double digits for the stock with no further shares outstanding.

Cauvery Basin, India

The Cauvery Basin is the southernmost basin along the eastern part of the Indian Sub-Continent, covering much of this part of India and extending a considerable distance offshore. Just as I was finishing this report, British Petroleum (BP) paid India's Reliance Industries $7.2 billion for a 30% interest in most of Reliance's oil and gas concessions – most of which are in the Cauvery.

The Cauvery Basin at a glance:

- Onshore area: 25,000 Sq. Km.
- Offshore area: 30,000 Sq. Km.
- 1 of 7 Indian basins with established commercial production
- 28 gas fields are currently in production in the Cauvery basin



Bengal's land package in the Cauvery basin covers about 411,500 net acres in 2 blocks:

1. Onshore block CY-ONN-2005/1 (Bengal 30%) 930 km² (71,500 net acres)
2. Offshore block CY-OSN-2009/1 (Bengal 100%) 1,362 km² (340,000 net acres)

Recent Offshore Discoveries:
Ganesha 1: Tested 10 MMcf/d

Dhirubhai : 31 MMcf/d+1,200 bbls/d
Source: (Directorate General of Hydrocarbons –India)

Onshore block CY-ONN-2005/1 (30% WI)

For its first play in India, Bengal partnered with established national oil companies GAIL and GSPC. GAIL controls more than 70% of the gas infrastructure in India. The work program for this year is collecting and interpreting seismic data -- Bengal recently finished reprocessing 2D seismic data and aims to shoot 700 km² of 3D seismic in the first half of 2011. The results should lead to crystallizing prospects for 3 drills targeting shallow oil in 2012.

Offshore block CY-OSN-2009/1 (Bengal 100%)

Evaluation work has begun on the large 340,000 acre block that is 100% owned and operated by Bengal. Drilling is 3 years away. The work program for 2011 includes reprocessing all available seismic records and acquiring some 2D and 3D regional surveys. For 2012, they have a small capital commitment for shooting seismic. The cost will be low enough that Bengal won't need to find a partner for that.

Bengal expects to drill its first well on this asset in 2013. This is *deep* drilling with a target depth of about 4,500 meters, sitting in 375 meters of water. Drilling this well will cost up to $30 million. At this point, the company will seek a suitable partner – possibly with one of the major national oil companies -- in order to farm-out risk capital.

2 Indian NOCs (national oil companies) are potential candidates for partnerships as they own an offsetting block 40 km south of Bengal. Over the next year they will be shooting seismic as well as drilling their 1st well on their block.

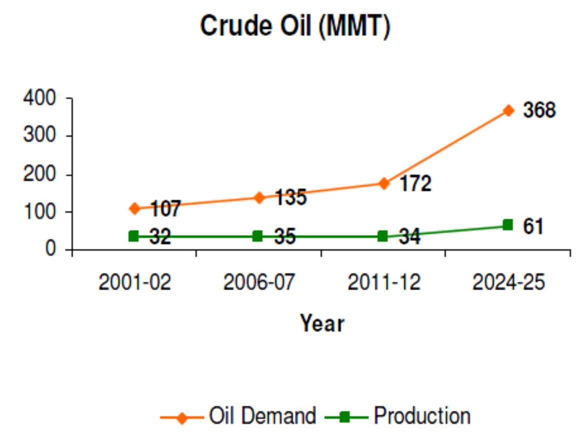
In 2007 Reliance Industries (a $70 billion company) announced a major commercial find in the deep waters of the Cauvery Basin. Their well identified as *Dhirbubhai 35* produced 31mmcf (million cubic feet) of gas with 1200 barrels of condensate per day. (Condensate generally trades around the same price as oil, and often for more.) Bengal believes their block in the Cauvernay has very high potential; they are open to a partnership as it fast tracks their activity of proving the size of the prize that lies beneath their land.

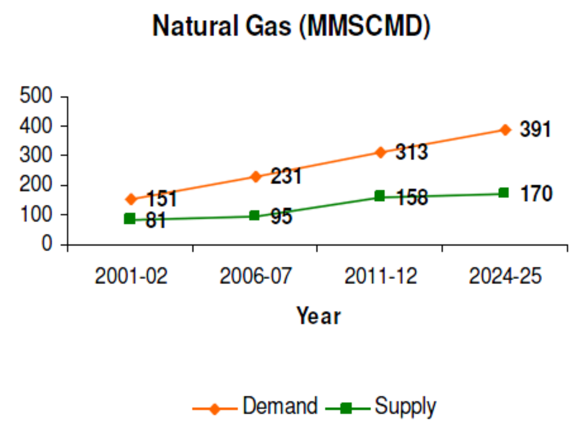
India at a glance

India is a very lucrative market for major E&P companies. It is the 5th largest energy consumer and the 9th largest crude importer in the world.

McKinsey & Company, a global management consulting firm, estimates natural gas demand in India will double from 5.9 bcf/d in 2010 to 11.3 bcf/d in 2015 – mostly from refining and industrial end-users.

For the year 2011-12, forecasters expect the country's real GDP growth rate to be 8.5 per cent. Estimates of real GDP growth rate in 2010-11 were revised upwards to 8.7 per cent from 8.5 per cent in the previous survey.





Oil and gas constitute 32% of India's imports and is rising. The country has limited energy resources, a vast population and a yawning energy demand supply gap. Bengal has positioned itself in the heart of an "energy hungry" nation.

FINANCES and VALUATION

Aside from repeating there is $17 million cash, this section is almost irrelevant as cash flow is negligible at 110 boe/d and any future valuation is based on drilling success. None of their other plays is developed enough to get a market value per acre (and unless it's a really hot play that valuation type is tenuous). I will say that the market now appears to be very pre-disposed to rewarding this company for success.

STOCK CHART

A lot of international junior oil plays floundered until September 2010, when the whole oil market took off. Without sponsorship – where a key shareholder group gets a big enough position to get behind the stock and evangelize it - these stocks are orphaned and investors can wait a long time before value gets recognized. So timing is key, and did I ever get lucky with timing on Bengal.

CONCLUSION

Bengal has a good mix of smaller, low risk onshore assets and some big upside potential on several 100% owned assets – particularly

1. Tookanooka gas property with quick access to international gas prices via Gladstone LNG project
2. ACP 47 offshore prospect in Timor Sea

3. Offshore block CY-OSN-2009/1

The geological prizes at Tookanooka and offshore India each have the potential to take this stock into double digits. And the market clearly likes the new team.

Potential catalysts this year, in a rough chronological order include

1. more successful drill results from onshore Australia
2. spudding the KingTree well in the Timor Sea
3. the full granting of the Tookanooka permit
4. the announcement of a partner for ACP 47 in the Timor Sea
5. KingTree drill results
6. Spudding Tookanooka
7. Spudding ACP 47

I own 20,000 shares at $1.10. I am not a buyer at current $2.15 price – for now. Some other piece of news needs to come to light for me to buy up here now.