



# Bengal Energy Announces Reliance on Financial Hardship Exemption in Connection with Private Placement and Debt Settlement

Calgary, Alberta--(Newsfile Corp. - February 1, 2021) - **Bengal Energy Ltd. (TSX: BNG)** ("**Bengal**" or the "**Company**") is pleased to announce further details with respect to its previously announced non-brokered private placement ("**Private Placement**") of common shares in the capital of the Company ("**Common Shares**") to Texada Capital Management Ltd. ("**Texada**").

Further to the Company's press release of Monday January 25, 2021, Bengal has entered into a subscription agreement with Texada whereby Texada has agreed to subscribe for Common Shares at the price of CAD\$0.05 per share for an aggregate subscription amount of CAD\$4 million plus the Canadian dollar equivalent of USD\$10 million determined based on the daily average CAD\$/USD\$ foreign exchange rate published by the Bank of Canada (the "**BoC Daily Exchange Rate**") as at the business day immediately prior to the closing of the Private Placement. The closing of the Private Placement is subject to the approval of the Toronto Stock Exchange ("**TSX**"), the approval or deemed approval of the Private Placement by the Australian Foreign Investment Review Board, all closing conditions of the Debt Settlement (as defined below) being satisfied, as well as the satisfaction of certain customary closing conditions.

The proceeds from the Private Placement will be used to pay USD\$10 million (plus accrued interest, fees and expenses, the "**Settlement Amount**") in settlement of the principal amount (USD\$12.369 million as of the date hereof) (the "**Debt Settlement**") owing by Bengal's wholly owned subsidiary Bengal Energy (Australia) Pty Ltd. ("**Bengal Pty**") to Westpac Banking Corporation ("**Westpac**") under its secured credit facility (the "**Facility**"), to reactivate two wells under its Wareena petroleum lease and for general corporate purposes (as further described below). All of Bengal's material oil and gas assets are located onshore Australia and are held and operated through Bengal Pty (an Australian company). Texada has deposited USD\$10 million into the escrow trust account of Bengal Pty's Australian legal counsel (as escrow agent) pursuant to the terms of an escrow agreement among Bengal Pty, Westpac, Texada and the escrow agent, which amount will be released on closing of the Private Placement, as subscription proceeds thereunder, to be applied by Bengal Pty against the payment of the Settlement Amount.

The Private Placement and Debt Settlement are expected to close on the date that is five business days after the date on which Bengal confirms in writing to Westpac that all conditions to close the Debt Settlement in Bengal's favour have been satisfied, subject to an outside date of February 28, 2021. If Bengal is unable to close the Private Placement and Debt Settlement on or before February 28, 2021, there is no certainty that Bengal will be able to continue as a going concern.

## *Background to the Private Placement*

The Company has, over the course of the last three years, evaluated numerous early stage opportunities to secure additional funding, including strategic transaction opportunities that could potentially include access to additional capital for the Company, in order to fund ongoing operations and development activity, and, as required, to repay the Facility. To date, the Company has been unable to secure any such funding, due to ongoing unfavourable capital markets conditions for junior oil and gas companies, reduced commodity prices, the Company's high debt levels and its increasingly distressed financial condition. Given the Company's deteriorating financial condition, it has negotiated a number of extensions of the maturity of the Facility, with the most recent extension being to February 28, 2021. Westpac has indicated to Bengal that they are unwilling to extend the maturity date of the Facility beyond this date.

In December 2020, as Bengal continued to seek sources of financing to settle the amount outstanding under the Facility and fund ongoing operations, Texada made a confidential non-binding, indicative proposal to Bengal regarding a non-brokered private placement of Common Shares, the use of proceeds of which would be used to finance the Settlement Amount and fund ongoing operations. Following receipt of the Texada proposal and consideration of other options available to the Company, the Company and Texada held confidential discussions that ultimately led to Bengal and Texada agreeing to carry out the Private Placement, as described above and in Bengal's January 25, 2021 press release.

## *Insider participation in Private Placement*

Texada is owned and controlled by Mr. Bill Wheeler, a director of the Company, and his spouse (Texada and such individuals

being, collectively, the "**Insiders**"). The Insiders own and control an aggregate of 26,891,489 Common Shares or approximately 26% of the issued and outstanding Common Shares. Accordingly, Texada constitutes an "insider" for the purposes of the TSX Company Manual and a "related party" of the Company pursuant to Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"). Closing of the Private Placement will not result in the creation of a new "control person" for the purposes of the *Securities Act* (Alberta).

Senior management of Bengal led the negotiations with Texada on the terms and conditions of the Private Placement, including setting the subscription price. The independent directors of the Board of Directors of the Company (the "**Board**"), being Ian Towers, Brian Moss, Robert Steele, James Howe and Peter Gaffney, acted as an independent committee of the Board for the purposes of considering the financial condition of the Company, providing independent stewardship and oversight regarding the negotiations of the Private Placement and Debt Settlement and, ultimately, to consider the terms of the Private Placement and Debt Settlement and make a recommendation to the Board in this respect. Neither Texada nor Mr. Wheeler were involved, on behalf Bengal, in negotiations on the Debt Settlement or the Private Placement.

The following table sets forth information respecting the *pro forma* ownership of the issued and outstanding Common Shares by the Insiders assuming completion of the Private Placement, based on historic BoC Daily Exchange Rates over the 52 week period preceding the date hereof, as well as on the last business day reported prior to the date hereof. The actual number of Common Shares issued will be determined using the BoC Daily Exchange Rate as at the business day immediately prior to the closing of the Private Placement. As the BoC Daily Exchange Rate at closing of the Private Placement is not known as at the date hereof, the exact number of Common Shares to be issued to Texada at closing is similarly not known. As such, the below information is illustrative only and is being provided by Bengal in order to assist readers in their consideration of the matters in this Press Release.

BoC Daily Exchange Rate (January 29, 2020 - January 29, 2021)		Number of Common Shares Issuable (CAD\$ equivalent of USD\$10 million plus CAD\$4 million) (% of currently issued and outstanding Common Shares)	Insider Ownership Assuming Completion of Private Placement (%)
High	1.4496 CAD\$	369,920,000 (361.7%)	396,811,489 (84.0%)
Average	1.3386 CAD\$	347,720,000 (340.0%)	374,611,489 (83.2%)
Low	1.2627 CAD\$	332,540,000 (325.2%)	359,431,489 (82.7%)
January 29, 2021	1.2780 CAD\$	335,600,000 (328.2%)	362,491,489 □(82.8%)

### *Financial Considerations*

The Facility matures February 28, 2021 and Bengal currently has no available undrawn capacity under the Facility nor access to sufficient funds to repay the Facility. If the Company does not complete the Private Placement and Debt Settlement, the Company will have a working capital deficit of approximately CAD\$15.1 million and CAD\$1 million of cash on hand available to meet ongoing current obligations. Based on the Company's current budgeting, this cash on hand amount would be fully expended by the end of March 2021, leaving the Company with no liquidity with which to repay the Facility or to fund ongoing operations. If the Private Placement and Debt Settlement are not completed by February 28, 2021, and no alternative arrangements are negotiated with Westpac, Westpac has the ability to enforce its rights under the Facility and in such event there is a high likelihood that Bengal may not be able to continue carrying on its consolidated business.

The Private Placement (together with the Debt Settlement) will provide immediate financial stability for Bengal as it will allow the Company to address its significant working capital deficiency, settle all amounts owing under the Facility, and thereby remove the risk of imminent default under the Facility, and provide operating capital to Bengal, so that Bengal can go forward as a viable going concern, on a consolidated basis.

The Private Placement will provide Bengal with immediate balance sheet improvement by removing approximately USD\$12.4 million of outstanding secured debt and eliminating Bengal's annual interest expenses of USD\$515 thousand. After paying the Settlement Amount, the additional gross proceeds of the Private Placement of approximately CAD\$4 million will be used by the Company over the ensuing four months to satisfy current liabilities comprising its projected CAD\$1 million working capital deficit and to fund the downhole remedial work on two wells located on the Wareena petroleum lease (acquired by Bengal in 2019) and associated pipeline maintenance. The Wareena project is classified by the regulating authority of Queensland as a Petroleum Lease which allows for production of gas and liquids. The project has two previously producing wells which are currently suspended due to influx of water. The wells are connected to a 26-kilometre natural gas pipeline 100%-owned by Bengal, facilitating transportation of the natural gas expected to be produced from the wells for processing and sale into the domestic market. Capital cost for the Wareena project is estimated at CAD\$2.9 million and entails downhole remedial treatments to reduce water influx, enhance gas production and ensure safe operation and integrity of the pipeline system in order to be able to return the wells to active service.

### *Independent Committee*

The independent committee of the Board was formed for the purposes of considering the financial condition of the Company, providing independent stewardship and oversight regarding the negotiations of the Private Placement and Debt Settlement and, ultimately, to consider the terms of the Private Placement and Debt Settlement and provide a recommendation to the Board in this respect. These directors are not participating in the Private Placement and are free from any interest in the Facility and are unrelated to Westpac and Texada.

Negotiations with Texada in respect of the Private Placement and Debt Settlement were conducted by management, with input and guidance from the independent committee. The final terms of the Private Placement and Debt Settlement were reviewed in detail and recommended for approval by the Board by the independent committee.

In reviewing the Private Placement and Debt Settlement, the independent committee considered, among other things: (a) the amounts outstanding under the Facility; (b) the impending maturity of the Facility and the fact that Westpac had extended the maturity date several times in the past and had expressed an unwillingness to provide any further extensions; (c) the ultimately unsuccessful efforts by the Company over the past number of years to find additional financing, or a suitable strategic transaction, in Canada and internationally, to refinance some or all of the Facility and to fund ongoing operations; (d) the fact that the Company had been unsuccessful to date in finding a senior secured debt facility or other financing source in replacement for the Facility; (e) the fact that the Private Placement proposal was at a premium to Bengal's trading price, including its volume weighted average trading price for the prior several months; (f) the fact that the Debt Settlement was being conducted at a discount to the principal amount owing under the Facility; (g) that the status quo alternative was not in the Company's best interests, as on maturity of the Facility it was expected that Westpac would seek to enforce its security over all of Bengal's assets, which would almost certainly lead to Bengal ceasing to operate as a going concern; (h) completion of the Private Placement and Debt Settlement transactions would result in the removal of all of Bengal's debt, the elimination of future interest payments under the Facility and provide Bengal with the ability to deploy capital into its development and exploration programs, thereby significantly improving Bengal's financial situation; and (i) the inability of the Company to seek securityholder approval prior to the maturity of the Facility on February 28, 2021. The independent committee also considered the need to hire a financial advisor in respect of the transactions under consideration, and concluded it was not in the best interests of the Company to do so, in all the circumstances.

In light of the foregoing, the independent committee concluded that the Company was in serious financial difficulty, the proposed Private Placement and Debt Settlement were designed to considerably improve the Company's financial condition, the Private Placement and Debt Settlement are reasonable for the Company in the circumstances and recommended that the Board approve the same. After receipt of the recommendation by the independent committee, the Board determined that the Private Placement and Debt Settlement are in the Company's best interests and approved the Private Placement and the Debt Settlement and authorized the Company to make application to the TSX for an exemption from the TSX securityholder approval requirements, as such requirements relate to the issuance of Common Shares under the Private Placement, on the basis of financial hardship. Mr. Wheeler declared his conflict respecting these matters and abstained from voting on the Board's approval thereof.

### *Regulatory Exemptions*

As the Private Placement will result in the issuance of Common Shares to Texada in an amount greater than 10% of the number of Common Shares outstanding, disinterested shareholder approval of such issuance would be required pursuant to subsection 607(g) of the TSX Company Manual.

Due to the imminent maturity of the Facility on February 28, 2021, the Company does not believe that there is sufficient time available to convene and hold a meeting of shareholders to consider and approve the Private Placement, nor, given the widely-held, retail nature of Bengal's shareholder base, to obtain majority written approval of its disinterested shareholders. As such, the Company applied to the TSX for relief from the foregoing shareholder approval requirement on the basis that the independent committee has determined that Bengal is in serious financial difficulty, that the Private Placement, together with the Debt Settlement, is designed to improve Bengal's financial situation and the Private Placement and Debt Settlement are reasonable for, and in the best interests of, the Company in the circumstances. **There is no certainty that the TSX will approve the Private Placement, nor that it will do so on terms acceptable to Bengal or Texada.**

The Private Placement is a "related party transaction" within the meaning of MI 61-101. However, in light of the fact that the Board and independent committee have determined that the Company is in serious financial difficulty and that the Private Placement, together with the Debt Settlement, is designed to improve Bengal's financial situation, the Company is relying on the exemption from the formal valuation and minority approval requirements of MI 61-101 contained in Section 5.5(g) and Section 5.7(1)(e) of MI 61-101, respectively, on the basis of the "financial hardship" exemption therein.

### *Listing Review*

In connection with reliance on the financial hardship exemption, it is expected that the TSX will place Bengal under remedial delisting review, which is normal practice when a listed issuer seeks to rely on this exemption. **No assurance can be provided as to the outcome of such review and, therefore, on the Company's ability to meet the continued listing requirements of the TSX.**

## **About Bengal**

Bengal Energy Ltd. is an international junior oil and gas exploration and production company with assets in Australia. Bengal's common shares trade on the TSX under the symbol "BNG". Additional information is available at [www.bengalenergy.ca](http://www.bengalenergy.ca).

## **CAUTIONARY STATEMENTS:**

### **Forward-Looking Statements**

*This news release contains forward-looking statements regarding the use of proceeds of the Private Placement; closing of the Debt Settlement and Private Placement and the timing of the same; the ability of Westpac to enforce its rights under the Facility; the Company's ability to continue as a going concern; the pro forma ownership of Bengal by Texada and the exact number of Common Shares to be issued to Texada; the impact of the Private Placement and Debt Settlement on Bengal and the results thereof, including that it will allow Bengal to address its significant working capital deficiency, settle all amounts owing under its senior credit facility and thereby remove the risk of imminent default under that facility and provide operating capital to Bengal, so that Bengal can go forward as a viable going concern, on a consolidated basis; the removal of all secured debt, elimination of future interest payments and ability for Bengal to deploy capital into its development and exploration programs, thereby significantly improving Bengal's financial situation; the expected costs of the Wareena reactivation project; Bengal's anticipated working capital deficit and cash on hand, including the amount of time in which cash on hand would be fully expended and the resulting impact on the Company's liquidity; and the Company's continued qualification for listing on the TSX. These forward-looking statements are provided as of the date of this news release, or the effective date of the documents referred to in this news release, as applicable, and reflect predictions, expectations or beliefs regarding future events based on the Company's beliefs at the time the statements were made, as well as various assumptions made by and information currently available to them. In making the forward-looking statements included in this news release, the Company has applied several material assumptions, including, but not limited to, the assumption that regulatory approval of the Private Placement will be obtained in a timely manner; that all conditions precedent to the completion of the Debt Settlement and Private Placement will be satisfied in a timely manner; and that general economic and business conditions will not change in a materially adverse manner. Although management considers these assumptions to be reasonable based on information available to it, they may prove to be incorrect. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that estimates, forecasts, projections and other forward-looking statements will not be achieved or that assumptions on which they are based do not reflect future experience. We caution readers not to place undue reliance on these forward-looking statements as a number of important factors could cause the actual outcomes to differ materially from the expectations expressed in them. These risk factors may be generally stated as the risk that the assumptions expressed above do not occur, but specifically include, without limitation, risks relating to general market conditions and the additional risks described in the Company's latest Annual Information Form, and other disclosure documents filed by the Company on SEDAR. The foregoing list of factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on behalf of the Company, except as required by law.*

*Certain of the above listed forward-looking statements constitute future-oriented financial information and financial outlook information (collectively, "FOFI") about Bengal's prospective financial position assuming completion of the Debt Settlement and Private Placement and its anticipated working capital deficit and cash on hand in the event the Debt Settlement and Private Placement are not completed, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this press release were made as of the date hereof and is provided for the purpose of describing Bengal's anticipated future business operations. Bengal disclaims any intention or obligation to update or revise any FOFI contained in this press release, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law. Readers are cautioned that the FOFI contained in this press release should not be used for purposes other than for which it is disclosed herein.*

### **Note Regarding Exchange Rates**

*All Bank of Canada exchange rates provided herein are indicative rates only, derived from averages of transaction prices and price quotes from financial institutions. As such, they are intended to be broadly indicative of market prices at the time of publication but do not necessarily reflect the rates at which actual market transactions have been or could be conducted. They may differ from the rates provided by financial institutions and other market sources.*

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