NIKO RESOURCES LTD

Q1 RESULTS FOR THE QUARTER ENDED JUNE 30, 2014

# NIKO REPORTS RESULTS FOR THE QUARTER ENDED JUNE 30, 2014

Niko Resources Ltd. ("Niko" or the "Company") is pleased to report its operating and financial results for the quarter ended June 30, 2014. The operating results are effective August 13, 2014. All amounts are in US dollars unless otherwise indicated and all amounts are reported using International Financial Reporting Standards unless otherwise indicated.

## PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

In fiscal 2014, the Company adopted a new business strategy that incorporates the following principles:

- Focus on value generation in the D6 Block in India;
- Reduce the Company's exposure to future drilling commitments in its exploration portfolio while, if possible, maintaining optionality to benefit from the exploration potential in its portfolio; and
- Continue to restructure the Company to create the necessary financial strength and flexibility to realize the inherent value of the Company's assets.

The highlights of the Company's progress on its strategy thus far in fiscal 2015 are as follows:

- As previously announced, in June 2014, the Government of India ("GOI") decided to further defer until October 1, 2014 the implementation of a new gas pricing formula for domestic natural gas sales in India to allow time for consultation with all stakeholders and comprehensive discussions on the issues. The Company has provided input to the GOI about the requirement for market price for natural gas sales as per the production sharing contracts awarded during the New Exploration Licensing Policy rounds and the fundamental principle of sanctity of contract as a required underpinning for long-term investments in any country. The Company and its partners will not make investments in planned development projects without achieving the pricing as provided in the PSC to provide adequate returns on the investments.
- In June 2014, the Company closed the sale of its interest in the Block 5(c) asset in Trinidad, providing funds to repay $15 million of its settlement obligation for its drilling contracts and $20 million of the short-term Facility E portion of its term loan facilities, and adding an additional $26 million in cash to the balance sheet.
- The Company is working with the governments to reschedule its exploration commitments and continues its efforts to farm-out or sell assets in its exploration portfolio. In July 2014, the Company transferred its remaining interest in Madagascar to an existing partner in exchange for contingent future success payments.
- In August 2014, the Company's Board of Directors appointed two new independent directors, Kevin J. Clarke and Steven K. Gendal, to the Board of Directors, bringing independent specialized sets of experience, knowledge and expertise to the Board as the Company furthers its restructuring efforts and develops plans for its future recovery.

While the Company is disappointed with the lack of progress on the Indian gas price issue, it has continued to execute on its strategy. The Company has focused its spending on its core assets and has achieved an increase in EBITDAX in the quarter. Simultaneously, spending in other areas has been minimized, conserving cash for future funding of value generation opportunities in the D6 Block in India. The Company maintained its liquidity at approximately $160 million of available cash through the quarter and will manage this liquidity consistent with the principles outlined above.

**Jake Brace** – President, Niko Resources Ltd.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Niko Resources Ltd. ("Niko" or the "Company") is a company incorporated in Alberta, Canada. The address of its registered office and principal place of business is Suite 4600 Devon Tower, 400 – 3 Avenue SW, Calgary, Alberta, Canada, T2P 4H2. The Company is engaged in the exploration for and development and production of oil and natural gas, primarily in India, Bangladesh, Indonesia, and Trinidad. The Company's common shares are traded on the Toronto Stock Exchange under the symbol "NKO".

The following Management's Discussion and Analysis ("MD&A") of the financial condition, results of operations and cash flows of the Company for the quarter ended June 30, 2014 should be read in conjunction with the unaudited interim consolidated financial statements for the quarter ended June 30, 2014. This MD&A is dated August 13, 2014. Additional information relating to the Company, including the Company's Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com. All financial information is presented in thousands of US Dollars unless otherwise indicated.

The term "the quarter" is used throughout the MD&A and in all cases refers to the period from April 1, 2014 through June 30, 2014. The term "prior year's quarter" is used throughout the MD&A for comparative purposes and refers to the period from April 1, 2013 through June 30, 2013. The terms "fiscal 2014" and "prior year" are used throughout the MD&A and in all cases refer to the period from April 1, 2013 through March 31, 2014. The term "fiscal 2015" is used throughout the MD&A and in all cases refer to the period from April 1, 2014 through March 31, 2015. The term "fiscal 2016" is used throughout the MD&A and in all cases refer to the period from April 1, 2015 through March 31, 2016.

Mcfe (thousand cubic feet equivalent) is a measure used throughout the MD&A. Mcfe is derived by converting oil and condensate to natural gas in the ratio of 1 bbl:6 Mcf. Mcfe may be misleading, particularly if used in isolation. A Mcfe conversion ratio of 1 bbl: 6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. MMBtu (million British thermal units) is a measure used in the MD&A. It refers to the energy content of natural gas (as well as other fuels) and is used for pricing purposes. One MMBtu is equivalent to 1 Mcf plus or minus up to 20 percent, depending on the composition and heating value of the natural gas in question.

**Cautionary Statement Regarding Forward-Looking Information and Material Assumptions**

Certain statements in this MD&A are "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws, herein referred to as "forward looking statements" or "forward looking information". Forward-looking information is frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate," "estimate," "scheduled," "potential" or other similar words, or statements that certain events or conditions "may," "should" or "could" occur. Forward-looking information is based on the Company's expectations regarding its future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities. Such forward-looking information reflects the Company's current beliefs and assumptions and is based on information currently available to it. Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information including risks discussed below. Although the forward-looking information contained in this report is based upon assumptions which the Company believes to be reasonable, it cannot assure investors that actual results will be consistent with such forward-looking information. Because of the risks, uncertainties and assumptions inherent in forward-looking information, you should not place undue reliance on this forward-looking information. See also "Risk Factors."

Specific forward-looking information contained in this MD&A may include, among others, statements regarding:

- a shift in strategic focus of the Company, specifically, the planned limitation of exploration outside of India and Bangladesh, and the planned decrease in commitments and capital obligations with respect to exploration and evaluation assets;
- the quantum of the India new gas pricing formula including the effective date of implementation;
- the addition of compression at the Block 9 gas processing plant and at D6 Block and the sustained production levels resulting therefrom;
- the Company's future development and exploration activities and the timing of these activities, including drilling and workover activities in the D6 Block in India and the corresponding increases in sales volumes from these activities;
- the success in securing farm-outs, swaps, or asset sales in India, Trinidad and Brazil and the rescheduling of certain of the Company's work commitments;

- the ability to seek joint venture partners;
- the sufficiency of the restricted cash and oil and gas revenues to satisfy the cash requirements for the Company's operational subsidiaries in India and Bangladesh for the foreseeable future;
- whether the Company's restructuring efforts will be sufficient to allow certain of the Company's exploration subsidiaries to meet existing and future obligations and create necessary financial strength and flexibility needed to fully realize the inherent value of the Company's assets;
- the performance characteristics of the Company's oil, natural gas liquids ("NGL") and natural gas properties;
- natural gas, crude oil, and condensate production levels, sales volumes and revenue;
- the volume and value of the Company's oil, NGL and natural gas reserves;
- projections of market prices and costs;
- the Company's ability to raise capital and to continually add to reserves through development;
- future funds from operations;
- debt and liquidity levels, and particularly in respect of debt and liquidity;
    - term loan and settlement agreement with Diamond Offshore ("Diamond");
    - the proposed sale of non-core assets and farm-out transactions involving exploratory production sharing contract ("PSC");
    - deferred obligations under the D6 Royalty Agreements; and
    - the satisfaction of all conditions under the term loan.
- future royalty rates;
- treatment under governmental regulatory regimes and tax laws;
- work commitments and capital expenditure programs;
- the Company's future ability to satisfy certain contractual obligations;
- future economic conditions, including future interest rates;
- the impact of governmental controls, regulations and applicable royalty rates on the Company's operations;
- the Company's expectations regarding the development and production potential of its properties;
- the Company's expectations regarding the costs for development activities;
- the resolution of various legal claims raised against the Company;
- the potential for asset impairment and recoverable amounts of such assets; and
- changes to accounting estimates and accounting policies.

The forward-looking statements contained in this MD&A are based on certain key expectations and assumptions made by us, including expectations and assumptions relating to prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the availability of capital to undertake planned activities and the availability and cost of labor and services. Although the Company believes that the expectations reflected in the forward-looking statements in this MD&A are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and natural gas industry in general, such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, governmental regulation, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the Company's ability to access sufficient capital from internal and external sources, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation risks, changes in tax, royalty and environmental legislation, the impact of general economic conditions, risks associated with meeting all the Company's financing obligations and contractual commitments (including work commitments), the risks discussed under "Risk Factors" in the Company's most recent AIF and under the heading "Risk Factors" herein and in the Company's public disclosure documents, and other factors, many of which are beyond the Company's control. Statements relating to "reserves" are deemed to be forward-looking information, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future to achieve the future net revenue calculated in accordance with certain assumptions. The assumptions relating to the reserves reported are contained in the reports of Deloitte LLP dated June 25, 2014 and effective March 31, 2014 and are summarized in the Company's most recent AIF. Future net revenues associated with reserves do not necessarily represent fair market value. Additionally, test results from exploration discoveries may not be reflective of long-term performance or stabilized production levels of such wells or ultimate recovery. You are cautioned that the foregoing list of factors and risks is not exhaustive.

The Company prepares production forecasts taking into account historical and current production, and actual and planned events that are expected to increase or decrease production and production levels indicated in its reserve reports.

The Company prepares capital spending forecasts based on internal budgets for operated properties, budgets prepared by the Company's joint venture partners, when available, for non-operated properties, field development plans and actual and planned events that are expected to affect the timing or amount of capital spending.

The Company prepares operating expense forecasts based on historical and current levels of expenses and actual and planned events that are expected to increase or decrease production and/or the associated expenses. The Company makes no representation that the actual results achieved during the forecasted period will be the same in whole or in part as those forecasts.

The Company discloses the nature and timing of expected future events based on budgets, plans, intentions and expected future events for operated properties. The nature and timing of expected future events for non-operated properties are based on budgets and other communications received from joint venture partners.

The Company updates forward-looking information related to operations, production and capital spending on a quarterly basis when the change is material and update reserve estimates on an annual basis. See "Risk Factors" for discussion of uncertainties and risks that may cause actual events to differ from forward-looking information provided in this report. The information contained in this report, including the information provided under the heading "Risk Factors," identifies additional factors that could affect the Company's operating results and performance. The Company urges you to carefully consider those factors and the other information contained in this report.

The forward-looking statements contained in this report are made as of the date of this MD&A. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable law. The forward-looking statements and the forward-looking information contained in this report are expressly qualified by this cautionary statement.

**Non-IFRS Measures**

The selected financial information presented throughout this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRS"), except for "EBITDAX", and "segment profit". These non-IFRS financial measures, which have been derived from the unaudited interim consolidated financial statements and applied on a consistent basis, are used by management as measures of performance of the Company. These non-IFRS measures should not be viewed as substitutes for measures of financial performance presented in accordance with IFRS or as a measure of a company's profitability or liquidity. These non-IFRS measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies.

The Company utilizes EBITDAX to assess performance and to help determine its ability to fund future capital investments and to repay debt. EBITDAX is calculated as net income before interest expense, income taxes, depletion and depreciation expenses, exploration and evaluation expenses, and other non-cash items (gain or loss on investments, asset impairment, share-based compensation expense, restructuring expenses, accretion expense, and unrealized foreign exchange gain or loss).

The Company utilizes segment profit to evaluate performance by segment and overall. Segment profit is defined as oil and natural gas revenues less royalties, the government share of profit petroleum, production and operating expenses, depletion expense, exploration and evaluation expense, asset impairment and current and deferred income taxes related to each business segment.

These non-IFRS measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies.

## BUSINESS HIGHLIGHTS

The significant business highlights of the first quarter in fiscal 2015 are as follows:

***Sales Volumes***

| (MMcfe/d) | Quarter ended June 30, 2014 | Quarter ended March 31, 2014 | Quarter ended June 30, 2013 |
|---|---|---|---|
| D6 Block, India | 50 | 50 | 53 |
| Block 9, Bangladesh | 66 | 67 | 50 |
| Other[1] | 2 | 2 | 3 |
| Total[1] | 118 | 119 | 107 |

(1) Other includes Hazira in India, and Canada.
(2) Figures may not add up due to rounding.

***D6 Block, India***

- Total sales volumes in the first quarter of fiscal 2015 from the D6 Block in India of 50 MMcfe/d were flat compared to the fourth quarter of fiscal 2014 primarily due to production from the MA-6H sidetrack well brought on-stream in April 2014 and sales of crude oil that had been held in inventory at March 31, 2014 offsetting the impact of natural production declines in the fields in the block. Total sales volumes for the current quarter decreased compared to the first quarter of fiscal 2014 as production from the MA-8 development well brought on-stream in January 2014 and the MA-6H well brought on-stream in April 2014 and sales of crude oil held in inventory were more than offset by the impact of natural production declines in the fields in the block.
- Production optimization efforts for existing fields in the D6 Block continued in the first quarter of fiscal 2015 with i) workover campaigns on existing shut-in wells, and ii) engineering and construction activities for booster compression, with targeted completion by the fourth quarter of fiscal 2015. The sidetrack of the MA-6H well was successfully completed in the quarter while a workover operation of a well in the Dhirubhai 1 and 3 ("D1 D3") gas fields was not successful due to mechanical wellbore difficulties. A workover on another well in the D1 D3 field that commenced in the current quarter and concluded in the second quarter is under evaluation.
- The drilling of MJ-A2 appraisal well, located to target the eastern fault block on the MJ field discovered in the first quarter of fiscal 2014, was completed in June 2014 and encountered high quality Mesozoic synrift reservoir, similar to the quality and age of the hydrocarbon bearing sections found in the MJ-1 discovery well and the successful MJ-A1 appraisal well, but the targeted section was wet. The implication of the MJ-A2 well is a reduction of the estimated areal extent of the MJ field from 65 square kilometers to 38 to 45 square kilometers, approximately 3.5 to 4 times the areal extent of the analogous MA field. The results of the appraisal wells are being integrated into the plans for further appraisal drilling and subsequent options for development. The MJ field remains a material discovery for the D6 Block partners and is well positioned to take advantage of the existing D6 Block infrastructure. Niko and its partners are currently finalizing the optimal location for the third appraisal well in this field.
- Notification of a new price for domestic natural gas sales in India has been deferred by the Government of India ("GOI") until October 1, 2014 and under protest but in good faith, the contractor group has kept supplying the gas to customers and the customers have been paying for the gas supplied under the terms of the sales contracts that expired on March 31, 2014. In May 2014, the contractor group for D6 Block issued a notice of arbitration to the GOI seeking market pricing for the gas as per the terms of the PSC for the block.
- The final decision to proceed with the R-Cluster development project in the D6 Block approved by the GOI, providing the opportunity for significant production growth for the Company in the future, is pending resolution of the gas pricing issue noted above.

***Block 9, Bangladesh***

- Total sales volumes in the first quarter of fiscal 2015 from Block 9 in Bangladesh of 66 MMcfe/d were virtually flat compared to the fourth quarter of fiscal 2014. Total sales volumes for the current quarter increased compared to the first quarter of fiscal 2014 due to the impact of workovers performed during fiscal 2014.
- Installation of plant compression facilities continued in the first quarter of fiscal 2015, with targeted completion in the second quarter of fiscal 2015.

***Restructuring***

- In June 2014, the Company sold its 25 percent interest in Block 5(c) in Trinidad and Tobago to a subsidiary of the BG Group and received net proceeds of $61 million, providing funds to repay $15 million of its contract settlement obligations and $20 million of short-term Facility E loan portion of secured term loan, and adding an additional $26 million in cash for the future funding of the anticipated requirements of its operating subsidiaries in India and Bangladesh, its corporate general and administrative expenses and its interest obligations.
- In July 2014, the Company transferred its remaining 35 percent interest in the Grand Prix block in Madagascar to an existing partner in exchange for potential future payments that are contingent on certain future events in the block.
- In May 2014, the Company entered into a settlement agreement with a vendor resulting in other income of $2 million.

***Legal Proceedings***

- The processes for two arbitration claims being heard by a tribunal constituted under the Rules of the International Centre for Settlement of Investment Disputes continued in the first quarter of fiscal 2015, with a hearing occurring in April 2014 on the claim for amounts owed to the Company for gas supplied from the Feni field in Bangladesh from 2004 to 2009. A decision from the arbitral panel on this claim is expected in fiscal 2015.

**CAPITAL AND EXPLORATION EXPENDITURES**

| (thousands of US Dollars) | Additions to exploration and evaluation assets[1][2] | Additions to capital inventory | Directly expensed exploration and evaluation costs[1] | Additions to property, plant and equipment[1] | Total |
|---|---|---|---|---|---|
| India and Bangladesh | 6,147 | - | 282 | 11,145 | 17,575 |
| Other | 1,963 | (5,814) | 6,016 | 148 | 2,313 |
| Total | 8,110 | (5,814) | 6,298 | 11,293 | 19,887 |

(1) Share-based compensation and other non-cash items are excluded.

(2) Includes additions that were subsequently written off.

***India and Bangladesh***

Capital and exploration expenditures in India and Bangladesh totaled $18 million for the first quarter of 2015. Development capital of $11 million for the quarter related primarily to the drilling of the MA-6H sidetrack well and workover operations in the D1 D3 field in the D6 Block in India. Exploration and evaluation capital of $6 million for the quarter related primarily to the drilling of the MJ-A2 appraisal well in the MJ field in the D6 Block in India, the costs of which have been expensed.

***Other Countries***

Capital and exploration expenditures outside of India and Bangladesh totaled $2 million for the first quarter of 2015 as exploration and evaluation costs expensed directly to income of $6 million, reflecting the Company's reduction in staffing and exploration efforts outside of India, and other exploration and evaluation expenditures of $2 million were partially offset by the impact of returning $6 million of drilling inventory to suppliers.

**FINANCIAL HIGHLIGHTS**

| | Quarter ended June 30, | |
|---|---|---|
| (thousands of US Dollars) | 2014 | 2013 |
| EBITDAX[1] | 25,852 | 19,567 |
| Net loss | (54,943) | (59,171) |

(1) Non-IFRS measures as defined under "Non-IFRS measures" in this MD&A.

**EBITDAX / Net Loss**

The following table provides a reconciliation of net loss under IFRS as disclosed in the unaudited interim consolidated financial statements of comprehensive income/(loss) to EBITDAX.

| | Quarter ended June 30, | |
|---|---|---|
| (thousands of US Dollars) | 2014 | 2013 |
| Oil and natural gas revenue | 35,161 | 28,042 |
| Production and operating expenses | (9,371) | (8,096) |
| General and administrative expenses | (3,697) | (1,334) |
| Finance and other income | 3,785 | 140 |
| Bank charges and other finance costs | (55) | (139) |
| Realized foreign exchange gain | 29 | 954 |
| **EBITDAX[1]** | 25,852 | 19,567 |
| Interest expense | (15,670) | (4,353) |
| Cash restructuring costs | (1,404) | - |
| Current income tax (expense) | (22) | (4) |
| Non-cash production and operating expenses | (181) | (151) |
| Depletion and depreciation expenses | (24,241) | (30,188) |
| Exploration and evaluation expenses | (16,252) | (30,232) |
| Non-cash restructuring costs | 747 | - |
| Loss on investments | - | (888) |
| Asset impairment | (600) | - |
| Share-based compensation expense | (896) | (2,686) |
| Accretion expense | (18,288) | (2,187) |
| Unrealized foreign exchange loss | (2,906) | (8,930) |
| Deferred income tax (expense) recovery | (1,082) | 881 |
| **Net loss** | (54,943) | (59,171) |

(1) Non-IFRS measures as defined under "Non-IFRS measures" in this MD&A.

**OVERALL PERFORMANCE AND RESULTS OF OPERATIONS**

***Oil and natural gas revenue***

For the current quarter, oil and natural gas revenue increased compared to the prior year quarter primarily due to increased crude oil and condensate sales volumes from the D6 Block in India and increased gas sales volumes from Block 9 in Bangladesh, partially offset by lower gas sales volumes from the D6 Block in India.

***Production and operating expenses***

Production and operating expense for the current year increased compared to the prior year quarter primarily due to the impact of the transfer to costs to expense related to the change in crude oil and condensate inventory volumes.

***General and administrative expenses***

General and administrative expenses for the current quarter increased primarily due to legal costs associated with the Company's ICSID arbitration cases in Bangladesh.

***Finance and other income***

Finance and other income for the current quarter primarily related to $2 million of insurance premium refunds in India and $2 million

of other income relating to a settlement of vendor obligations.

***Interest expense***

Interest expense for the current quarter increased primarily due to the term loan facilities agreement entered into in fiscal 2014.

***Restructuring costs***

Cash restructuring costs in the current quarter is related to allocated expenses and advisory costs incurred for the Company's restructuring efforts initiated in fiscal 2014. Non-cash restructuring costs in the current quarter is due to an offset by share-based compensation adjustments resulting from the forfeiture of stock options.

***Depletion and depreciation expenses***

Depletion and depreciation expenses decreased in the current quarter primarily due to lower production volumes for the D6 Block in India.

***Exploration and evaluation expenses***

Exploration and evaluation expenses decreased in the current quarter as a result of the Company's overall reduction in exploration activities in various blocks. In the current quarter, the Company expensed the costs of the unsuccessful appraisal well in the D6 Block in India while in the prior year's quarter, a significant amount of exploration and evaluation expense was incurred associated with the unsuccessful well in North Makassar block in Indonesia, directly expensed costs of seismic and other exploration projects, payments specified in various production sharing contracts, and branch office costs related to exploration activities.

***Share-based compensation expense***

Share-based compensation expense in the current quarter decreased as a result of lower stock prices on new options granted in the quarter and higher forfeitures of stock options compared to prior year's quarter.

***Accretion expense***

Accretion expense increased in the current quarter primarily due to the term loan agreement, contract settlement obligation and deferred obligation entered into in fiscal 2014, along with the impacts of early prepayments of the outstanding principal on Facility E of the term loan and of a portion of the contract settlement obligation.

***Unrealized foreign exchange loss***

The unrealized foreign exchange loss in the current quarter primarily reflected the impact of the weakening of the Canadian Dollar against the US Dollar on the Company's Canadian dollar denominated convertible notes. The unrealized foreign exchange loss in the prior year's quarter related to the impact of the weakening of the Indian Rupee on Indian Rupee denominated income tax and minimum alternative tax receivables and to the impact of the weakening of the Canadian dollar on US dollar denominated debt in a Canadian dollar functional currency entity, with an offsetting foreign exchange gain recorded to other comprehensive income.

***Deferred income tax (expense) recovery***

The deferred income tax expense for the current quarter is related primarily to D6 Block and Hazira field, partially offset by a recovery experienced in NEC-25 block in India.

**SEGMENT PROFIT**

***India***

| (thousands of US Dollars) | Quarter ended June 30, 2014 | 2013 |
|---|---|---|
| Natural gas revenue | 17,723 | 20,846 |
| Oil and condensate revenue | 8,982 | 1,267 |
| Royalties | (1,234) | (1,375) |
| Government share of profit petroleum | (588) | (565) |
| Production and operating expense | (7,185) | (3,566) |
| Depletion and depreciation expense | (22,846) | (28,286) |
| Asset impairment | (10) | - |
| Exploration and evaluation expense | (6,909) | (36) |
| Current expense | (22) | (3) |
| Deferred income tax (expense) recovery | (1,082) | 458 |
| Segment loss[1] | (13,171) | (11,260) |
| Daily natural gas sales (Mcf/d) | 46,873 | 55,556 |
| Daily oil and condensate sales (bbls/d)[1] | 920 | 153 |
| Operating costs ($/Mcfe) | 1.45 | 0.69 |
| Depletion rate ($/Mcfe) | 4.76 | 5.43 |

(1) Segment loss is a non-IFRS measure as calculated above.

Segment loss for India includes results from the Dhirubhai 1 and 3 natural gas fields and the MA oil and natural gas field in the D6 Block, the Hazira oil and natural gas field and the Surat gas field.

Natural gas sales revenue decreased in the current quarter due to anticipated natural declines in the D6 Block, partially offset by production from the MA-8 development well brought on-stream in January 2014 and the MA-6H sidetrack well brought on-stream in April 2014. Oil and condensate revenue in the current quarter benefitted from the sales of crude oil and condensate volumes held in inventory at March 31, 2014 while lower oil and condensate revenue in the prior year's quarter reflected crude oil and condensate volumes that were held in inventory at June 30, 2013.

Royalties and the government share of profit petroleum for the current quarter decreased as a result of lower production volumes.

Production and operating expenses for the current quarter increased from the prior year's quarter primarily due to the impact of the transfer to costs to expense related to the change in crude oil and condensate inventory volumes. The increase was also contributed due to general and administrative expenses allocated to production and operating expenses.

Depletion and depreciation expense decreased for the current quarter due to lower production volumes in the D6 Block.

As part of its process in assessing for impairment triggers, the Company evaluated the situation regarding the expected Indian domestic gas price, based on the Domestic Natural Gas Guidelines, 2014 notified by the GOI in fiscal 2014 (see note 2 of the unaudited interim consolidated financial statements) and determined that no impairment triggers exist at June 30, 2014 relating to its development and producing assets in the D6 and NEC-25 blocks in India (combined value of $385 million).

As described in note 2 of the unaudited interim consolidated financial statements, there is significant uncertainty at this time as to the timing and magnitude of the price increase for the Company's future natural gas sales in India. A future natural gas price that is lower than the prices used in preparation of the Company's independent reserve evaluation for its India properties as at March 31, 2014 based upon the notified pricing formula could impact the Company's plans for its assets in the D6 and NEC-25 blocks in India and could potentially result in impairment triggers and material impairments to the carrying values of these assets. The magnitude of any potential impairment is indeterminable at this time.

***Bangladesh***

| (thousands of US Dollars) | Quarter ended June 30, 2014 | 2013 |
|---|---|---|
| Natural gas revenue | 13,640 | 10,362 |
| Condensate revenue | 1,863 | 1,351 |
| Government share of profit petroleum | (5,242) | (3,959) |
| Production and operating expense | (2,367) | (4,591) |
| Depletion and depreciation expense | (1,205) | (1,685) |
| Exploration and evaluation expense | (193) | (180) |
| Segment profit[1] | 6,496 | 1,298 |
| Daily natural gas sales (Mcf/d) | 64,691 | 49,165 |
| Daily condensate sales (bbls/d) | 193 | 149 |
| Operating costs ($/Mcfe) | 0.39 | 0.97 |
| Depletion rate ($/Mcfe) | 0.20 | 0.37 |

(1) Segment profit is a non-IFRS measure as calculated above.

Oil and gas revenues for the current year increased as a result of higher sales volumes resulting from the completion of well workovers during the prior year.

The government share of profit petroleum for the current quarter increased due to the increase in oil and gas revenues. In the second quarter of fiscal 2015 the profit petroleum percentage of gross revenue will increase above the minimum level of 34 percent of gross revenue once past unrecovered allowable cost have been fully recovered.

Production and operating expense for the current quarter decreased primarily due to workover costs in the prior year's quarter.

Depletion and depreciation expense for the current year decreased due to a lower depletion rate arising from positive reserve revisions recorded at the end of fiscal 2014, partially offset by increased production volumes.

***Indonesia***

| (thousands of US Dollars) | Quarter ended June 30, 2014 | 2013 |
|---|---|---|
| Exploration and evaluation expense | (4,980) | (22,907) |
| Depletion and depreciation expense | (37) | (46) |
| Asset impairment | (530) | - |
| Restructuring cost | (37) | - |
| Income tax recovery | - | 423 |
| Segment loss[1] | (5,584) | (22,530) |

(1) Segment loss is a non-IFRS measure as calculated above.

Exploration and evaluation expenses of $5 million in the current quarter reflected lower general branch office costs and share based compensation. Exploration and evaluation expenses for the prior year quarter of $23 million included $15 million for unsuccessful well in the North Makassar block, $3 million for seismic and other exploration projects, and $5 million for branch office costs and share based compensation.

***Trinidad***

| (thousands of US Dollars) | Quarter ended June 30, 2014 | 2013 |
|---|---|---|
| Exploration and evaluation expense | (3,296) | (4,977) |
| Depletion and depreciation expense | (24) | (31) |
| Asset impairment | (60) | - |
| Segment loss[1] | (3,380) | (5,008) |

(1) Segment loss is a non-IFRS measure as calculated above.

Exploration and evaluation expenses for the current quarter of $3 million reflected the lower costs of exploration activities, payments

specified in the PSC and branch office costs.

***All Other (Brazil, Madagascar, Pakistan, Canada)***

| (thousands of US Dollars) | Quarter ended June 30, 2014 | 2013 |
|---|---|---|
| Other income | 1,602 | 140 |
| Royalty income | 17 | - |
| Exploration and evaluation expense | (874) | (2,132) |
| Depletion and depreciation expense | (129) | (140) |
| Segment loss[1] | 616 | (2,132) |

(1) Segment loss is a non-IFRS measure as calculated above.

Other income of $2 million arose from the settlement of outstanding vendor obligations in Brazil.

**CORPORATE**

| (thousands of US Dollars) | Quarter ended June 30, 2014 | 2013 |
|---|---|---|
| Finance and other income | 2,183 | 140 |
| General and administrative expenses | (3,697) | (1,334) |
| Share-based compensation expense | (896) | (2,686) |
| Restructuring cost | (657) | - |
| Finance expense | (34,013) | (6,679) |
| Foreign exchange loss | (2,877) | (7,976) |
| Loss on investments | - | (888) |

***General and administrative expenses***

General and administrative expense in the current quarter increased primarily due to legal fees associated with the Company's ICSID arbitration cases.

***Share-based compensation expense***

Share-based compensation in the current quarter decreased due to lower fair values per stock option granted in the quarter and due to the reversal of share-based compensation expense resulting from the forfeiture of stock options.

***Restructuring cost***

Restructuring cost for the current quarter is related to allocated expense and advisory costs incurred relating to the Company's restructuring efforts since the second quarter of fiscal 2014.

***Finance expense***

| (thousands of US Dollars) | Quarter ended June 30, 2014 | 2013 |
|---|---|---|
| Interest expense | 15,670 | 4,353 |
| Accretion expense | 18,288 | 2,187 |
| Bank charges and other finance costs | 55 | 139 |
| Finance expense | 34,013 | 6,679 |

Interest expense for the current quarter increased primarily due to the term loan facilities agreement entered into in fiscal 2014.

Accretion expense increased in the current quarter primarily due to the term loan agreement, contract settlement obligation and deferred obligation entered in fiscal 2014, along with the impacts of early prepayments of the outstanding principal on Facility E of the term loan and a portion of the contract settlement obligation.

***Foreign Exchange***

| (thousands of US Dollars) | Quarter ended June 30, 2014 | 2013 |
|---|---|---|
| Realized foreign exchange (gain) | (29) | (954) |
| Unrealized foreign exchange loss | 2,906 | 8,930 |
| Total foreign exchange loss | 2,877 | 7,976 |

The unrealized foreign exchange loss in the current quarter primarily reflected the impact of the weakening of the Canadian Dollar against the US Dollar on the Company's Canadian dollar denominated convertible notes. The unrealized foreign exchange loss in the prior year's quarter related to the impact of the weakening of the Indian Rupee on Indian Rupee denominated income tax and minimum alternative tax receivables and to the impact of the weakening of the Canadian dollar on US dollar denominated debt in a Canadian dollar functional currency entity, with an offsetting foreign exchange gain recorded to other comprehensive income.

## LIQUIDITY AND CAPITAL RESOURCES

To implement its strategy of developing and appraising the assets in the D6 Block in India while maintaining optionality in the balance of its exploration portfolio, the Company has the following sources of funding for its planned operating, investing and financing cash outflows (including working capital requirements):

- Unrestricted cash and cash equivalents as at June 30, 2014 of $106 million;
- Restricted cash as at June 30, 2014 of $50 million that is available for funding of expenditures related to the D6 Block in India (including working capital requirements);
- Receipts of oil and natural gas revenues from its producing assets in India and Bangladesh;
- Potential proceeds from asset sales, farm-outs and other arrangements; and
- Potential proceeds from future equity or debt issues.

The Company's budget for its planned capital program for India and Bangladesh in fiscal 2015 is approximately $70 million, with a potential increase to $150 - $200 million in fiscal 2016 depending on the resolution of the natural gas price issue described below. Annual average sales volumes for the Company in fiscal 2015 from existing producing wells in its producing fields are targeted to be approximately equal to the annual average sales volumes for fiscal 2014, with the sales volumes from planned development activities in the D6 Block in the remainder of the year dependent on the timing and results of these activities. EBITDAX for fiscal 2015 is dependent on the sales volumes and resolution of the natural gas price issue.

Effective April 1, 2014, prices for natural gas sales from the D6 Block were expected to approximately double as per the pricing formula approved by the GOI in June, 2013 and included in the Domestic Natural Gas Guidelines, 2014 ("Guidelines") published by the GOI in January, 2014. As per the Guidelines, the pricing formula is to be applicable to all natural gas sales from the D6 Block, subject to submission of bank guarantees related to incremental natural gas revenues from the Dhirubhai 1 and 3 fields. The Company has been working with Reliance, the operator of the D6 Block, on providing bank guarantees that were to be required by the GOI. However, the GOI has not notified the price calculated under these Guidelines, initially due to an election commission ruling that the price should not be notified during the election campaign, and subsequently due to the transition to a new government ruling party. Under protest but in good faith, the contractor group for the D6 Block has kept supplying gas to its customers and the customers have been paying for the gas supplied at the price specified in the sales contracts that expired on March 31, 2014. In May 2014, the contractor group for the D6 Block filed a notice of arbitration to the GOI seeking the implementation of the Guidelines. The GOI has indicated that it is working towards the announcement of a new natural gas price to be effective October 1, 2014, but there is significant uncertainty at this time as to the timing and magnitude of the price increase.

If a new market price for natural gas sales from the D6 Block in India is not notified by the GOI, then a significant portion of the contractor group's planned investments in the block are expected to be deferred; and

- the unrestricted and restricted cash and the forecasted receipts of oil and gas revenues are expected to be sufficient to satisfy the anticipated cash requirements of the Company's operating subsidiaries in India and Bangladesh, its corporate general and administrative expenditures, and its interest obligations for the foreseeable future.

If a new market price for natural gas sales from the D6 Block in India is notified by the GOI, effective October 1, 2014, the contractor group's planned investments in the block for fiscal 2015 and fiscal 2016 are expected to occur as currently planned; and:

- If a bank guarantee is required by the GOI and is provided by Reliance on behalf of the contractor group without a requirement for cash support from the Company, then the unrestricted and restricted cash and the forecasted receipts of oil and gas revenues are expected to be sufficient to satisfy the anticipated cash requirements of the Company's operating subsidiaries in India and Bangladesh, its corporate general and administrative expenditures, and its interest obligations for the foreseeable future.
- If a bank guarantee is required by the GOI and is provided by Reliance on behalf of the contractor group with full cash support from the Company for the Company's share of the incremental natural gas revenue from the Dhirubhai 1 and 3 fields, then the unrestricted and restricted cash and the forecasted receipts of oil and gas revenues are expected to be sufficient to satisfy the anticipated cash requirements of the Company's operating subsidiaries in India and Bangladesh, its corporate general and administrative expenditures, and its interest obligations for fiscal 2015. In this scenario, for fiscal 2016, the Company is expected to require additional funding from asset sales, farm-outs and other arrangements and/or future equity or debt issues and expects that it will be able to raise the required funds from some or all of these sources. However, there can be no assurance that these efforts will be sufficient to satisfy the anticipated cash requirements of the Company's operating subsidiaries in India and Bangladesh, its corporate general and administrative expenditures, and its interest obligations.

As at June 30, 2014, the Company had $105 million of accounts payable and accrued liabilities related to its exploration subsidiaries, primarily in Indonesia and Trinidad, and has significant exploration work commitments over the next several years (see note 22 in the unaudited interim consolidated financial statements). The terms of the Company's term loan facilities limit the funding of capital expenditures and working capital requirements in these areas and the Company is evaluating its options for these subsidiaries as part of its strategy of maintaining optionality in its exploration portfolio. The Company is working on selling or farming out interests in many of its exploration production sharing contracts, rescheduling its exploration commitments, and settling its vendor liabilities. There is significant uncertainty regarding whether these efforts will be sufficient to allow certain of the Company's exploration subsidiaries to meet existing and future obligations and continue activities in the future.

Over the next few years, the Company plans to limit its exploration expenditures outside of India and Bangladesh, net of proceeds of farm-outs and other arrangements, to less than $35 million per year.

As described above, there is material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern.

*Non-core Asset Dispositions, Farm-outs and Other Arrangements*

In the first quarter of fiscal 2015, the Company closed the sale of its 25 percent interest in Block 5(c) in Trinidad and Tobago for net proceeds of $61 million and used the funds to repay $15 million of contract settlement obligation owing to Diamond and repay the $20 million term loan Facility E. As per the terms of the facilities agreement, the Company offered to prepay approximately $26 million of the term loan and the lender group declined the offer, resulting in additional cash being available for funding of the anticipated cash requirements of its operating subsidiaries in India and Bangladesh, its corporate general and administrative expenses, and its interest obligations.

*Term Loan Facilities*

In December 2013, the Company entered into a definitive facilities agreement with certain institutional investors providing for senior secured term loan facilities in an aggregate principal amount of $340 million. As of June 30, 2014, the outstanding principal on the facilities is $300 million, reflecting the Company's decision to forego its option to drawdown on the $20 million amount of Facility D and the repayment in June 2014 of the $20 million drawn on Facility E. The key terms related to the outstanding facilities under the facilities agreement and related documentation are as follows:

*Specific terms of facilities A/B/C:*

- Facilities amount: $300 million (combined)
- Prepayment: At the Company's option at any time after December 20, 2015 (at a 7 percent premium, decreasing to 4 percent after December 20, 2016)<br>At the Lenders option (without premium) from the remaining net proceeds of certain asset sales, farm-outs, equity and debt issuances, after contract settlement payments and Facility D/E prepayments
- Repayment: On September 30, 2017
- Use of proceeds: $175 million Facility A: General corporate purposes, subject to certain restrictions<br>$125 million Facilities B/C: Restricted to expenditures related to the D6 Block in India

- Interest: Quarterly cash interest payments at 15 percent per annum; potential 5 additional percent per annum payable upon repayment if first ranking security is not provided over the Company's participating interest in the D6 Block

*Uncommitted D6 facility:*
The facilities agreement also includes a provision for an uncommitted facility that can be funded at the option of any lenders if the Company is unable to fund the cash call requirements of the D6 Block. Advances under this facility are repayable from the Company's gross revenues from the D6 Block until an amount equal to 200 percent of the advanced amount has been paid.

*Financial covenants*
The Company is subject to the following financial covenants under the facilities agreement:

- Maximum ratio of (a) consolidated senior debt (defined as debt incurred under facilities A, B and C and finance lease obligations) to (b) the consolidated EBITDAX (as defined in the facilities agreement) for the trailing four quarters, commencing with the period ending June 30, 2014.
- Minimum ratio of (a) proved plus probable reserves for the D6 Block to (b) senior debt, commencing with the period ending March 31, 2014.

*General covenants*
The Company has agreed to several other undertakings and covenants in the facilities agreement, including:

- Maintenance of certain reserve accounts, including:
    - A reserve account for anticipated capital expenditures in the D6 Block, with a minimum balance that increases over time to the greater of US$30 million and the Company's forecasted capital expenditures in the D6 Block for the subsequent six month period.
    - A reserve account for settlement payments, with a minimum balance commencing December 31, 2014 equal to the payments required under the terms of the settlement agreement with Diamond Offshore (see note 11a in the unaudited interim consolidated financial statements) for the subsequent six month period.
    - A reserve account for debt service, with a minimum balance commencing December 31, 2014 equal to the interest payments due under the facilities agreement for the subsequent six month period.
- Requirement to make offers to prepay the facilities in certain circumstances, including:
    - Receipt of net proceeds of asset sales, farm-outs and equity issuances
    - Change of control
    - Disposal of all or any part of the Company's rights in respect of the D6 Block.
- Restrictions on cash expenditures relating to areas outside of India and Bangladesh, subject to certain exceptions.
- Requirement to raise certain minimum amounts from asset sales, farm-outs and/or equity issuances by June 30, 2015.
- Restrictions on the incurrence of debt, granting of liens, investments and similar transactions.

As at June 30, 2014, the Company is in compliance with all of the covenants specified in its facilities agreement.

*Deferred Obligation*
As a condition of the facilities agreement, the Company entered into an agreement that provides for a monthly payment equal to six percent of the Company's share of the gross revenues from the D6 Block in India, commencing April 1, 2015 for a period of seven years.

*Security*
The obligations under the facilities agreement and the D6 royalty agreement (see note 11b in the unaudited interim consolidated financial statements) are initially secured by:

- charges over all of the present and after-acquired personal and real property of the Company and certain of its subsidiaries;
- specific pledges and charges over the shares of substantially all of the Company's subsidiaries; and
- specific charges over the bank accounts of the Company and certain of its subsidiaries.

The Company has entered into security deeds to grant first ranking security which will become effective upon consent by Petrobangla and the Bangladesh government with respect to Block 9 in Bangladesh, and has agreed to use best endeavours to obtain all necessary India governmental authorizations to provide first ranking security over the Company's participating interest in the D6 PSC in India.

*Contract Settlement Obligation*

In December 2013, the Company entered into an agreement with Diamond Offshore relating to settlement of payment obligations and other commitments under the Ocean Monarch and Ocean Lexington drilling contracts. The settlement agreement includes a mutual release of claims in respect of certain rights and obligations under the drilling contracts, with the claims in respect of the Company's payment obligations under the drilling contracts to be released upon payment by the Company of $80 million. An initial payment of $25 million was made to Diamond Offshore using proceeds from the initial advance of the term loan, with the outstanding balance to be paid over subsequent years up to September 30, 2017, subject to early prepayment upon the occurrence of certain events. In the first quarter of fiscal 2015, approximately $15 million was prepaid on the contract settlement obligation. The amounts due are non-interest bearing.

*Unsecured Notes*

In June 2013, the Company issued $63.5 million of unsecured notes that bear interest at 7 percent per annum. In December 2013, the Company agreed with the holders of the notes to amend the terms of the notes by deleting the required instalment payments and granting the holders a conversion right in respect of the remaining principal balance of approximately $13 million. At any time prior to the July 13, 2014 maturity of the notes, the holders are entitled to convert all or any portion of the outstanding principal and accrued interest into common shares of the Company. The number of common shares to be issued upon conversion is determined by dividing the amount to be paid in common shares by 94.5 percent of the lower of the volume weighted average price of the common shares for the fifteen trading days prior to conversion and the volume weighted average price of the common shares for the five trading days prior to conversion.

From December, 2012 to March 31, 2014, the holders of the notes converted approximately $6.9 million of outstanding principal plus accrued interest into a total of 3,643,452 common shares of the Company. In the first quarter of fiscal 2015, approximately $5.3 million of outstanding principal plus accrued interest were converted into a total of 2,997,611 common shares of the Company, reducing the outstanding principal to approximately $0.6 million as at June 30, 2014. Subsequent to June 30, 2014, the holders converted the remaining principal plus accrued interest into a total of 308,623 common shares of the Company.

*Convertible Notes*

In December 2012, the Company issued Cdn$115 million principal amount of convertible unsecured notes that mature on December 31, 2017 and bear interest at a rate of seven percent, with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2013. The convertible notes are convertible at the option of each holder into common shares at a conversion price of Cdn$11.30 per share. After December 31, 2015, the convertible notes are redeemable by the Company, in whole or in part from time to time, provided that the market price of the Company's common shares (defined as the weighted average trading price of the common shares for the twenty consecutive trading days ending five trading days prior to the issue of the notice of redemption) is at least 130 percent of the conversion price. The Company has the right to use common shares to satisfy some or all of its obligations for the convertible notes.

*Contractual Obligations*

The Company has various contractual obligations, as follows:

| As at June 30, 2014 | | Obligations by Period | | | |
|---|---|---|---|---|---|
| (thousands of US Dollars) | Total | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years |
| Finance lease obligations[1] | 44,854 | 10,757 | 32,270 | 1,827 | - |
| Convertible notes[2] | 132,224 | 7,433 | 14,865 | 109,926 | - |
| Unsecured notes[3] | 606 | 606 | - | - | - |
| Term loan[4] | 448,500 | 45,625 | 91,375 | 311,500 | - |
| Other long-term liabilities[5] | 201,150 | 13,613 | 65,007 | 58,850 | 63,680 |
| Decommissioning obligations[6] | 84,116 | 1,796 | 6,484 | - | 75,836 |
| Exploration work commitments[7] | 278,966 | 202,600 | 73,053 | 3,313 | - |
| Total contractual obligations | 1,190,416 | 282,430 | 283,054 | 485,416 | 139,516 |

(1) The finance lease obligation relating to the charter of the floating, production, storage and offloading vessel ("FPSO") used in the MA field in the D6 Block is recorded in the unaudited interim consolidated financial statements at $35 million (including current and long-term portions). Financing lease payments can be funded with cash restricted to D6 Block expenditures.

(2) The convertible notes are recorded in the unaudited interim consolidated financial statements at $82 million, reflecting the impact of a lower interest rate than the market interest rate on similar notes without a conversion feature and the un-accreted portion of debt issuance costs. The convertible notes are included in the table based on the sum of the principal amount that would be required to be repay in cash the Cdn$115 million convertible notes plus quarterly interest payments, converted at the year-end exchange rate. The Company has the right to use common shares to satisfy some or all of its obligations for the convertible notes.

(3) The unsecured notes are recorded in the unaudited interim consolidated financial statements at $0.6 million. The unsecured notes are included in the table based on the sum of the principal amount that would have been required to be repay in cash the outstanding balance of unsecured notes plus the interest payment due at maturity. During the second quarter of fiscal 2015, the full $0.6 million of principal and accrued interest on the unsecured notes has been converted into common shares prior to the scheduled maturity of the unsecured notes on July 13, 2014.

(4) The term loan is recorded in the unaudited interim consolidated financial statements at $233 million, reflecting the impact of the un-accreted portion of debt issuance costs and estimated discounted value of the deferred obligation at closing. The term loan is included in the table based on the sum of principal amount plus quarterly interest payments. This table excludes potential additional interest of five percent per annum accrued commencing June 19, 2014 and payable upon repayment. The potential additional interest is fully refundable if first ranking security over the Company's participating interest in the D6 Block is provided prior to March 31, 2015, and partially refundable if security is provided thereafter.

(5) Other long-term liabilities are recorded in the unaudited interim consolidated financial statements at $111 million (including current and long-term portions), reflecting the discounted value of the contract settlement obligation and the deferred obligation. Other long-term liabilities are included in the table based on the estimated undiscounted value of the contract settlement obligation and the deferred obligation.

(6) Decommissioning obligations are based on the undiscounted estimated future liability of the Company as disclosed in the notes of the unaudited interim consolidated financial statements. They do not include costs related to wells or facilities that were not completed as at June 30, 2014. Site restoration funds totalling $9 million have been set up for certain of these obligations and are reflected in restricted cash.

(7) The exploration work commitments reflect the amounts that the host government may claim if the Company does not perform the work commitments. Exploration work commitments totalling $136 million for the Company's production sharing contracts in Trinidad and Brazil are backed by parent company guarantees. Exploration work commitments for the Company's production sharing contracts in Indonesia are a total of $139 million, with certain commitments guaranteed with $3 million of performance bonds that are secured by cash deposits reflected in restricted cash. The actual cost of fulfilling the work commitments may exceed the amount of the commitment included in the table. The majority of the exploration work commitments relate to production sharing contracts where the Company is working on asset sales or farm-outs to joint venture partners in exchange for a re-imbursement a portion of the sunk costs, funding of a disproportionate share of future costs, and/or future payments related to commencement of production or other milestones. Completion of these asset sales and/or farm-outs could significantly reduce the Company's share of the future commitment costs. The Company has in the past received and has currently applied for extensions to the periods required to complete the work commitments related to various of its production sharing contracts. A delay or rejection of the requested extensions may result in additional funding required to fulfill the commitments. In July 2014, the Company transferred its remaining 35 percent interest in the Grand Prix block in Madagascar to an existing partner in exchange for potential future payments to the Company that are contingent on certain future events in the block.

## SUMMARY OF QUARTERLY RESULTS

| Three months ended | Jun 30, 2014 | Mar 31, 2014 | Dec 31, 2013 | Sept 30, 2013 | June 30, 2013 | Mar 31, 2013 | Dec 31, 2012 | Sept 30, 2012 |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollars, except per share amounts) | | | | | | | | |
| Oil and natural gas revenue[1] | 35,161 | 31,623 | 33,349 | 36,388 | 28,042 | 39,670 | 46,515 | 58,080 |
| Net loss | (54,943) | (1,116) | (448,177) | (148,541) | (59,171) | (2,092) | (93,709) | (28,573) |
| Per share - basic and diluted | (0.59) | (0.01) | (6.17) | (2.12) | (0.84) | (0.03) | (1.64) | (0.55) |

(1) Oil and natural gas revenue is oil and natural gas sales less royalties and the government share of profit petroleum.

Oil and natural gas revenue declined over the last four quarters of fiscal 2013 due to anticipated natural declines and reservoir management activities in India. From June 30, 2013 onwards, oil and natural gas revenue has begun to increase over the past quarters as a result of increased production from successful completion of wells and workovers in both Bangladesh and India.

Net loss has fluctuated throughout the last eight quarters due to declining sales of oil and natural gas. Net loss was significantly higher in the quarter ended December 31, 2013, due to the impairment of $481 million of exploration and evaluation costs and $15 million of property, plant and equipment assets relating to Indonesia and Trinidad blocks, offset by a deferred tax recovery of $155 million as a result of the impairment of acquisition cost and exploration and evaluation assets in various Indonesia blocks, and due to the recognition of $38 million of restructuring costs relating to contract settlement, retirement and advisory costs.

Net loss for the quarter ended March 31, 2013 was lower as the Company recognized a $102 million reversal of asset impairment related to the D6 Block in India. The reversal of the impairment resulted from the impact of increased reserve volumes assigned to the D6 Block as at March 31, 2013 by an independent reservoir engineering firm. Management's estimate of value in use for the block was determined using forecasted cash flows using escalated prices and estimates of future production, capital and operating expenses.

## FINANCIAL INSTRUMENTS

A detailed description of the Company's financial instruments is included in note 13 to the unaudited interim consolidated financial statements for the quarter ended June 30, 2014.

## CHANGES IN ACCOUNTING STANDARDS

The nature and material impact of accounting pronouncements issued but not yet effective are described in note 3 of the unaudited interim consolidated financial statements for the three months ended June 30, 2014. The Company adopted certain standards and amendments in fiscal 2014 which are described in the audited consolidated financial statements for the Company's fiscal year-ended March 31, 2014, available on SEDAR at www.sedar.com.

## CRITICAL ACCOUNTING ESTIMATES

The Company makes assumptions in applying certain critical accounting estimates that are uncertain at the time the accounting estimate is made and may have a significant effect on the unaudited interim consolidated financial statements of the Company.

- Oil and natural gas reserves
- Depletion, depreciation and amortization
- Asset impairment
- Decommissioning obligations
- Share-based compensation
- Income taxes

For a complete discussion of the critical accounting estimates, refer to the MD&A for the Company's fiscal year-ended March 31, 2014, available on SEDAR at www.sedar.com.

## DISCLOSURE CONTROLS AND PROCEDURES

The President and Chief Financial Officer are responsible for designing disclosure controls and procedures or causing them to be designed under their supervision and evaluating the effectiveness of the Company's disclosure controls and procedures. The President and Chief Financial Officer oversee the design and evaluation process and have concluded that the design and operation of these disclosure controls and procedures were effective in ensuring material information relating to the Company required to be disclosed by the Company in its quarterly and yearly filings or other reports filed or submitted under applicable Canadian securities laws is made known to management on a timely basis to allow decisions regarding required disclosure.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision and evaluating the effectiveness of the Company's internal controls over financial reporting. The President and Chief Financial Officer have overseen the design and evaluation of internal controls over financial reporting and have concluded that the design and operation of these internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There were no changes in internal controls over financial reporting during the quarter ended June 30, 2014.

## RISK FACTORS

In the normal course of business the Company is exposed to a variety of actual and potential events, uncertainties, trends and risks. In addition to the risks associated with the use of assumptions in the critical accounting estimates, financial instruments, the Company's commitments and actual and expected operating events, all of which are discussed above, the Company has identified the following events, uncertainties, trends and risks that could have a material adverse impact on the Company. For additional risk factors and uncertainties, see the AIF under the heading "Risk factors":

- The Company's ability to meet all of its financing obligations and contractual commitments (including work commitments) in fiscal 2015 and 2016;
- The Company may not receive the forecasted natural gas price from the GOI;
- The Company may not be able to find reserves at a reasonable cost, develop reserves within required time-frames or at a reasonable cost, or sell these reserves for a reasonable profit;
- Reserves may be revised due to economic and technical factors;
- The Company may not be able to obtain approval, or obtain approval on a timely basis for exploration and development activities;
- There can be no assurance that debt or equity financing or cash generated by operations will be sufficient or available to meet our obligations for debt repayment and development, rehabilitation, production and acquisition of oil and natural gas reserves in the future;
- Changes in capital markets and uncertainties as to the availability and cost of financing;
- Changing governmental policies, social instability and other political, economic or diplomatic developments in the countries in which the Company operates;
- Changing taxation policies, taxation laws and interpretations thereof;
- Adverse factors including climate and geographical conditions, weather conditions and labour disputes;
- Changes in foreign exchange rates that impact the Company's non-US Dollar transactions;
- Future oil and natural gas prices are subject to large fluctuations in the market;
- Uncertainties associated with the negotiations with foreign governments and the possibility of adverse decisions regarding outstanding litigations and arbitration; and
- Environmental regulations and legislations including restriction and prohibitions on the release of emission from oil and gas operations.

The Company's AIF containing additional information related to the Company and its identified risks is available on SEDAR at www.sedar.com.

A complete description of the potential effects of the Company's contingencies on the Company as at June 30, 2014 are described in note 23 of the unaudited interim consolidated financial statements for the quarter ended June 30, 2014.

## OUTSTANDING SHARE DATA

At August 13, 2014, the Company had the following outstanding shares:

| | Number | Cdn$[(1)] |
|---|---|---|
| Common shares | 94,019,172 | 1,523,207,960 |
| Preferred shares | Nil | Nil |
| Stock options | 3,374,904 | - |

(1) Equals the amount received in Canadian Dollars for common shares issued. The US Dollar equivalent at August 13, 2014 is $1,366,579,798.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (unaudited)<br>(thousands of US Dollars) | As at<br>June 30, 2014 | As at<br>March 31, 2014 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | 106,329 | 82,479 |
| Restricted cash (note 4) | 49,547 | 87,830 |
| Accounts receivable (note 5) | 49,267 | 42,608 |
| Inventories (note 6) | 7,628 | 10,599 |
| | 212,771 | 223,516 |
| Restricted cash (note 4) | 41,875 | 24,394 |
| Long-term accounts receivable | 4,498 | 4,483 |
| Exploration and evaluation assets (note 7) | 159,175 | 167,665 |
| Property, plant and equipment (note 8) | 463,752 | 532,703 |
| Income tax receivable | 32,012 | 31,830 |
| | 914,083 | 984,591 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 9) | 178,643 | 180,844 |
| Current portion of long-term debt (note 10) | 7,584 | 22,722 |
| Current portion of long-term liabilities (note 11) | 12,782 | 5,000 |
| Current tax payable | 1,263 | 1,263 |
| | 200,272 | 209,829 |
| Decommissioning obligations | 45,283 | 44,574 |
| Long-term debt (note 10) | 343,849 | 347,127 |
| Long-term liabilities (note 11) | 97,947 | 108,355 |
| Deferred tax liabilities | 11,537 | 10,456 |
| | 698,888 | 720,341 |
| **Shareholders' Equity** | | |
| Share capital (note 14) | 1,366,001 | 1,360,668 |
| Contributed surplus | 143,804 | 143,248 |
| Equity component of convertible notes (note 10c) | 23,232 | 23,232 |
| Currency translation reserve | 2,147 | 2,147 |
| Deficit | (1,319,989) | (1,265,045) |
| | 215,195 | 264,250 |
| | 914,083 | 984,591 |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved on behalf of the Board,

(Signed) "Wendell W. Robinson"
Wendell W. Robinson
Chairman of the Board

(Signed) "William T. Hornaday"
William T. Hornaday
Chief Operating Officer, Director

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

| (unaudited)<br>(thousands of US Dollars, except per share amounts) | Three months ended June 30,<br>2014 | <br>2013 |
|---|---|---|
| Oil and natural gas revenue (note 15) | 35,161 | 28,042 |
| Production and operating expenses | (9,552) | (8,247) |
| General and administrative expenses | (3,697) | (1,334) |
| Finance and other income (note 17) | 3,785 | 140 |
| Finance expense (note 18) | (34,013) | (6,679) |
| Foreign exchange loss | (2,877) | (7,976) |
| Depletion and depreciation expenses (note 8) | (24,241) | (30,188) |
| Exploration and evaluation expenses (note 16) | (16,252) | (30,232) |
| Share-based compensation expense (note 14) | (896) | (2,686) |
| Restructuring costs (note 19) | (657) | - |
| Asset impairment (notes 7 and 8) | (600) | - |
| Loss on investments | - | (888) |
| Loss before income tax | (53,839) | (60,048) |
| Income tax expense | (22) | (4) |
| Deferred income tax (expense) reduction | (1,082) | 881 |
| Income tax reduction (expense) | (1,104) | 877 |
| Net loss | (54,943) | (59,171) |
| Foreign currency translation gain | - | 5,312 |
| Comprehensive loss | (54,943) | (53,859) |
| Loss per share: (note 20) | | |
| Basic and diluted | (0.59) | (0.84) |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (unaudited)<br>(thousands of US Dollars, except number of common shares) | Common shares (#) | Share capital | Contributed surplus | Currency translation reserve | Equity component of convertible notes | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, March 31, 2013 | 70,215,911 | 1,324,234 | 139,137 | (2,757) | 23,232 | (608,039) | 875,807 |
| Share-based compensation expense | - | - | 4,319 | - | - | - | 4,319 |
| Net loss for the year | - | - | - | - | - | (59,171) | (59,171) |
| Foreign currency translation | - | - | - | 5,312 | - | - | 5,312 |
| Balance, June 30, 2013 | 70,215,911 | 1,324,234 | 143,456 | 2,555 | 23,232 | (667,210) | 826,267 |
| Share-based compensation expense | - | - | (208) | - | - | - | (208) |
| Issuance of common shares | 16,853,575 | 29,531 | - | - | - | - | 29,531 |
| Conversion of unsecured notes | 3,643,452 | 6,903 | - | - | - | - | 6,903 |
| Net loss for the year | - | - | - | - | - | (597,836) | (597,836) |
| Foreign currency translation | - | - | - | (408) | - | - | (408) |
| Balance, March 31, 2014 | 90,712,938 | 1,360,668 | 143,248 | 2,147 | 23,232 | (1,265,046) | 264,249 |
| Share-based compensation expense | - | - | 556 | - | - | - | 556 |
| Conversion of unsecured notes | 2,997,611 | 5,333 | - | - | - | - | 5,333 |
| Net loss for the period | - | - | - | - | - | (54,943) | (54,943) |
| Balance, June 30, 2014 | 93,710,549 | 1,366,001 | 143,804 | 2,147 | 23,232 | (1,319,989) | 215,195 |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASHFLOWS

| (unaudited)<br>(thousands of US Dollars, except per share amounts) | Three months ended June 30,<br>2014 | <br>2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | (54,943) | (59,171) |
| | | |
| Adjustments for: | | |
| Depletion and depreciation expenses | 24,241 | 30,188 |
| Accretion expense | 18,288 | 2,186 |
| Deferred income tax (reduction) | 1,082 | (881) |
| Unrealized foreign exchange loss | 2,906 | 8,930 |
| Loss on investments | - | 888 |
| Asset impairment | 600 | - |
| Exploration and evaluation write-off (note 7) | 8,202 | 14,982 |
| Share-based compensation expense | 1,298 | 4,096 |
| Restructuring costs (note 19) | (747) | - |
| Interest due upon repayment of term loan | 178 | - |
| Change in non-cash working capital | (7,754) | 2,125 |
| Change in long-term accounts receivable | (15) | (716) |
| Net cash (used in) from operating activities | (6,664) | 2,627 |
| | | |
| Cash flows from investing activities: | | |
| Exploration and evaluation expenditures | (8,109) | (26,117) |
| Property, plant and equipment expenditures | (5,468) | (16,077) |
| Proceeds from farm-outs and other arrangements | - | 19,285 |
| Proceeds from asset sales, net of costs | 60,927 | - |
| Release of restricted cash (note 4) | - | 1,416 |
| Change in non-cash working capital | (1,222) | (55,513) |
| Repayment of contract settlement obligation (note 11a) | (14,725) | - |
| Net cash (used in) investing activities | 31,403 | (77,006) |
| | | |
| Cash flows from financing activities: | | |
| Proceeds from advances on long term debt, net of issuance costs (note 10) | (31) | 58,370 |
| Repayment of long-term debt (note 10) | (21,619) | (11,441) |
| Release of restricted cash (note 4) | 20,761 | - |
| Net cash from financing activities | (889) | 46,929 |
| | | |
| Change in cash and cash equivalents | 23,850 | (27,450) |
| | | |
| Effect of translation on foreign currency cash | - | (14) |
| Cash and cash equivalents, beginning of year | 82,479 | 56,393 |
| Cash and cash equivalents, end of year | 106,329 | 28,929 |

The accompanying notes are an integral part of these condensed interim consolidated financial statements

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

Niko Resources Ltd. (the "Company") is a limited company incorporated in Alberta, Canada. The address of its registered office and principal place of business is Suite 4600 Devon Tower, 400 – 3 Avenue SW, Calgary, Alberta, Canada, T2P 4H2. The Company is engaged in the exploration for and development and production of oil and natural gas in India, Bangladesh, Indonesia, Trinidad, and other countries. The Company's common shares are traded on the Toronto Stock Exchange under the symbol "NKO".

## 2. Basis of presentation

The condensed interim financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements include the accounts of the Company and all of its subsidiaries. The majority of the exploration, development and production activities of the Company are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

The condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements for the fiscal year ended March 31, 2014. The disclosures provided herein are incremental to those included with the annual consolidated financial statements and the notes thereto for the year ended March 31, 2014. The condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended March 31, 2014.

The consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousand dollars ($000), except where otherwise indicated. Under IFRS, an entity's functional currency should reflect the primary economic environment in which the entity operates in normally along with underlying transactions, events, and conditions relevant to the entity. On April 1, 2014, based on management's evaluation, taking into consideration of the US denominated term loan facilities the Company had entered into late fiscal 2014; management changed the functional currency of the Canadian entities from Canadian Dollars to US Dollars. This change in accounting treatment is applied prospectively. The assets and liabilities of the Canadian entities were translated from Canadian Dollars to US Dollars at the exchange rate on the date of change in functional currency.

In fiscal 2014, the Company shifted its strategic focus to developing and appraising the assets in the D6 Block in India, while maintaining optionality of the balance of its exploration portfolio. To provide the financial capacity to implement this strategy, the Company entered into a definitive facilities agreement with certain institutional investors providing for senior secured term loan facilities in fiscal 2014. A portion of the funds from these facilities were used to refinance certain of the Company's debt obligations outstanding at the time, a portion was restricted to funding of the Company's expenditures in the D6 Block, and a portion was made available for general corporate purposes, subject to certain limitations. See note 10a for details.

The Company has the following sources of funding of its planned operating, investing and financing cash outflows (including working capital requirements):

- Unrestricted cash and cash equivalents at June 30, 2014 of $106 million;
- Restricted cash as at June 30, 2014 of $50 million that is available for funding of expenditures related to the D6 Block in India (including working capital requirements);
- Receipts of oil and natural gas revenues from its producing assets in India and Bangladesh;
- Potential proceeds from asset sales, farm-outs and other arrangements; and
- Potential proceeds from future equity or debt issuances.

The Company's budget for its planned capital program for India and Bangladesh in fiscal 2015 is approximately $70 million, with a potential increase to $150 - $200 million in fiscal 2016 depending on the resolution of the gas price issue described below. Annual average sales volumes for the Company in fiscal 2015 from existing producing wells in its producing fields are targeted to be approximately equal to the annual average sales volumes for fiscal 2014, with the sales volumes from planned development activities in the D6 Block in the remainder of the year dependent on the timing and results of these activities. EBITDAX for fiscal 2015 is dependent on the sales volumes and resolution of the natural gas pricing increase.

Effective April 1, 2014, prices for natural gas sales from the D6 Block were expected to approximately double as per the pricing formula approved by the Government of India ("GOI") in June, 2013 and included in the Domestic Natural Gas Guidelines, 2014 ("Guidelines") published by the GOI in January, 2014. As per the Guidelines, the pricing formula is to be applicable to all natural gas sales from the D6 Block, subject to submission of bank guarantees related to incremental natural gas revenues from the

Dhirubhai 1 and 3 fields. The Company has been working with Reliance, the operator of the D6 Block, on providing bank guarantees required by the GOI. However, the GOI had not notified the price calculated under these Guidelines for the quarter beginning April 1, 2014, initially due to an election commission ruling that the price should not be notified during the election campaign, and subsequently due to the transition to a new government ruling party. Under protest but in good faith, the contractor group for the D6 Block has kept supplying gas to its customers and the customers have been paying for the gas supplied at the price specified in the sales contracts that expired on March 31, 2014. In May 2014, the contractor group for the D6 Block filed a notice of arbitration to the GOI seeking the implementation of the Guidelines. The GOI has indicated that it is working towards the announcement of a new natural gas price to be effective October 1, 2014, but there is significant uncertainty at this time as to the timing and magnitude of the price increase.

If a new market price for natural gas sales from the D6 Block in India is not notified by the GOI, then a significant portion of the contractor group's planned investments in the block for fiscal 2015 and fiscal 2016 are expected to be deferred; and

- the unrestricted and restricted cash and the forecasted receipts of oil and gas revenues are expected to be sufficient to satisfy the anticipated cash requirements of the Company's operating subsidiaries in India and Bangladesh, its corporate general and administrative expenditures, and its interest obligations for the foreseeable future.

If a new market price for natural gas sales from the D6 Block in India is notified by the GOI, effective, October 1, 2014, the contractor group's planned investments in the block are expected to occur as currently planned; and:

- If bank guarantee is required by the GOI is provided by Reliance on behalf of the contractor group <u>without</u> a requirement for cash support from the Company, then the unrestricted and restricted cash and the forecasted receipts of oil and gas revenues are expected to be sufficient to satisfy the anticipated cash requirements of the Company's operating subsidiaries in India and Bangladesh, its corporate general and administrative expenditures, and its interest obligations for the foreseeable future.
- If bank guarantee is required by the GOI and is provided by Reliance on behalf of the contractor group <u>with</u> full cash support from the Company for the Company's share of the incremental natural gas revenue from the Dhirubhai 1 and 3 fields, then the unrestricted and restricted cash and the forecasted receipts of oil and gas revenues are expected to be sufficient to satisfy the anticipated cash requirements of the Company's operating subsidiaries in India and Bangladesh, its corporate general and administrative expenditures, and its interest obligations for fiscal 2015. In this scenario, for fiscal 2016, the Company is expected to require additional funding from asset sales, farm-outs and other arrangements and/or future equity or debt issues and expects that it will be able to raise the required funds from some or all of these sources. However, there can be no assurance that these efforts will be sufficient to satisfy the anticipated cash requirements of the Company's operating subsidiaries in India and Bangladesh, its corporate general and administrative expenditures, and its interest obligations.

As at June 30, 2014, the Company had $105 million of accounts payable and accrued liabilities related to its exploration subsidiaries, primarily in Indonesia and Trinidad, and has significant exploration work commitments over the next several years (see note 22). The terms of the Company's term loan facilities limit the funding of capital expenditures and working capital requirements in these areas and the Company is evaluating its options for these subsidiaries as part of its strategy of maintaining optionality in its exploration portfolio. The Company is working on selling or farming out interests in many of its exploration production sharing contracts, rescheduling its exploration commitments, and settling its vendor liabilities. There is significant uncertainty regarding whether these efforts will be sufficient to allow certain of the Company's exploration subsidiaries to meet existing and future obligations and continue activities in the future.

Over the next few years, the Company plans to limit its exploration expenditures outside of India and Bangladesh, net of proceeds of farm-outs and other arrangements, to less than $35 million per year.

As described above, there is material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern.

The financial statements were approved by the Board of Directors and authorized for issue on August 13, 2014.

## 3. Accounting pronouncements

*(a) New standards adopted*

In December 2011, "Offsetting Financial Assets and Financial Liabilities", amendments to IAS 32 "Financial Instruments: Presentation" was published by the IASB. These amendments clarify the requirements for offsetting financial instruments. The amendments introduce new disclosure requirements for financial assets and financial liabilities that are offset in the Condensed Interim Consolidated Statements of Financial Position, or are subject to enforceable master netting arrangements or similar agreements. The amendments to IAS 32 are applied retrospectively for annual periods beginning on or after January 1, 2014. The adoption of these standards had no impact on the amounts recorded in the financial statements for the periods presented in these interim consolidated financial statements.

## 4. Restricted cash

| (thousands of US Dollars) | As at June 30, 2014 | As at March 31, 2014 |
|---|---|---|
| *Current portion of restricted cash* | | |
| Bank guarantee[(1)] | 8,701 | 8,701 |
| Term loan reserve account[(4)] | 40,846 | 79,129 |
| | 49,547 | 87,830 |
| *Non-current portion of restricted cash* | | |
| Performance security guarantees[(2)] | 3,030 | 3,030 |
| Site restoration[(3)] | 8,845 | 8,864 |
| Term loan reserve account[(4)] | 30,000 | 12,500 |
| | 41,875 | 24,394 |
| | 91,422 | 112,224 |

(1) The Company provided a bank guarantee to Reliance, the operator of the D6 Block, in connection with the anticipated requirements of the Domestic Natural Gas Guidelines, 2014, whereby a bank guarantee was to be provided by Reliance to the GOI as security in the case of an adverse outcome of the D6 arbitration proceedings. The bank guarantee expired in July 2014 and cash was released from the bank. See note 2 for details.

(2) The Company has performance security guarantees related to the work commitments for certain exploration blocks in Indonesia. The Company is required to provide funds to support the guarantees in the amounts indicated above.

(3) In accordance with the provisions of its production sharing contracts, the Company is required to deposit funds in separate accounts restricted to funding of future decommissioning obligations. The funds may be used for site restoration on the expiry or termination of an agreement or relinquishment of part of the contract area.

(4) Under the terms of the term loan facilities agreement, the advances under Facility B and C are required to be used by the Company to fund expenditures in the D6 Block, with a portion to be retained as a minimum balance. See note 10a for details.

## 5. Accounts receivable

| (thousands of US Dollars) | As at June 30, 2014 | As at March 31, 2014 |
|---|---|---|
| Oil and gas revenues receivable | 21,180 | 18,758 |
| Receivable from joint venture partners | 18,594 | 13,890 |
| Advances to vendors | 5,649 | 4,315 |
| Prepaid expenses and deposits | 1,503 | 2,115 |
| VAT receivable | 1,175 | 1,283 |
| Other receivables | 1,166 | 2,247 |
| | 49,267 | 42,608 |

## 6. Inventories

| (thousands of US Dollars) | As at June 30, 2014 | As at March 31, 2014 |
|---|---|---|
| Stock, spares and consumables | 7,114 | 9,394 |
| Oil and condensate inventories | 514 | 1,205 |
| | 7,628 | 10,599 |

## 7. Exploration and evaluation assets

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| Opening balance | 167,665 | 695,624 |
| Additions | 8,114 | 91,728 |
| Disposals and other arrangements | (7,989) | (17,056) |
| Transfers | (16) | 6,437 |
| Expensed | (8,194) | (105,132) |
| Impairments | (405) | (498,775) |
| Foreign currency translation | - | (5,161) |
| Closing balance | 159,175 | 167,665 |

During the first quarter of fiscal 2015, the Company sold $8 million of exploration and evaluation assets in Block 5(c) in Trinidad.

In fiscal 2014 the Company shifted its focus to developing and appraising its assets in the D6 block in India while striving to maintain optionality on its exploration and evaluation assets. In conjunction, the Company entered into a definitive term loan facilities agreement in fiscal 2014 that limited capital expenditure spending outside of India and Bangladesh. As such, the Company continues to evaluate its options for its exploration subsidiaries outside of these areas by means of potential farm out agreements, sale of assets or relinquishment. For the year ended March 31, 2014, the Company recognized impairments of $499 million relating to its exploration and evaluation assets in Indonesia and Trinidad.

In fiscal 2014, the GOI issued an order, requiring certain portions of the D6 Block contract area to be relinquished. The areas required to be relinquished include areas around five successful exploration discoveries. The Company, along with the operator, is contesting with GOI that the areas around these discoveries should be not required to be relinquished. The matter is currently pending for resolution. In the event of an adverse decision, the Company will write off the carrying value of these discoveries of $12 million.

## 8. Property, plant and equipment

*(a) Development assets*

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| Opening balance | 137,211 | 129,822 |
| Additions | 11,134 | 37,621 |
| Disposals | (52,938) | - |
| Transfers from/to other asset categories | (1,438) | (30,232) |
| Asset impairment | (9) | - |
| Closing balance | 93,960 | 137,211 |

In the first quarter of fiscal 2015, the Company sold $53 million of development assets in Block 5(c) in Trinidad.

*(b) Producing assets*

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| *Cost* | | |
| Opening balance[1] | 1,070,233 | 1,039,208 |
| Transfers from other asset categories | 1,431 | 31,145 |
| Disposals | - | (1) |
| Foreign currency translation | - | (121) |
| Closing balance | 1,071,664 | 1,070,231 |
| *Accumulated depletion* | | |
| Opening balance[1] | (734,529) | (627,883) |
| Additions | (23,762) | (106,788) |
| Foreign currency translation | - | 143 |
| Closing balance | (758,291) | (734,528) |
| Net producing assets | 313,373 | 335,703 |

(1) Effective April 1, 2014, the Company changed its functional currency for Canada entities from Canadian Dollars to US Dollars. The change in

accounting treatment is applied prospectively. The assets and liabilities of the Canadian entities were translated from Canadian Dollars to US Dollars at the exchange rate on the date of change in functional currency. See note 2.

As part of its process in assessing for impairment triggers, the Company evaluated the situation regarding the expected increase Indian domestic gas price, based on the Domestic Natural Gas Guidelines, 2014 notified by the GOI in fiscal 2014 (see note 2 for details) and determined that no impairment triggers existed at June 30, 2014 and March 31, 2014 relating to its development and producing assets in the D6 and NEC-25 blocks in India (combined value of $385 million at June 30, 2014).

As described in note 2, there is significant uncertainty at this time as to the timing and magnitude of the price increase for the Company's future natural gas sales in India. A future natural gas price that is lower than the prices used in preparation of the Company's independent reserve evaluation for its India properties as at March 31, 2014 based upon the notified pricing formula could impact the Company's plans for its assets in the D6 and NEC-25 blocks in India and could potentially result in impairment triggers and material impairments to the carrying values of these assets. The magnitude of any potential impairment is indeterminable at this time.

*(c) Other property, plant and equipment*

| (thousands of US Dollars) | Land and buildings | Vehicles, helicopters and aircraft | Office equipment, furniture and fittings | Pipelines | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| Balance, March 31, 2014[1] | 18,234 | 2,346 | 9,245 | 10,747 | 40,572 |
| Additions / transfers | - | - | (50) | 3 | (47) |
| Impairment | - | - | (186) | - | (186) |
| Balance, June 30, 2014 | 18,234 | 2,346 | 9,009 | 10,750 | 40,339 |
| | | | | | |
| *Accumulated depreciation* | | | | | |
| Balance, March 31, 2014[1] | (8,093) | (1,791) | (6,579) | (8,270) | (24,733) |
| Additions | (186) | (27) | (72) | (55) | (340) |
| Balance, June 30, 2014 | (8,279) | (1,818) | (6,651) | (8,325) | (25,073) |
| | | | | | |
| Net book value, June 30, 2014 | 9,955 | 528 | 2,358 | 2,425 | 15,266 |

(1) Effective April 1, 2014, the Company changed its functional currency for Canada entities from Canadian Dollars to US Dollars. The change in accounting treatment is applied prospectively. The assets and liabilities of the Canadian entities were translated from Canadian Dollars to US Dollars at the exchange rate on the date of change in functional currency. See note 2.

| (thousands of US Dollars) | Land and buildings | Vehicles, helicopters and aircraft | Office equipment, furniture and fittings | Pipelines | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| Balance, March 31, 2013 | 18,234 | 2,346 | 9,353 | 10,762 | 40,695 |
| Additions | - | - | 278 | (15) | 263 |
| Disposals / impairment | - | - | (227) | - | (227) |
| Foreign currency translation loss | - | - | (320) | - | (320) |
| Balance, March 31, 2014 | 18,234 | 2,346 | 9,084 | 10,747 | 40,411 |
| | | | | | |
| *Accumulated depreciation* | | | | | |
| Balance, March 31, 2013 | (7,161) | (1,654) | (5,755) | (7,852) | (22,422) |
| Additions | (932) | (137) | (947) | (418) | (2,434) |
| Foreign currency translation gain | - | - | 261 | - | 261 |
| Balance, March 31, 2014 | (8,093) | (1,791) | (6,441) | (8,270) | (24,595) |
| | | | | | |
| Net book value, March 31, 2014 | 10,141 | 555 | 2,643 | 2,477 | 15,816 |

*(d) Capital work-in-progress*

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| Opening balance | 43,973 | 34,746 |
| Additions | (5,814) | 24,810 |
| Disposals | (6) | - |
| Transfers | 3,000 | (3,022) |
| Impairments | - | (12,561) |
| Closing balance | 41,153 | 43,973 |

During the first quarter of fiscal 2015 the Company returned $6 million of drilling inventory to suppliers.

## 9. Accounts payable and accrued liabilities

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| India | 61,234 | 53,539 |
| Bangladesh | 2,906 | 3,341 |
| Indonesia | 84,406 | 91,011 |
| Trinidad | 21,615 | 21,179 |
| All others | 8,482 | 11,774 |
| | 178,643 | 180,844 |

## 10. Long-term debt

### *(a) Term loan*

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| Opening balance | 249,014 | - |
| Advances, net of issuance costs | (31) | 305,450 |
| Deferred obligation (note 11b) | - | (60,540) |
| Accretion | 4,181 | 3,823 |
| Interest payable | 678 | 281 |
| Repayment | (20,500) | - |
| Closing balance | 233,342 | 249,014 |
| Current portion | - | 10,140 |
| Long-term portion | 233,342 | 238,874 |

In December 2013, the Company entered into a definitive facilities agreement with certain institutional investors providing for senior secured term loan facilities in an aggregate principal amount of $340 million. As of June 30, 2014, the outstanding principal on the facilities is $300 million, reflecting the Company's decision to forego its option to drawdown on the $20 million amount of Facility D and the repayment in June 2014 of the $20 million drawn on Facility E. The key terms related to the outstanding facilities under the facilities agreement and related documentation are as follows:

*Specific terms of facilities A/B/C:*

- Facilities amount: $300 million (combined)
- Prepayment: At the Company's option at any time after December 20, 2015 (at a 7 percent premium, decreasing to 4 percent after December 20, 2016)
  At the Lenders option (without premium) from the remaining net proceeds of certain asset sales, farm-outs, equity and debt issuances, after contract settlement payments and Facility D/E prepayments
- Repayment: On September 30, 2017
- Use of proceeds: $175 million Facility A: General corporate purposes, subject to certain restrictions
  $125 million Facilities B/C: Restricted to expenditures related to the D6 Block in India

- Interest: Quarterly cash interest payments at 15 percent per annum; potential 5 additional percent per annum payable upon repayment if first ranking security is not provided over the Company's participating interest in the D6 Block

*Uncommitted D6 facility:*

The facilities agreement also includes a provision for an uncommitted facility that can be funded at the option of any lenders if the Company is unable to fund the cash call requirements of the D6 Block. Advances under this facility are repayable from the Company's gross revenues from the D6 Block until an amount equal to 200 percent of the advanced amount has been paid.

*Financial covenants*

The Company is subject to the following financial covenants under the facilities agreement:

- Maximum ratio of (a) consolidated senior debt (defined as debt incurred under facilities A, B and C and finance lease obligations) to (b) the consolidated EBITDAX (as defined in the facilities agreement) for the trailing four quarters, commencing with the period ending June 30, 2014.
- Minimum ratio of (a) proved plus probable reserves for the D6 Block to (b) senior debt, commencing with the period ending March 31, 2014.

*General covenants*

The Company has agreed to several other undertakings and covenants in the facilities agreement, including:

- Maintenance of certain reserve accounts, including:
    - A reserve account for anticipated capital expenditures in the D6 Block, with a minimum balance that increases over time to the greater of US$30 million and the Company's forecasted capital expenditures in the D6 Block for the subsequent six month period.
    - A reserve account for settlement payments, with a minimum balance commencing December 31, 2014 equal to the payments required under the terms of the settlement agreement with Diamond Offshore (see note 11a) for the subsequent six month period.
    - A reserve account for debt service, with a minimum balance commencing December 31, 2014 equal to the interest payments due under the facilities agreement for the subsequent six month period.
- Requirement to make offers to prepay the facilities in certain circumstances, including:
    - Receipt of net proceeds of asset sales, farm-outs and equity issuances
    - Change of control
    - Disposal of all or any part of the Company's rights in respect of the D6 Block.
- Restrictions on cash expenditures relating to areas outside of India and Bangladesh, subject to certain exceptions.
- Requirement to raise certain minimum amounts from asset sales, farm-outs and/or equity issuances by June 30, 2015.
- Restrictions on the incurrence of debt, granting of liens, investments and similar transactions.

As at June 30, 2014, the Company is in compliance with all of the covenants specified in the facilities agreement.

*Deferred Obligation*

As a condition of the facilities agreement, the Company entered into an agreement that provides for a monthly payment equal to six percent of the Company's share of the gross revenues from the D6 Block in India, commencing April 1, 2015 for a period of seven years.

*Security*

The obligations under the facilities agreement and the D6 royalty agreement (see note 11b) are initially secured by:

- charges over all of the present and after-acquired personal and real property of the Company and certain of its subsidiaries;
- specific pledges and charges over the shares of substantially all of the Company's subsidiaries; and
- specific charges over the bank accounts of the Company and certain of its subsidiaries.

The Company has entered into security deeds to grant first ranking security which will become effective upon consent by Petrobangla and the Bangladesh government with respect to Block 9 in Bangladesh, and has agreed to use best endeavours to obtain all necessary India governmental authorizations to provide first ranking security over the Company's participating interest in the D6 PSC in India.

*Farm-in Options*

As a condition of the facilities agreement, the Company entered into a farm-in rights agreement with an affiliate of the lenders that grants four exclusive, irrevocable, non-assignable rights to acquire interests in pre-selected Indonesian PSCs. Each farm-in right provides the holder with the option to purchase a 5 percent participating interest in selected PSCs (subject to a maximum acquired participating interest equal to the lesser of 50 percent of the Company's aggregate participating interests in the selected PSC and 10 percent) by paying its proportionate share of the previously incurred costs of the selected PSC. A farm-in right may be exercised by the holder by giving at least seven days' notice prior to the target spud date of a well to be drilled in the selected PSC. Unexercised farm-in rights expire on the earlier of (i) the date on which the eighth well on the selected PSCs is spudded and (ii) December 20, 2020.

***(b) Finance lease obligation***

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| Opening balance | 37,024 | 43,081 |
| Repayments | (1,619) | (6,057) |
| Closing balance | 35,405 | 37,024 |
| Current portion | 7,001 | 6,801 |
| Long-term portion | 28,404 | 30,223 |

***(c) Convertible notes***

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| Opening balance | 78,030 | 79,785 |
| Accretion | 1,297 | 4,948 |
| Foreign currency translation | 2,776 | (6,703) |
| Closing balance | 82,103 | 78,030 |

In December 2012, the Company issued Cdn$115 million principal amount of convertible senior unsecured notes of which Cdn$32 million (less issuance costs of Cdn$1 million) was allocated to the conversion option and classified in the equity section on the Statement of Financial Position. The equity portion was recorded net of a Cdn$7 million deferred tax liability which results from temporary difference between the carrying amount and the tax value of the notes. The issuance costs were allocated pro-rata between the debt and equity portion of the convertible notes based on the valuation of the gross proceeds.

The convertible notes mature on December 31, 2017 and bear interest a rate of 7 percent, with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2013. The convertible notes are convertible at the option of the holders into common shares at a conversion price of Cdn$11.30 per share. After December 31, 2015, the convertible notes are redeemable by the Company, in whole or in part from time to time, provided that the market price of the Company's common shares (defined as the weighted average trading price of the common shares for the twenty consecutive trading days ending five trading days prior to the issue of the notice of redemption) is at least 130 percent of the conversion price. The Company has the right to use common shares to satisfy some or all of its obligations for the convertible notes.

The convertible notes are guaranteed on an unsecured basis by the Company's subsidiaries, Niko Resources (Cayman) Ltd., Niko (NECO) Ltd. and Niko Exploration (Block 9) Ltd. Each guarantor guarantees that the notes shall be paid in accordance with the agreement terms.

***(d) Unsecured notes***

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---:|---:|
| Opening balance | 5,781 | - |
| Issuance, net of issuance costs | - | 58,370 |
| Repayment | - | (45,686) |
| Conversions | (5,198) | (6,903) |
| Closing balance | 583 | 5,781 |

In June 2013, the Company issued $63.5 million of senior unsecured notes. The notes bear interest at 7 percent per annum, payable monthly, and were to be repaid through twelve equal monthly principal payments commencing August 13, 2013. Principal and interest payments were to be payable in cash or, at the Company's option, in common shares of the Company. The installment payments from August to November were made in cash.

In December 2013, the Company used the net proceeds from issuance of subscription receipts (see note 14a) to repay $30 million of outstanding principal and accrued interest and agreed with the holders of the unsecured notes to amend the terms of the Notes by deleting the required instalment payments, and granting the holders a conversion right in respect of the outstanding principal balance of the unsecured notes of approximately $13 million remaining after such repayment. At any time during the remaining term of the unsecured notes, the holders of the unsecured notes are entitled to convert all or any portion of the outstanding principal and accrued interest into shares of the Company. The number of shares to be issued upon conversion is determined by dividing the amount to be paid in shares by 94.5 percent of the lower of the volume weighted average price of the shares for the fifteen trading days prior to the conversion and the volume weighted average price of the shares for the five trading days prior to the conversion.

From December 2013 to March 31, 2014, the holders of the unsecured notes converted approximately $6.9 million of outstanding principal plus accrued interest into a total of 3,643,452 common shares of the Company. During the quarter ended June 30, 2014, the holders have converted approximately $5.3 million of outstanding principal plus accrued interest into a total of 2,997,611 common shares of the Company, reducing the outstanding principal to approximately $0.6 million as at June 30, 2014. Subsequent to June 30, 2014, the holders converted the remaining $0.6 million of outstanding balance plus accrued interest into 308,623 common shares of the Company.

## 11. Long-term liabilities

***(a) Contract settlement obligation***

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---:|---:|
| Opening balance | 34,686 | - |
| Additions | - | 57,688 |
| Accretion | 8,878 | 1,998 |
| Repayments | (14,725) | (25,000) |
| Closing balance | 28,839 | 34,686 |
| Current portion | 8,590 | 5,000 |
| Long-term portion | 20,249 | 29,686 |

In December 2013, the Company entered into an agreement with Diamond Offshore relating to settlement of payment obligations and other commitments under the Ocean Monarch and Ocean Lexington drilling contracts. The settlement agreement includes a mutual release of claims in respect of certain rights and obligations under the drilling contracts, with the claims in respect of Niko's payment obligations under the drilling contracts to be released upon payment by the Company of US$80 million. An initial payment of US$25 million was made to Diamond Offshore using proceeds from the advance on the term loan (see note 10a), with the outstanding balance to be paid over subsequent years up to September 30, 2017, subject to early prepayment upon the occurrence of certain events. During the first quarter of fiscal 2015, the Company made an early prepayment of approximately $15 million using a portion of the proceeds from the sale of its interest in the Block 5(c) asset. The amounts due are non-interest bearing.

The settlement obligation has been reflected at the net present value of the expected payments, with the imputed interest of 23.85 percent to be recorded as accretion expense over the term of the settlement payments. The net remaining settlement obligation after the initial payment was expensed as restructuring costs.

***(b) Deferred obligation***

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| Opening balance | 78,669 | - |
| Additions | - | 60,541 |
| Accretion | 3,221 | 2,584 |
| Loss on valuation of derivative | - | 15,544 |
| Closing balance | 81,890 | 78,669 |
| Current portion | 4,192 | - |
| Long-term portion | 77,698 | 78,669 |

In December 2013, as a condition of the term loan facilities agreement, the Company entered into an agreement that provides for a monthly payment equal to 6 percent of the Company's share of the gross revenues from the D6 Block in India, commencing April 1, 2015 for a period of seven years. If the Company sells or disposes of all or any portion of its participating interest in the D6 PSC prior to the end of the term of this agreement, it must pay an amount equal to the pro-rata share of the net present value of the remaining payments under the agreement. The Company may optionally redeem the entire remaining amount of the obligation at any time on terms satisfactory to the parties to the agreement. For so long as obligations under the term loan facilities agreement remain outstanding, the security for the term loan also secures this obligation.

The deferred obligation has been reflected at the net present value of the estimated payments, with the imputed interest of 16.30 percent to be recorded as accretion expense over the term of the payments. The initial valuation of the deferred obligation was recognized as additional debt issuance cost of the term loan. Subsequent changes in the valuation of the deferred obligation have been reflected on the statement of comprehensive loss as loss on derivatives.

## 12. Decommissioning obligations

| (thousands of US Dollars) | Three months ended June 30, 2014 | Year ended March 31, 2014 |
|---|---|---|
| Opening balance | 44,574 | 41,177 |
| Provisions made during the year | - | 622 |
| Change in estimate during the year | - | (134) |
| Accretion | 709 | 2,909 |
| Closing balance | 45,283 | 44,574 |

The Company's total decommissioning obligation is estimated based on the Company's net estimated costs of removal of all equipment and installations and site restoration and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be $45 million as at June 30, 2014 (March 31, 2014 - $45 million) based on an undiscounted total future liability of $84 million (March 31, 2014 - $84 million). These costs are expected to be incurred over the next one to thirteen years. The discount rate used to calculate the net present value of the future decommissioning obligations is the pre-tax rate reflecting current market assessments of the time value of money. In accordance with provisions of its production sharing contracts, the Company has deposited $9 million in separate accounts restricted to funding of future decommissioning obligations. These amounts have been treated as restricted cash and included in non-current assets.

## 13. Financial instruments

*(a) Capital risk management*

The Company's objective is to maintain a strong capital base and related capital structure. The objectives include the following:

(i) To promote confidence in the Company by the capital markets, by investors, by creditors and by government agencies in the countries in which the Company bids for concessions and/or operates;

(ii) To maintain resources required to withstand financial difficulties due to exogenous influences such as financial, political, economic, social or market uncertainties and events; and

(iii) To facilitate the Company's ability to fulfill exploration and development commitments, and to seek and execute growth opportunities.

The Company's capital base includes shareholders' equity and debt as follows:

| (thousands of US Dollars) | As at June 30, 2014 | As at March 31, 2014 |
|---|---|---|
| Term loan | 233,342 | 249,014 |
| Convertible notes | 82,103 | 78,030 |
| Unsecured notes | 583 | 5,781 |
| Shareholders' equity | 215,195 | 264,250 |

The Company's objective in capital management is to have the flexibility to alter the capital structure to take advantage of capital-raising opportunities in the capital markets, whether they are equity or debt-related.

The Company uses short-term and long-term forecasting models that capture the details of the major sources and uses of cash related to operating, financing, and investing activities. Management and the Board of Directors review the forecast models regularly. The regular reviews help ensure that the Company has the ability to fulfill its obligations and to fund ongoing operations.

*(b) Fair value measurements*

The Company classifies fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market date (unobservable inputs).

The Company's investments as at March 31, 2014 were assessed on the fair value hierarchy described above and have been classified as Level 1. The fair value of the investments was based on publicly quoted market values. As at June 30, 2014, the investments were fully impaired. There was a $1 million loss for the quarter ended June 30, 2013 on recognizing at their fair value.

The Company's deferred obligation as at June 30, 2014 have been assessed on the fair value hierarchy described above and has been classified as a Level 3 instrument. The fair value of the deferred obligation was based on estimates of production volumes and natural gas prices included in the reserve report for the D6 Block as at March 31, 2014.

*(c) Credit risk management*

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 the Company's receivables from customers. The carrying amounts of the cash and cash equivalents, restricted cash, and accounts receivable reflect management's assessment of the maximum credit exposure. The Company takes measures in order to mitigate any risk of loss, which may include obtaining guarantees. There were no changes in the Company's exposure to credit risks or any changes to the Company's processes for managing the risks from the previous period.

The aging of the accounts receivable[1] as at June 30, 2014 was:

| (thousands of US Dollars) | As at June 30, 2014 |
|---|---|
| 0—30 days[2] | 39,517 |
| 30—60 days[2] | - |
| 60—365 days[2] | 1,423 |
| | 40,940 |

(1) Excludes accrued receivables that have not yet been invoiced or due, loans and advances, prepaid expenses, and VAT receivables which are not past due.

(2) Accounts receivables are past due but not impaired as at June 30, 2014.

The accounts receivable that are not past due are receivable from counterparties with whom the Company has a history of collection and the Company considers the accounts receivable collectible. The Company has assessed the receivables that have been outstanding for more than 90 days and has determined that they are not impaired.

*(d) Liquidity risk management*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its exposure to this risk by preparing cash flow forecasts to assess when and if additional funds are required.

The Company has the following financial liabilities and due dates as at June 30, 2014:

| (thousands of US Dollars) | Carrying amount | < 1 year | > 1 year |
|---|---|---|---|
| Accounts payable and accrued liabilities | 178,643 | 178,643 | - |
| Current taxes payable | 1,263 | 1,263 | - |
| Long-term debt | | | |
| Term loan(1)(6) | 233,342 | - | 233,342 |
| Finance lease obligations(2)(6) | 35,405 | 7,001 | 28,404 |
| Convertible notes(3)(6) | 82,103 | - | 82,103 |
| Unsecured notes(4)(6) | 583 | 583 | - |
| Other long-term liabilities(5)(6) | 110,729 | 12,782 | 97,947 |

(1) The carrying amount of the term loan is the fair value of $233 million. The amount to be repaid is $300 million.

(2) The carrying value of the finance lease obligation is the fair value of $35 million. The lease payments are $10.8 million per year (including principal and interest) until August 2018. Financing lease payments can be funded with cash restricted to D6 Block expenditures (see note 4).

(3) The carrying amount of the convertible notes is the fair value of $82 million. The amount that will be required to be repaid assuming that the notes are not converted or repaid in common shares is Cdn$115 million. The convertible notes will mature on December 31, 2017.

(4) The carrying amount of the unsecured notes is the fair value of $0.6 million. Subsequent to June 30, 2014, $0.6 million of principal on the unsecured notes has been converted into common shares.

(5) The carrying amount of the other long-term liabilities is the fair value of $111 million. The amount that will be required to be repaid for the contract settlement obligation is $40 million, which will be repaid in installments by March 31, 2017. The amount that will be paid on the deferred obligation is estimated to be $161 million over seven years, commencing in April 2015.

(6) The amount due relates to the principal portion and excludes interest.

*(e) Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its financial instruments. There were no changes in the Company's exposure to market risks or the Company's processes for managing the risks from the previous period.

*(i) Currency risk*

The majority of the Company's revenues and expenses are denominated in US Dollars and the Company holds the majority of its funds in US Dollars, except as required to fund dividends and make interest payments on the convertible notes. As a result, the Company has limited its cash exposure to fluctuations in the value of the US Dollar versus other currencies. However, the Company is exposed to changes in the value of the Indian Rupee versus the US Dollar as they are applied to the Company's working capital, income tax receivable and deferred tax liability of its subsidiaries in India. The Company does not have any foreign exchange contracts in place to mitigate currency risk.

A 5 percent strengthening or a 5 percent weakening of the Indian Rupee against the US Dollar at June 30, 2014, which is based on historical movements in the foreign exchange rates, would have respectively decreased or increased the net loss by $0.2 million. This analysis assumes that all other variables remained constant.

The financial instruments are exposed to fluctuations in foreign exchange rates, which are used in the translation of the financial statements of the Canadian and corporate operations to US Dollars. The reported US Dollar value of the cash and cash equivalents, accounts receivable, debt and accounts payable of the Canadian and corporate operations is exposed to fluctuations in the value of the Canadian Dollar versus the US Dollar. A 3 percent strengthening or a 3 percent weakening of the Canadian Dollar against the US Dollar at June 30, 2014, which is based on historical movement in foreign exchange rates, would have respectively increased or decreased other comprehensive loss by $3 million. This analysis assumes that all other variables remained constant.

*(ii) Commodity price risk*

The Company is exposed to the risk of changes in market prices of commodities. Prices are based on the Cabinet Committee of Economic Affairs of the Government of India ("GOI") announced new pricing formula for domestic gas sales in India, based on the recommendations of the Rangarajan Committee. The pricing formula is based on the average of the prices of imported LNG into India and the weighted average of gas prices in North America, Europe and Japan. For new long term natural gas contracts that the Company expects will be entered into, the price the Company expects to receive for natural gas will be linked to global LNG and natural gas prices, resulting in commodity price risk. For additional information, refer to the 2014 Annual Information Form filed on SEDAR at www.sedar.com.

## 14. Share capital

*(a) Fully paid ordinary shares*

The Company has authorized for issue an unlimited number of common shares and an unlimited number of preferred shares. The common shares issued are fully paid and the shares have no par value. No preferred shares have been issued.

In fiscal 2014, the holders of the unsecured notes converted approximately $6.9 million of the outstanding principal plus accrued interest into a total of 3,643,452 common shares of the Company. During the quarter ended June 30, 2014, the holders of the unsecured notes converted approximately $5.3 million of the outstanding principal plus accrued interest into a total of 2,997,611 common shares of the Company. Subsequent to June 30, 2014, the holders converted the remaining $0.6 million of outstanding balance plus accrued interest into 308,623 common shares of the Company.

*(b) Share options granted under the employee share option plan*

The Company has reserved for issue 9,371,055 common shares for granting under stock options to directors, officers, and employees. The options become vested immediately to five years after the date of grant and expire one to six years after the date of grant. The stock options are settled in equity.

Stock option transactions for the respective periods were as follows:

| | Three months ended June 30, 2014 | | Year ended March 31, 2014 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (Cdn$) | Number of options | Weighted average exercise price (Cdn$) |
| Opening balance | 3,128,188 | 27.04 | 4,953,145 | 45.04 |
| Granted | 579,071 | 2.22 | 1,248,485 | 3.53 |
| Forfeited | (234,021) | 43.94 | (2,144,373) | 36.90 |
| Expired | (74,750) | 69.20 | (929,069) | 68.67 |
| Closing balance | 3,398,488 | 20.72 | 3,128,188 | 27.04 |
| Exercisable | 1,675,142 | 19.82 | 830,630 | 40.48 |

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2014:

| | Outstanding Options | | | Exercisable Options | |
|---|---|---|---|---|---|
| Exercise Price | Options | Remaining life (years) | Weighted average exercise price (Cdn$) | Options | Weighted average exercise price (Cdn$) |
| 2.03 – 9.99 | 2,512,050 | 1.2 | 4.64 | 1,344,328 | 4.13 |
| 10.00 – 19.99 | 70,754 | 2.6 | 13.63 | 2,504 | 11.17 |
| 20.00 – 39.99 | 77,500 | 1.9 | 37.01 | 23,000 | 36.53 |
| 40.00 – 49.99 | 149,810 | 1.8 | 45.54 | 19,560 | 44.15 |
| 50.00 – 59.99 | 83,750 | 1.8 | 51.48 | 250 | 53.27 |
| 60.00 – 69.99 | 74,500 | 1.9 | 64.02 | 2,500 | 67.90 |
| 70.00 – 79.99 | 53,000 | 0.9 | 72.60 | 29,000 | 71.77 |
| 80.00 – 89.99 | 136,250 | 0.6 | 81.95 | 101,250 | 82.02 |
| 90.00 – 99.99 | 125,375 | 0.9 | 95.82 | 77,500 | 95.97 |
| 100.00 – 109.99 | 104,999 | 1.0 | 103.21 | 65,000 | 104.22 |
| 110.00 – 112.64 | 10,500 | 0.8 | 111.30 | 10,250 | 111.33 |
| | 3,398,488 | 1.3 | 20.72 | 1,675,142 | 19.82 |

The weighted average share price during the three months ended June 30, 2014 was $2.29 (2013 - $7.43).

*(c) Fair value measure of equity instruments granted*

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average inputs:

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Grant-date fair value | Cdn$0.45 | - |
| Market price per share | Cdn$2.23 | - |
| Exercise price per option | Cdn$2.23 | - |
| Expected volatility | 67% | - |
| Expected life (years) | 0.6 | - |
| Expected dividend rate | 0% | - |
| Risk-free interest rate | 1.1% | - |
| Expected forfeiture rate | 13% | - |

Expected volatility was determined based on the historical movements in the closing price of the Company's stock for a length of time equal to the expected life of each option. See note *d.* below for categorization of share-based payment expense during the period.

*(d) Share-based compensation disclosure*

The Company prepares its statement of comprehensive income/(loss) classifying costs according to function as opposed to the nature of the costs. As a result, share-based compensation expense is charged to various other headings in the statement of comprehensive income (loss).

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Share-based compensation expense included in: | | |
| Exploration and evaluation assets | 4 | 224 |
| Production and operating expenses | 183 | 151 |
| Exploration and evaluation expenses | 220 | 1,258 |
| Share-based compensation expense | 896 | 2,686 |
| Restructuring costs | (747) | - |
| Total | 556 | 4,319 |

## 15. Revenue

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Natural gas sales | 31,363 | 31,207 |
| Oil and condensate sales | 10,845 | 2,730 |
| Less: | | |
| Royalties | (1,217) | (1,372) |
| Government's share of profit petroleum | (5,830) | (4,523) |
| Oil and natural gas revenue | 35,161 | 28,042 |

In India, revenues from crude oil sales to Reliance Jamnagar represents 17 percent of total natural gas, oil and condensate sales for the quarter ended June 30, 2014, and revenues from natural gas sales to Indian Farmers Fertiliser Cooperative Limited represents 10 percent of total natural gas, oil and condensate sales for the quarter ended June 30, 2014. In Bangladesh, revenues from oil and gas sales to Petrobangla comprised 37 percent of total natural gas, oil and condensate sales for the quarter ended June 30, 2014 (2013 - 34 percent).

### 16. Exploration and evaluation expenses

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Geological and geophysical | 618 | 5,195 |
| Exploration and evaluation | 9,733 | 15,109 |
| General and administrative | 2,991 | 5,240 |
| Production sharing contract annual payments | 2,690 | 3,429 |
| Share-based compensation | 220 | 1,259 |
| Exploration and evaluation | 16,252 | 30,232 |

During the first quarter of fiscal 2015, the Company expensed $7 million of exploration and evaluation costs relating to MJ-A2 well in the D6 Block due to unsuccessful appraisal drilling.

### 17. Finance and other income

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Finance income | 392 | 140 |
| Other income | 3,393 | - |
| Finance and other income | 3,785 | 140 |

### 18. Finance expense

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Interest expense | 15,670 | 4,353 |
| Accretion expense | 18,288 | 2,187 |
| Bank charges and other finance costs | 55 | 139 |
| Finance expense | 34,013 | 6,679 |

### 19. Restructuring costs

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Severance and allocated expenses | 1,194 | - |
| Advisory cost | 210 | - |
| Share-based compensation recovery | (747) | - |
| Restructuring costs | 657 | - |

### 20. Earnings per share

The earnings used in the calculation of basic and diluted per share amounts are as follows:

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Net loss | (54,943) | (59,171) |

A reconciliation of the weighted average number of ordinary shares for the purpose of calculating basic earnings per share to the weighted average number of ordinary shares for the purpose of calculating diluted earnings per share is as follows:

| (thousands of US Dollars) | Three months ended June 30, 2014 | Three months ended June 30, 2013 |
|---|---|---|
| Weighted average number of common shares used in the calculation of basic earnings per share | 92,484,431 | 70,215,911 |

As a result of the net loss in the quarters ended June 30, 2014 and 2013, the outstanding stock options and shares issuable upon conversion of the outstanding notes as at June 30, 2014 were considered anti-dilutive to the loss per share and were excluded from the weighted average number of common shares for the purposes of diluted earnings per share. The average market value of the Company's common shares for purposes of calculating the dilutive effect of stock options for the periods was based on quoted market prices for the periods that the options were outstanding. See note 10c and 10d for details of the conversion of the convertible notes and senior unsecured notes payable.

**21. Segmented information**

*(a) Products and services from which reportable segments derive their revenues*

The Company's operations are conducted in one business sector, the oil and natural gas industry. All revenues are from external customers. In India, revenues from crude oil sales to Reliance Jamnagar represents 17 percent of total natural gas, oil and condensate sales for the quarter ended June 30, 2014, and revenues from natural gas sales to Indian Farmers Fertiliser Cooperative Limited represents 10 percent of total natural gas, oil and condensate sales for the quarter ended June 30, 2014. In Bangladesh, revenues from oil and gas sales to Petrobangla comprised 37 percent of total natural gas, oil and condensate sales for the quarter ended June 30, 2014 (2013 - 34 percent).

*(b) Determination of reportable segments*

Geographical areas are used to identify the Company's reportable segments. A significant geographic segment is considered a reportable segment once its activities are regularly reviewed by the Company's management. The accounting policies of the information of the reportable segments are the same as those described in the summary of significant accounting policies.

*(c) Segment assets, revenues and results*

| (thousands of US Dollars) | Three months ended June 30, 2014 | | Year ended March 31, 2014 | |
|---|---|---|---|---|
| | Additions to: | | | |
| Segment | Exploration and evaluation assets (E&E) | Property, plant and equipment (PP&E) | Exploration and evaluation assets (E&E) | Property, plant and equipment (PP&E) |
| Bangladesh | - | 470 | - | 9,664 |
| India | 6,147 | 10,675 | 19,863 | 28,140 |
| Indonesia | 1,929 | (5,566) | 60,981 | 21,527 |
| Trinidad | 34 | (248) | 9,930 | 3,333 |
| Other | - | 148 | 954 | 230 |
| Total | 8,110 | 5,479 | 91,728 | 62,894 |

| (thousands of US Dollars) | As at June 30, 2014 | | | As at March 31, 2014 | | |
|---|---|---|---|---|---|---|
| Segment | Total E&E | Total PP&E | Total Assets | Total E&E | Total PP&E | Total Assets |
| Bangladesh | 4,737 | 24,926 | 55,113 | 4,737 | 25,660 | 46,406 |
| India | 106,398 | 408,830 | 707,695 | 106,817 | 418,033 | 711,553 |
| Indonesia | - | 14,047 | 33,506 | - | 19,834 | 61,898 |
| Trinidad | 47,480 | 15,288 | 67,635 | 55,551 | 68,494 | 129,710 |
| Other | 560 | 661 | 50,134 | 560 | 682 | 35,024 |
| Total | 159,175 | 463,752 | 914,083 | 167,665 | 532,703 | 984,591 |

(thousands of US Dollars)

Three months ended June 30, 2014

| Segment | Natural gas, condensate and oil sales | Government share of profit petroleum | Royalty (expense) / income | Production and operating expenses | Depletion and depreciation expenses | Exploration and evaluation expenses | Loss on investments and derivatives | Share-based compensation | Asset impairment | General and administrative expenses | Restructuring costs | Finance and other income | Finance expense and foreign exchange (loss) gain | Income tax reduction / (expense) | Segment profit (loss) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bangladesh | 15,503 | (5,242) | - | (2,367) | (1,205) | (193) | - | - | - | - | - | - | - | - | 6,496 |
| India | 26,705 | (588) | (1,234) | (7,185) | (22,846) | (6,909) | - | - | (10) | - | - | - | - | (1,104) | (13,171) |
| Indonesia | - | - | - | - | (37) | (4,980) | - | - | (530) | - | (37) | - | - | - | (5,584) |
| Trinidad | - | - | - | - | (24) | (3,296) | - | - | (60) | - | - | - | - | - | (3,380) |
| All other | - | - | 17 | - | (129) | (874) | - | (896) | - | (3,697) | (620) | 3,785 | (36,890) | - | (39,304) |
| Total | 42,208 | (5,830) | (1,217) | (9,552) | (24,241) | (16,252) | - | (896) | (600) | (3,697) | (657) | 3,785 | (36,890) | (1,104) | (54,943) |

(thousands of US Dollars)

Three months ended June 30, 2013

| Segment | Natural gas, condensate and oil sales | Government share of profit petroleum | Royalty (expense) / income | Production and operating expenses | Depletion and depreciation expenses | Exploration and evaluation expenses | Loss on investments and derivatives | Share-based compensation | Asset impairment | General and administrative expenses | Restructuring costs | Finance and other income | Finance expense and foreign exchange (loss) gain | Income tax reduction / (expense) | Segment profit (loss) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bangladesh | 11,713 | (3,959) | - | (4,591) | (1,685) | (180) | - | - | - | - | - | - | - | - | 1,298 |
| India | 22,112 | (564) | (1,375) | (3,566) | (28,286) | (36) | - | - | - | - | - | - | - | 455 | (11,260) |
| Indonesia | - | - | - | - | (46) | (22,907) | - | - | - | - | - | - | - | 423 | (22,530) |
| Trinidad | - | - | - | - | (31) | (4,977) | - | - | - | - | - | - | - | - | (5,008) |
| All other | 112 | - | 3 | (90) | (140) | (2,132) | (888) | (2,686) | - | (1,334) | - | 140 | (14,655) | (1) | (21,671) |
| Total | 33,937 | (4,523) | (1,372) | (8,247) | (30,188) | (30,232) | (888) | (2,686) | - | (1,334) | - | 140 | (14,655) | 877 | (59,171) |

## 22. Commitments and contractual obligations

*(a) Exploration commitments*

The Company has minimum work commitments as specified in the PSCs for its exploration properties. The Company may apply for extensions to commitment deadline if it is unable to fulfill the commitment by the deadline or may relinquish the property (see note 2). The estimated cost of the minimum work commitments is as follows:

| (thousands of US Dollars) | Work Commitment | Exploration period |
|---|---|---|
| Indonesia | 139,000 | Various[1] |
| Trinidad and Tobago | 133,320 | Various[2] |
| Madagascar | 3,333[3] | September 2015 |
| Brazil | 3,313 | September 2018 |
| Total | 278,966 | |

(1) The deadlines for fulfilling the work commitments in Indonesia are: $100 million by November 2014; $1 million by December 2014 and $38 million by May 2015. The Company has applied or plans to apply for extensions to commitment deadlines if it is unable to fulfill the commitment by the deadline. In connection with the loan agreement, the Company also signed exploration option agreements granting farm-in options to the option holder to (i) acquire a 5 percent working interest in each of two blocks in Indonesia, by paying its proportionate share of previously incurred costs within a specified period after the drilling of the first exploration well in the block, or (ii) receive a cash payment of approximately $10 million if a commercial discovery is made with the first exploration well drilled in the applicable block and the optionee elects not to exercise its farm-in option in the applicable block. The optionee did not exercise its farm-in option for one of the blocks after the drilling of the first exploration well in this block and the exploration option agreement for this block has terminated. Pursuant to the exploration option agreement still in effect, if a well is not spud in another applicable block in Indonesia prior to July 2016, the Company is obligated to pay approximately $5 million to the option holder.

(2) The deadlines for fulfilling the work commitments in Trinidad and Tobago are: $64 million by April 2015; $5 million by July 2015; $11 million by December 2015 and $54 million by April 2016. The Company has applied or plans to apply for extensions to commitment deadlines if it is unable to fulfill the commitment by the deadline.

(3) In July 2014, the Company transferred its remaining 35 percent interest in the Grand Prix block in Madagascar to an existing partner in exchange for potential future payments to the Company that are contingent on certain future events in the block.

*(b) Finance lease obligation*

The Company has recognized a finance lease for the floating, production, storage and offloading vessel ("FPSO") used in the D6 Block in India. The fair value of $45 million for the finance lease is calculated based on future lease payments discounted at a rate of 11.65 percent. The finance lease asset is included in producing properties within property, plant and equipment and the net carrying amount is $35 million. The future minimum lease payments as at the end of the reporting period and their net present value are:

| | Lease payments |
|---|---|
| <1 year | 10,757 |
| 1 - 5 years | 34,097 |
| Subtotal | 44,854 |
| Imputed interest | (9,449) |
| Carrying value | 35,405 |

The lease has an initial charter period of 3,650 days maturing in August 2018, which is cancellable by paying exit costs. The Company has an option to purchase the leased asset.

*(c) Contract settlement obligation*

In December 2013, the Company entered into a settlement agreement related to drilling rig contracts in Indonesia and Trinidad (see note 11a). The future minimum payments relate to this agreement are as follows:

| (thousands of US Dollars) | Payments |
|---|---|
| <1 year | 10,000 |
| 1 - 5 years | 30,275 |
| Total | 40,275 |
| Imputed interest | (11,436) |
| Carrying value | 28,839 |

*(d) Deferred obligation*

In December 2013, as a condition of the term loan facilities agreement, the Company entered into an agreement related to D6 Block in India (see note 10a and 11b). The estimated future minimum payments related to this agreement are as follows:

| (thousands of US Dollars) | Payments |
|---|---|
| 1 - 5 year | 97,195 |
| > 5 years | 63,680 |
| Subtotal | 160,875 |
| Imputed interest | (78,985) |
| Carrying value | 81,890 |

**23. Contingent liabilities**

a. The Company's indirect subsidiary, Niko Resources (Bangladesh) Ltd. ("NRBL"), is a party to two arbitration disputes to be decided upon by a tribunal panel under the International Centre for Settlement of Investment Disputes ("ICSID"). These disputes are related to its joint venture agreement ("JVA") with Bangladesh Petroleum Exploration & Production Company Limited ("BAPEX") for the Feni and Chattak fields in Bangladesh and to its Feni Gas Purchase and Sales Agreement ("GPSA") with Bangladesh Oil, Gas and Mineral Corporation ("Petrobangla"):

1. Dispute over compensation claims arising from the uncontrolled flow problems that occurred in Chattak field in January and June 2005, including the claims raised in the pleadings filed in the Money Suit discussed below.
2. Dispute over payment for gas delivered from the Feni field from and after November 2, 2004 under the Feni GPSA with Petrobangla. NRBL's share of the gas sales proceeds under dispute is $27 million.

In August 2013, the ICSID Tribunal delivered its decision that ICSID does have jurisdiction over the two arbitrations.

In September 2013, NRBL filed its memorials with the ICSID Tribunal in respect to the merits of each of the arbitration disputes. The hearing for the gas payment dispute for $27 million concluded in the last week of April 2014 and the final award is expected in fiscal 2015. The hearing for the compensation claim is scheduled for November2014. It is anticipated that the ICSID process could reach conclusion over the next twelve to fifteen months, prior to the Money Suit (discussed below) which could provide substantial grounds for resolution of the Money Suit on the grounds that the issues have already been adjudicated by a competent arbitration tribunal under ICSID which is binding on the Government of Bangladesh.

During the year ended March 31, 2006, NRBL received a letter from Petrobangla demanding compensation related to the uncontrolled flow problems that occurred in the Chattak field in January and June 2005, and in June 2008, NRBL was named as a defendant in a lawsuit (the "Money Suit") that was filed in Bangladesh by the GOB and Petrobangla, demanding compensation as follows:

i. $5.3 million for 3 Bcf of free natural gas delivered from the Feni field as compensation for the burnt natural gas;
ii. $10.3 million for 5.89 Bcf of free natural gas delivered from the Feni field as compensation for the subsurface loss;
iii. Bangladesh Taka 845.58 million ($11 million) for environmental damages, an amount subject to be increased upon further assessment;
iv. Bank guarantee for $78.8 million for 45 Bcf of natural gas as compensation for further subsurface loss to be finally determined on the basis of production data and analysis; and
v. any other claims that arise from time to time.

Various court dates for the Money Suit have been set at which the proceedings have been progressing at a slow pace with the next hearing scheduled in August 2014. If NRBL were to lose the ICSID arbitration and/or the Money Suit, the Company may lose its rights to the assets of NRBL (including the receivable for gas sales supplied under the GPSA). The Company believes that the outcome of the ICSID arbitration and/or the Money Suit and the associated cost to the Company, if any, are not determinable. As such, no amounts have been recorded in these consolidated financial statements. Settlement costs, if any, will be recorded in the period of determination.

b. In accordance with natural gas sales contracts to customers of production from the Hazira field in India, the Company had committed to deliver certain minimum quantities and was unable to deliver the minimum quantities for a period ending December 31, 2007. The Company's partner in the Hazira field delivered the shortfall volumes in return for either: (a) delivery of replacement volumes five times greater than the shortfall; (b) a cash payment; or (c) a combination of (a) and (b). The Company's partner has served a notice of arbitration as the Company is unable to supply gas from the D6 block to the partner and the arbitration process has commenced. The Company estimates the cash amount to settle the contingency at US$11.6 million. The Company believes that the agreement with its partner is not effective as the GOI's gas utilization policy prevents the Company from supplying the gas to the partner. The arbitration is in process and the matter is sub judice in a court of law. The Company believes that the outcome is not determinable.

   The Company may not be able to supply gas to a customer in Hazira whose contract runs until mid-2016. The Company had previously planned to supply gas from the D6 Block to the customer. Due to a change in the gas allocation policy by the GOI, the Company may not be able to fulfill the contract with gas supply from the D6 Block. The Company has notified the customer that the underperformance of reservoir is a force majeure event. The customer does not agree with this position and has served a notice of arbitration on the Company. The arbitration is in process. The Company believes that the outcome is not determinable.

c. The calculation of the government share of profit petroleum for Hazira field has been made based on the assumption that all expenditures incurred and claimed by the Hazira joint venture would be allowable for cost recovery. The audited accounts with details of expenditure incurred in excess of the budgeted expenditure have been submitted, where applicable, up to the year 2011-2012. Approval has been received for cost overruns till fiscal year 2009-2010. Some of the cost overruns have not been approved by the GOI. Necessary clarifications have been provided by the Company on the issues disputed by the GOI. If expenditures in excess of the previously approved expenditures are disallowed by the GOI, the GOI's share of profit petroleum for the Hazira field would increase by approximately $1 million, with interest due of approximately $1 million. In addition, GOI has disputed the methodology of calculation of royalties due to the GOI on natural gas sales in Hazira, with the Company's share of the disputed amounts totaling approximately $1 million, along with interest of approximately $1 million. The disputed amounts have been paid to the GOI and recorded as long-term receivables. The Company has commenced arbitration proceedings against the GOI challenging the above actions on cost recovery and royalty. The Company believes that the outcome of the disputes is not determinable. If the Company is unsuccessful on these disputes, the long-term receivables will be written off.

d. In a May 2012 letter, the GOI alleged that the D6 contractor group is in breach of the PSC for the D6 Block as they failed to drill all of the wells and attain production levels contemplated in the Addendum to the Initial Development Plan for the Dhirubhai 1 and 3 fields. The GOI further asserted that certain joint venture costs are therefore disallowed for cost recovery. The contractor group is of the view that the disallowance of recovery of costs incurred by the joint venture has no basis in the terms of the PSC and that there are strong grounds to challenge the action of the GOI. The contractor group has commenced arbitration proceedings against the GOI challenging the allegations and the disallowance of cost recovery. In a July 2014 letter, the GOI updated their preliminary estimate of disallowed costs as at March 31, 2014 to $2.4 billion. To the extent that any amount of joint venture costs are disallowed, such amount would be removed from calculation of profit petroleum, a portion of which would be payable to the GOI under the PSC. Because profit petroleum percentages for the contractor group and the GOI change as the contractor group recovers specified percentages of their investments, the potential impact on the GOI's share of profit petroleum is dependent on the future revenue and expenditures in the block and cannot be precisely determined. Based on the current profit petroleum percentage of 90 percent for the contractor group and 10 percent for the GOI, if the GOI were to be successful in the cost recovery arbitration and the entire $2.4 billion ($238 million Niko share) of costs were disallowed, Niko's share of the potential impact would be a total of $24 million, of which $13 million would relate periods up to June 30, 2014 and $11 million would relate to future periods. The GOI has also raised issues regarding other potential adjustments to the profit petroleum calculation and the contractor group has refuted these potential adjustments.

e. The Company has filed its income tax returns in India for the taxation years 1998 through 2008 under provisions that provide for a tax holiday deduction for eligible undertakings related to the Hazira and Surat fields.

   The Company has received unfavorable tax assessments related to taxation years 1998 through 2010. The assessments

contend that the Company is not eligible for the requested tax holiday because: a) the holiday only applies to "mineral oil" which excludes natural gas; and/or b) the Company has inappropriately defined undertakings. The taxation years 2011 and later have not yet been assessed by the tax authorities. The Company has appealed the tax assessments and has received favorable rulings at the second level of four possible levels of appeals, the Tribunal Court. This decision has been appealed by the Indian tax department to the third level of appeals, the High Court. The fourth level of appeals is the Supreme Court.

In August 2009, the GOI through the Finance (No.2) Act 2009 amended the tax holiday provisions in the Income Tax Act (Act). The amended Act provides that the blocks licensed under the NELP-VIII round of bidding and starting commercial production on or after April 1, 2009 are eligible for the tax holiday on production of natural gas. However, the budget did not address the issue of whether the tax holiday is applicable to natural gas production from blocks that have been awarded under previous rounds of bidding, which includes all of the Company's Indian blocks. The Company has previously filed and recorded its income taxes on the basis that natural gas will be eligible for the tax holiday.

With respect to undertakings eligible for the tax holiday deduction, the Act was amended to include an "explanation" on how to determine undertakings. The Act now states that all blocks licensed under a single contract shall be treated as a single undertaking. The Company was granted an interim relief by the High Court on instructing the tax Department to not give effect to the "explanation" referred to above retrospectively until the matter is clarified in the courts.

The decision regarding retrospective application of the definition of undertaking and whether or not mineral oil includes natural gas for purposes of tax holiday claim is currently pending with the High Court.

Based on the circumstances described above, the Company continued to calculate its income tax provision in accordance with its earlier practice of treating a single well / cluster of wells as a single undertaking and considering the production of natural gas as eligible for the tax holiday claim. However, to avoid interest and penalties, the Company post amendment of the Income tax act has paid its income tax excluding the tax holiday deduction and has filed its income tax return without tax holiday deduction so as not deemed to be in violation of the current legislation.

Should the High Court overturn the rulings previously awarded in favor of the Company by the Tribunal court, and the Company either decides not to appeal to the Supreme Court or appeals to the Supreme Court and is unsuccessful, the Company would have to accordingly change its tax position and record a tax expense of approximately $52 million (comprised of additional taxes of $33 million and write off of approximately $19 million of the net income tax receivable). In addition, the Company could be obligated to pay interest on taxes for the past periods.

f. The Cauvery and D4 Blocks in India are under relinquishment. The Company believes it has fulfilled all commitments for the Cauvery block while the GOI contends that the Company has unfulfilled commitments of up to approximately $2 million. The Company believes the outcome is currently not determinable.

g. Various lawsuits have been filed against the Company for incidents arising in the ordinary course of business. In the opinion of management, the outcome of the lawsuits, now pending, is not determinable or not material to the Company's operations. Should any loss result from the resolution of these claims, such loss will be charged to operations in the year of resolution.