NIKO RESOURCES LTD

# NIKO REPORTS RESULTS FOR THE YEAR ENDED MARCH 31, 2017

Niko Resources Ltd. ("Niko" or the "Company") is pleased to report its operating and financial results for the quarter and year ended March 31, 2017. The operating results are effective June 15, 2017. All amounts are in US dollars unless otherwise indicated and all amounts are reported using International Financial Reporting Standards unless otherwise indicated.

## CHIEF EXECUTIVE OFFICER'S MESSAGE TO THE SHAREHOLDERS

The focus of our efforts continues to be to achieve our overarching goal of enhancing value and ultimately monetizing the Company's core assets for the benefit of all its stakeholders. However, general market conditions in the industry coupled with our on-going legal issues relating to our assets in India and Bangladesh provide significant challenges that need to be overcome in order to achieve our goal.

The continued non-payment of amounts due for natural gas and condensate delivered from Block 9 in Bangladesh threatens the ability of the Company to fund its operations over the next several months. In addition, it is the opinion of both the Company and our independent reserves evaluator that reserves associated with Niko's interest in Block 9 can no longer be recognized at this time. If the situation in Bangladesh can be resolved, then reserves for Block 9 could again be recognized.

Faced with this liquidity concern, we continue to pursue resolution of the situation in Bangladesh and actively market our interest in the D6 Block in India. I believe that the recent announcement by the operator of the D6 Block indicating that they will award contracts to progress development of the R-Series deepwater gas fields in the block could help this marketing process and that a sale of our interest in the D6 Block could potentially provide a solution to our liquidity situation and achieve our Company's overarching goal. However, no assurance can be made that these efforts will provide a solution on a timely basis or at all.

While we remain hopeful, we acknowledge that much work has to be done and we are committed to doing our best for the benefit of all stakeholders.

**William Hornaday** – Chief Executive Officer, Niko Resources Ltd.

## ESTIMATED RESERVES and ESTIMATED AFTER-TAX NET PRESENT VALUE OF FUTURE NET REVENUE

*India*

**Estimated Reserves - India**

| | As at March 31, | |
|---|---|---|
| Gross[(1)] (Bcfe) | 2017 | 2016 |
| Proved | 232 | 265 |
| Proved plus Probable | 362 | 406 |

(1) 'Gross' reserves are defined as those accruing to the Company's working interest share before deduction of royalties and government share of profit petroleum, and are reflected on a gas equivalent basis.

Deloitte LLP ("Deloitte"), an independent petroleum engineering firm, has prepared its reserves evaluation for the Company's interest in the D6 Block in India. This evaluation has been prepared in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* and the Canadian Oil and Gas Evaluation Handbook, with an effective date of March 31, 2017.

Deloitte has evaluated the reserves for the Company's interest in the D6 Block in India using its forecast of commodity price inputs into the Indian natural gas pricing formulas under the Guidelines for producing fields and under the New Guidelines for undeveloped discoveries.

**Estimated After-tax Net Present Value of Future Net Revenue - India (discounted at 10%)**

| | As at March 31, | |
|---|---|---|
| (millions of U.S. dollars) | 2017 | 2016 |
| Proved | 250 | 218 |
| Proved plus Probable | 486 | 486 |

*Bangladesh*

Since June 2016, Petrobangla has withheld all payments for Niko's share of gas and condensate sales from the Block 9 PSC due to legal disputes between Niko and the GOB, Petrobangla and Bapex (refer to discussion on *Non-payments by Petrobangla of Amounts Due* in the Liquidity and Capital Resources section). In this situation, it is the opinion of both Deloitte and Niko that reserves associated with Niko's interest in Block 9 can no longer be recognized. If the situation in Bangladesh can be resolved such that payments for the Company's share of Block 9 gas and condensate sales resume, then reserves for Block 9 could again be recognized.

Complete details of the Company's reserves and future net revenues attributable thereto are contained in its Annual Information Form for the year ended March 31, 2017, which will be available on the Company's SEDAR profile at www.sedar.com.

# 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 510, 800 - 6 Avenue SW, Calgary, Alberta, T2P 3G3. The Company is engaged in the exploration for and development and production of oil and natural gas, primarily in India and Bangladesh. 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, financial performance and cash flows of the Company for the year ended March 31, 2017 should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2017. Additional information relating to the Company, including the Company's Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com and on the Company's website at www.nikoresources.com. This MD&A is dated June 15, 2017.

The MD&A contains forward-looking information and statements. Refer to the end of this MD&A for the Company's advisory on forward-looking information and statements.

## LIQUIDITY AND CAPITAL RESOURCES

*Non-payments by Petrobangla of Amounts Due*

Since June 2016, Bangladesh Oil, Gas and Mineral Corporation ("Petrobangla") has paid reduced amounts to the operator of the Block 9 PSC for invoiced amounts due for gas and condensate supplied from March 2016 to March 2017 pursuant to the Block 9 gas and condensate sales agreements, with the amounts withheld equal to the 60 percent share in the Block 9 PSC held by Niko Exploration (Block 9) Limited ("Niko Block 9") and totalling $31.5 million to date. Niko Block 9 has issued notices of dispute and force majeure under the Block 9 PSC and sales agreements to the Government of Bangladesh ("GOB") and Petrobangla. As the cash flow that was expected to be generated by the Block 9 PSC was targeted to fund the current and projected capital expenditures related to the drilling program in Block 9 in fiscal 2017 as well as other cash requirements of the Company, since late September 2016 Niko Block 9 has not paid cash calls that were due and has been issued default notices by the operator of the Block 9 PSC. Under the terms of the joint operating agreement ("JOA") between the participating interest holders in the Block 9 PSC, during the continuance of a default, the defaulting party shall not have a right to its share of gas and condensate sales proceeds, which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party. In addition, if the defaulting party does not cure a default within sixty days of the default notice, the non-defaulting parties have the option to require the defaulting party to withdraw from the PSC and JOA. To date, the non-defaulting parties have not exercised this option.

*Funding of Projected Cash Requirements of the Company*

The Company's cash flow has been negatively impacted by the failure of Petrobangla to comply with its legal obligations as outlined above. As a result, the Company's cash balances as at March 31, 2017 and projected revenues from its assets in India are not expected to be sufficient to fund the projected cash requirements of the Company's assets in India and its other cash requirements over the next several months. However, the Company's cash resources, and therefore its ability to fund its operations, could be positively enhanced by various factors, including the following:

- Receiving payments from Petrobangla of amounts due,
- Executing sale(s) of the Company's interests in its core assets in India and Bangladesh, or
- Obtaining financing for planned development projects in the D6 Block.

No assurance can be made that appropriate steps will be taken, or goals accomplished, in a manner or on a timely basis so as to enhance the Company's cash resources sufficiently. The failure to enhance the Company's cash resources on a timely basis will have a material adverse impact on the ability of the Company to fund its operations.

*Term Loan and Convertible Notes*

In July 2016, the Company executed an amendment (the "Fourth Amendment") to the terms of the Facilities Agreement with its Term Loan Lenders and executed a supplemental indenture to the Indenture governing its Convertible Notes (the "Indenture Amendment") (collectively, the "Amendments"). As a result of the Amendments, the Company is not required to make interest payments (including interest previously owing) under the Facilities Agreement or the Indenture during the term of the Amendments, nor make payments under the deferred obligation, other than in connection with waterfall distributions ("Waterfall Distribution"). The Amendments restrict the Company's ability to utilize potential proceeds from sales of assets and settlements of arbitration and / or tax claims, as any proceeds from these types of transactions will be required to be distributed amongst the lenders under the amended Facilities Agreement, the holders of the Convertible Notes (the "Noteholders") and the Company pursuant to the Waterfall Distribution. The Waterfall Distribution under the Amendments is described in Note 15(b) of the Company's audited consolidated financial statements for the year ended March 31, 2017; and, in respect of amounts to be retained by the Company, is subject to the 2016 Settlement Agreement described under "Diamond Settlement" below.

*Diamond Settlement*
In October 2016, Niko executed an agreement (the "2016 Settlement Agreement") with subsidiaries of Diamond Offshore ("Diamond") relating to the settlement of outstanding claims under drilling contracts and the agreement executed in December 2013 (the "2013 Settlement Agreement") (including related judgements granted by courts in Texas and Alberta), in compliance with the terms of the Fourth Amendment. The terms of the 2016 Settlement Agreement are described in Note 16(b) of the Company's audited consolidated financial statements for the year ended March 31, 2017.

*Claim from the Government of India in Alleged Migration of Natural Gas Dispute*
In November 2016, the contractor group of the D6 Block in India received a letter from the Government of India ("GOI"), in which the GOI made a claim of approximately $1.55 billion (Niko share $155 million) against the contractor group in respect of gas said to have migrated from neighboring blocks to the D6 Block. Reliance Industries Limited, the operator of the D6 Block, has invoked the dispute resolution mechanism in the PSC and issued a Notice of Arbitration to the GOI, with the arbitration process currently underway. Niko believes the contractor group is not liable for the amount claimed by the GOI and is working with the contractor group to defend against the claim by invoking the dispute resolution mechanism in the PSC.

*Exploration Subsidiaries*
The Company's exploration subsidiaries that previously owned interests in PSCs in Trinidad and Indonesia have significant accounts payable and accrued liabilities (including PSC obligations) and unfulfilled exploration work commitments reflected on the Company's balance sheet as at March 31, 2017. In August 2016, three of the Company's indirect subsidiaries received written notice from the Government of the Republic of Trinidad and Tobago ("GORTT") requesting that unfulfilled exploration work commitments be performed under each of the subsidiaries' respective PSCs within sixty days, failing which the GORTT would terminate the three PSCs and exercise its rights on the parent company guarantees for unfulfilled exploration commitments of $118 million. In May 2017, the Company's indirect subsidiaries received written notices from the GORTT terminating the three PSCs. In the Company's view, the parent guarantees for unfulfilled exploration commitments for the three PSCs have expired.

*Contingent Liabilities*
The Company and its subsidiaries are subject to various claims from other parties, as described in Note 32 of the Company's audited consolidated financial statements for the year ended March 31, 2017 and are actively defending against these claims. An adverse outcome on one or more of these claims could significantly impact the future cash flows of the Company.

*Ability of the Company to Continue as a Going Concern*
As a result of the foregoing matters (including the ongoing obligations of the Company and its subsidiaries), there are material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern.

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS BY REPORTABLE SEGMENT

The Company's financial results for the year ended March 31, 2017 were impacted by the following significant items:

*Execution of the Amendments in July 2016*
As a result of the Amendments, the carrying value of the Term Loan, Convertible Notes and deferred obligation and related interest and other payment obligations that had been reflected as current liabilities were derecognized and these obligations were recorded as long-term liabilities at their estimated fair values, resulting in the recognition of a gain on debt modification of $255 million, net of costs. The value of these obligations is primarily dependent on the net proceeds that would be distributed in the future under the Waterfall Distribution mechanism to the respective holders of these debt instruments upon the sale of the assets of the Company and other events, and is therefore highly uncertain. The estimated fair value of the Convertible Notes was determined based on the active trading price of Cdn$11.00 per $100 of Convertible Notes on the date of the Indenture Amendment, the estimated fair value of the Term Loan was determined using the estimated fair value of the Convertible Notes and the corresponding net proceeds that would be payable to the Term Loan lenders under the Waterfall Distribution mechanism, and the estimated fair value of the deferred obligation was determined to be zero based on the priority of payments for the deferred obligation being last under the Waterfall Distribution mechanism after all other claims under the Term Loan have been completely satisfied. In addition, subsequent to the date of the Amendment, the Company has not recognized interest expense on the Term Loan and Convertible Notes.

*Diamond Settlement*
As a result of the 2016 Settlement Agreement, the carrying value of the contract settlement obligation that had been reflected as a current liability was derecognized and this obligation was recorded as a long-term liability at its estimated fair value, resulting in the recognition of a gain on debt modification of $28 million, net of costs. The value of this obligation is primarily dependent on the net proceeds that would be distributed to Diamond in the future under the Waterfall Distribution mechanism upon the sale of the assets of the Company and other events, and is therefore highly uncertain. The estimated fair value of the contract settlement obligation was determined using the estimated fair value of the Convertible Notes and the corresponding net proceeds that would be payable to Diamond under the Waterfall Distribution mechanism.

*Non-payments by Petrobangla of Amounts Due*
As a result of the continued non-payments by Petrobangla of amounts due and Niko Block 9's non-payments of cash calls due to the operator and the default mechanism in the Block 9 JOA, the invoices issued by the operator of the Block 9 PSC for gas and condensate sales to Petrobangla for September 2016 to March 2017 reflect the non-defaulting parties' entitlement to the sales proceeds and, as such, the Company did not recognize $19 million of net oil and gas revenues that it otherwise would have been entitled to. In addition, the Company recognized an impairment of $13 million in the second quarter of fiscal 2017 related to the net revenue receivable from Petrobangla for the months of March to August 2016.

If the non-defaulting parties to the Block 9 exercise their option to require Niko Block 9 to withdraw from the PSC and JOA and if this results in a loss of Niko Block 9's interest in the PSC and JOA, then a full impairment of the Company's carrying value of the assets and liabilities related to Block 9 could result.

The Company's results for the fourth quarter and year ended March 31, 2017 are as follows:

**Consolidated**

| (thousands of US Dollars, | Three months ended March 31, | | Year ended March 31, | |
|---|---|---|---|---|
| unless otherwise indicated) | 2017 | 2016 | 2017 | 2016 |
| Sales volumes (MMcfe/d)(1) | 87 | 99 | 88 | 104 |
| Net oil and natural gas revenue | 8,097 | 20,370 | 44,385 | 94,170 |
| EBITDAX from continuing operations(2) | 556 | 11,018 | 17,575 | 57,118 |
| Net income (loss) from continuing operations | 24,111 | 77,595 | 266,567 | (55,694) |
| Net income (loss) from discontinued operations | (23) | (337) | (2,148) | (30,108) |
| Development capital expenditures | 2,947 | 2,789 | 30,968 | 21,679 |
| Net cash flow(3) | (4,783) | (1) | (25,680) | (22,562) |

(1) Includes volumes for September 2016 to March 2017 in Bangladesh for which revenue has not been recognized (see below).
(2) Refer to "Non-IFRS Measures" for details.
(3) Net cash flow is the total change in cash and cash equivalents as stated in the Company's statement of changes in cash flow. This additional IFRS measure is used to show the total change in cash and cash equivalents from the Company's operating, investing and financing activities.

***Highlights for the year ended March 31, 2017 include:***

Natural production declines and lower natural gas prices for the D6 Block in India and the non-recognition of net revenue for Block 9 in Bangladesh in fiscal 2017 contributed to lower net oil and gas revenue and lower EBITDAX for the Company for fiscal 2017 compared to fiscal 2016, partially offset by lower production and operating expenses and general and administrative expenses. Net income from continuing operations of $267 million in fiscal 2017 primarily resulted from recognition of gains on debt modification totalling $283 million resulting from the Amendments and the 2016 Settlement Agreement, and recognition of deferred income tax recovery of $40 million related to an extension in the carry-forward period for unutilized Minimum Alternative Tax ("MAT") credits in India from ten to fifteen years, partially offset by the negative impact of $32 million of non-payments by Petrobangla of amounts due in Block 9 and finance expense of $26 million. Refer to Note 26 of the audited consolidated financial statements for the year ended March 31, 2017 for details regarding MAT.

Net loss from continuing operations of $(56) million in fiscal 2016 primarily reflected the recognition of unfulfilled exploration commitments of $54 million, finance expense of $77 million and recognition of deferred income tax expense of $40 million, partially offset by net reversal of asset impairments of $121 million primarily related to the D6 Block in India.

Development capital expenditures of $31 million in fiscal 2017 related primarily to development well programs in the D6 Block in India and Block 9 in Bangladesh.

Net cash flow of ($26) million in fiscal 2017 primarily reflected the impact of EBITDAX, payments for development capital expenditures of $17 million, and principal and interest repayments of $11 million on the finance lease related to the floating, production, storage and offloading vessel ("FPSO") employed in the D6 Block in India.

***Highlights for the fourth quarter ended March 31, 2017 include:***

Total sales volumes in the fourth quarter of fiscal 2017 of 87 MMcfe/d decreased from 99 MMcfe/d in fiscal 2016 primarily due to the impact of natural production declines in the D6 Block in India and impact of increased delivery pressure requirements of the sales trunkline in Block 9 in Bangladesh, partially offset by incremental production from two sidetrack wells in the D6 Block, of which one well was brought on-stream in January 2017.

Net oil and natural gas revenues of $8 million decreased in the fourth quarter of fiscal 2017 compared to $20 million in the fourth quarter of fiscal 2016 primarily due to lower natural gas sales volumes and prices in India and the non-recognition of $8 million of net oil and gas revenues in Block 9 during the fourth quarter.

EBITDAX in the fourth quarter of fiscal 2017 decreased compared to $11 million in the fourth quarter of fiscal 2016 primarily due to lower net oil and natural gas revenues in India and a result of the non-recognition of net oil and gas revenues in Block 9, offset by lower production and operating expense.

Net income from continuing operations of $24 million in the fourth quarter of fiscal 2017 decreased compared to $78 million in the fourth quarter of fiscal 2016 primarily due to the impact of lower EBITDAX, offset by the recognition of deferred income tax recovery of $40 million in India related to MAT. In the fourth quarter of fiscal 2016, the Company recognized a reversal of asset impairment of $199 million, which was partially offset by the recognition of deferred income tax expense of $40 million.

Net cash flow of $(5) in the fourth quarter of fiscal 2017 increased from the fourth quarter of fiscal 2016 primarily due to payments for development capital expenditures in India.

Results for the year ended March 31, 2017 for each reportable segment are as follows:

**India**

| (thousands of US Dollars, otherwise indicated) | Three months ended March 31, 2017 | 2016 | Year ended March 31, 2017 | 2016 |
|---|---|---|---|---|
| Sales volumes (MMcfe/d) | 29 | 37 | 30 | 41 |
| Net oil and natural gas revenue | 8,093 | 13,667 | 33,504 | 67,820 |
| Segment EBITDAX(1) | 2,972 | 7,019 | 16,669 | 45,825 |
| Segment income | 25,864 | 159,635 | 25,447 | 74,692 |
| Development capital expenditures | 2,317 | 1,154 | 18,599 | 16,783 |
| Segment net cash flow(1) | (3,322) | 1,210 | (13,083) | (2,155) |

(1) Refer to "Non-IFRS Measures" for details.

Total sales volumes from the D6 Block in fiscal 2017 of 28 MMcfe/d decreased from 39 MMcfe/d in fiscal 2016 primarily due to the impact of natural production declines in the fields in the block, partially offset by incremental production from sidetracks and reactivations during fiscal 2016 and fiscal 2017. Two sidetrack wells in the MA field brought on-stream in October 2016 and January 2017, respectively, contributed approximately 7 MMcfe/d of production for the fourth quarter of fiscal 2017.

Net oil and natural gas revenues decreased in fiscal 2017 compared to fiscal 2016 primarily due to lower natural gas sales volumes and prices. The notified price for gas sales from the D6 Block was $3.06 / MMbtu GCV for April 1, 2016 to September 30, 2016 and $2.50 / MMbtu for October 1, 2016 to March 31, 2017 (compared to $4.66 / MMbtu for April 1, 2015 to September 30, 2015 and $3.82 / MMbtu for October 1, 2015 to March 31, 2016). The notified price for gas sales from the D6 Block for April 1, 2017 to September 30, 2017 is $2.48 / MMbtu.

Segment EBITDAX of $17 million in fiscal 2017 decreased compared to fiscal 2016 primarily due to lower net oil and natural gas revenues, partially offset by the impact of lower production and operating expenses for the D6 Block.

Segment income of $25 million in fiscal 2017 decreased compared to segment income of $75 million in fiscal 2016 primarily due to lower EBITDAX in fiscal 2017 and a reversal of asset impairment of $119 million in fiscal 2016, partially offset by lower depletion expense in fiscal 2017 and a deferred income tax recovery of $40 million recognized in the fourth quarter of fiscal 2017 versus a deferred income tax expense of $40 million in fiscal 2016. Depletion expense decreased in fiscal 2017 compared to fiscal 2016 due to lower production volumes and a lower depletion rate resulting from a change in the depletion calculation for the common facilities of the D6 Block effective April 1, 2016, whereby the costs of common facilities are depleted using the total proved reserves of the D6 Block instead of being depleted using the total proved reserves of producing fields in prior periods.

Development capital expenditures of $19 million in fiscal 2017 primarily related to the development drilling program in the D6 Block in India. Development capital expenditures are expected to increase in fiscal 2018 due to the planned spending for the development of the R-Series gas fields

Segment net cash flow of ($13) million in fiscal 2017 primarily reflected the impact of segment EBITDAX, which was more than offset by payments for development capital expenditures of $22 million, and $11 million of principal and interest repayments on the finance lease related to the FPSO employed in the D6 Block.

In the third quarter of fiscal 2017, the Company signed an asset sale and purchase agreement for the sale of its 33.33 percent interest in the Hazira field in India. Closing of the sale transaction is subject to government and other approvals. The Company's share of sales volumes from the Hazira field in fiscal 2017 of 1.3 MMcfe/d was virtually unchanged from fiscal 2016.

**Bangladesh**

| (thousands of US Dollars, | Three months ended March 31, | | Year ended March 31, | |
|---|---|---|---|---|
| unless otherwise indicated) | 2017 | 2016 | 2017 | 2016 |
| Sales volumes (MMcfe/d)(1) | 58 | 61 | 58 | 62 |
| Net oil and natural gas revenue | - | 6,703 | 10,867 | 26,333 |
| Segment EBITDAX(2) | (1,297) | 5,120 | 4,983 | 17,300 |
| Segment income (loss) | (2,605) | 3,759 | (13,497) | 10,266 |
| Development capital expenditures | 630 | 1,635 | 12,369 | 4,896 |
| Segment net cash flow(2) | (489) | 39 | (490) | 11,241 |

(1) Includes volumes for September 2016 to March 2017 for which revenue has not been recognized (see below).
(2) Refer to "Non-IFRS Measures" for details.

Total sales volumes from Block 9 in fiscal 2017 decreased from fiscal 2016, primarily reflecting the impact of increased delivery pressure requirements of the sales trunkline, partially offset by the impact of a development well that was brought on-stream in late January 2017.

Net oil and natural gas revenues in fiscal 2017 decreased from fiscal 2016 due to lower sales volumes and the non-recognition of $19 million of net oil and gas revenues from September 2016 to March 31, 2017 in Block 9 (refer to discussion on *Non-payments by Petrobangla of Amounts Due* in the Liquidity and Capital Resources section).

Segment EBITDAX of $5 million in fiscal 2017 decreased compared to fiscal 2016 primarily as a result of the non-recognition of net oil and gas revenues, partially offset by lower production and operating expenses.

Segment loss of $(13) million in fiscal 2017 decreased compared to segment income of $10 million in fiscal 2016 primarily as a result of lower segment EBITDAX and the impairment of $13 million of net revenue receivable from Petrobangla, partially offset by lower depletion expense.

Development capital expenditures of $12 million in fiscal 2017 related primarily to costs for the development drilling program in Block 9 in Bangladesh. The drilling of the first of two planned development wells in the Bangora field commenced in September 2016 and this well was brought on-stream in late January 2017. Drilling of the second well is currently under evaluation (refer to discussion on *Non-payments by Petrobangla of Amounts Due* in the Liquidity and Capital Resources section).

Segment net cash flow in fiscal 2017 primarily reflected the non-payment by Petrobangla of amounts due to the Company and non-payment by the Company of cash calls due to the operator for development capital and operating expenditures in Block 9 (refer to discussion on *Non-payments by Petrobangla of Amounts Due* in the Liquidity and Capital Resources section).

**Other**

| (thousands of US Dollars, unless otherwise indicated) | Three months ended March 31, 2017 | 2016 | Year ended March 31, 2017 | 2016 |
|---|---|---|---|---|
| Segment EBITDAX from continuing operations[1] | (1,119) | (1,121) | (4,077) | (6,007) |
| Segment income (loss) from continuing operations | 852 | (85,799) | 254,617 | (140,652) |
| Segment net cash flow from continuing operations[1] | (966) | (1,205) | (12,088) | (37,855) |
| Net income (loss) from discontinued operations | (23) | (337) | (2,148) | (30,108) |
| Net cash flow from discontinued operations[1] | 6 | (45) | (19) | 6,207 |

(1) Refer to "Non-IFRS Measures" for details.

Segment EBITDAX from continuing operations of $(4) million in fiscal 2017 decreased from $(6) million in fiscal 2017, primarily due to lower general and administrative expenses.

Segment income from continuing operations of $255 million in fiscal 2017 increased from a segment loss of $(141) million in fiscal 2016, primarily due to the recognition of gains on debt modification of $283 million due to the Amendments and 2016 Settlement Agreement in fiscal 2017, recognition of liabilities of $54 million for unfulfilled exploration commitments for a PSC in Trinidad in fiscal 2016 and lower finance expenses due to the Amendments in July 2016.

Segment net cash flow from continued operations of ($12) million in fiscal 2017 decreased from ($38) million in fiscal 2016 primarily due to lower repayment of long-term debt and contract settlement obligations (funded partially from the release of restricted cash accounts) and lower payments for restructuring costs and general and administrative expenses.

Net loss from discontinued operations in fiscal 2017 of $(2) million in fiscal 2017 decreased from $(30) million in fiscal 2016 primarily due to recognition of liabilities of $22 million of unfulfilled exploration commitments for three PSCs in Indonesia in fiscal 2016.

Net cash flow from discontinued operations of $6 million in fiscal 2016 reflected receipt of net cash consideration for the sale of subsidiaries that held interests in five Indonesian PSCs in fiscal 2016.

## RECONCILIATION OF NON-IFRS MEASURES

The following tables reconcile the Company's gross revenue to EBITDAX to net income (loss) from continuing operations:

| | Three months ended March 31, 2017 | | | | Three months ended March 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollars, unless otherwise indicated) | India | Bangladesh | Other | Total | India | Bangladesh | Other | Total |
| **Sales volume** | | | | | | | | |
| Natural gas (mcf/d) | 25,948 | 57,130 | - | 83,078 | 33,674 | 59,797 | - | 93,471 |
| Oil and condensate (bbl/d) | 531 | 168 | - | 699 | 569 | 167 | - | 736 |
| Natural gas equivalent (mcfe/d) | 29,136 | 58,135 | - | 87,271 | 37,497 | 61,474 | - | 98,971 |
| Natural gas revenue | 6,591 | - | - | 6,591 | 12,647 | 12,604 | - | 25,251 |
| Crude oil and condensate revenue | 2,360 | - | - | 2,360 | 1,866 | 466 | - | 2,332 |
| Royalties | (815) | - | 4 | (811) | (715) | - | - | (715) |
| Profit petroleum | (43) | - | - | (43) | (131) | (6,367) | - | (6,498) |
| **Net oil and natural gas revenue** | **8,093** | **-** | **4** | **8,097** | **13,667** | **6,703** | **-** | **20,370** |
| Production and operating expenses | (5,121) | (1,297) | - | (6,418) | (6,648) | (1,583) | (3) | (8,234) |
| General and administrative expenses | - | - | (1,668) | (1,668) | - | - | (1,565) | (1,565) |
| Finance and other income | - | - | 1,296 | 1,296 | - | - | 946 | 946 |
| Bank charges and other finance costs | - | - | (11) | (11) | - | - | (12) | (12) |
| Realized foreign exchange loss | - | - | (740) | (740) | - | - | (487) | (487) |
| **EBITDAX from continuing operations(1)** | **2,972** | **(1,297)** | **(1,119)** | **556** | **7,019** | **5,120** | **(1,121)** | **11,018** |
| Cash interest expense | (449) | - | - | (449) | (718) | - | (13,086) | (13,804) |
| Cash restructuring costs | - | - | (55) | (55) | - | - | (1,216) | (1,216) |
| Non-cash production and operating expenses | - | - | - | - | (16) | (1) | - | (17) |
| Depletion and depreciation expenses | (7,426) | (1,090) | - | (8,516) | (6,962) | (1,188) | (54) | (8,204) |
| Exploration and evaluation expenses | 73 | (48) | (53) | (28) | (365) | (18) | (142) | (525) |
| Non-cash restructuring expense | - | - | - | - | - | - | 194 | 194 |
| Asset impairment recovery (loss) | 1 | - | - | 1 | 200,392 | - | (1,045) | 199,347 |
| Unfulfilled exploration commitments expense | - | - | - | - | - | - | (54,180) | (54,180) |
| Share-based compensation expense | - | - | - | - | - | - | (13) | (13) |
| Accretion expense | (705) | (170) | - | (875) | (123) | (154) | (484) | (761) |
| Non-cash finance and other income | 239 | - | - | 239 | 400 | - | 63 | 463 |
| Gain (loss) on derivative | - | - | - | - | - | - | (6,032) | (6,032) |
| Gain on debt modification | - | - | - | - | - | - | - | - |
| Interest due upon repayment | - | - | - | - | - | - | (3,160) | (3,160) |
| Unrealized foreign exchange gain (loss) | - | - | 2,079 | 2,079 | - | - | (5,523) | (5,523) |
| Deferred income tax recovery (expense) | 31,159 | - | - | 31,159 | (39,992) | - | - | (39,992) |
| **Net income (loss) from continuing operations(2)** | **25,864** | **(2,605)** | **852** | **24,111** | **159,635** | **3,759** | **(85,799)** | **77,595** |
| **Net income (loss) from discontinued operations(2)** | **-** | **-** | **(23)** | **(23)** | **-** | **-** | **(337)** | **(337)** |
| **Total net income (loss)** | **25,864** | **(2,605)** | **829** | **24,088** | **159,635** | **3,759** | **(86,136)** | **77,258** |
| **Development capital expenditures** | **(2,317)** | **(630)** | **-** | **(2,947)** | **(1,154)** | **(1,635)** | **-** | **(2,789)** |
| **Segment net cash flow – continuing operations(1)** | **(3,322)** | **(489)** | **(966)** | **(4,777)** | **1,210** | **39** | **(1,205)** | **44** |
| **Segment net cash flow – discontinued operations(1)** | **-** | **-** | **(6)** | **(6)** | **-** | **-** | **(45)** | **(45)** |
| **Total net cash flow** | **(3,322)** | **(489)** | **(972)** | **(4,783)** | **1,210** | **39** | **(1,250)** | **(1)** |

(1) Refer to "Non-IFRS Measures" for details.
(2) Refer to Note 29 of the audited consolidated financial statements for the year ended March 31, 2017 for detailed segment information.

| | Year ended March 31, 2017 | | | | Year ended March 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollars, unless otherwise indicated) | India | Bangladesh | Other | Total | India | Bangladesh | Other | Total |
| **Sales volume** | | | | | | | | |
| Natural gas (mcf/d) | 27,463 | 56,762 | - | 84,225 | 37,598 | 61,430 | - | 99,028 |
| Oil and condensate (bbl/d) | 381 | 170 | - | 551 | 513 | 167 | - | 680 |
| Natural gas equivalent (mcfe/d) | 29,747 | 57,784 | - | 87,531 | 40,790 | 62,605 | - | 103,395 |
| | | | | | | | - | |
| Natural gas revenue | 31,013 | 20,532 | - | 51,545 | 63,555 | 52,095 | | 115,650 |
| Crude oil and condensate revenue | 6,323 | 1,083 | - | 7,406 | 8,583 | 2,712 | - | 11,295 |
| Royalties | (3,452) | - | 14 | (3,438) | (3,631) | - | 17 | (3,614) |
| Profit petroleum | (380) | (10,748) | - | (11,128) | (687) | (28,474) | - | (29,161) |
| **Net oil and natural gas revenue** | **33,504** | **10,867** | **14** | **44,385** | **67,820** | **26,333** | **17** | **94,170** |
| Production and operating expenses | (16,835) | (5,884) | - | (22,719) | (21,995) | (9,033) | (13) | (31,041) |
| General and administrative expenses | - | - | (5,439) | (5,439) | - | - | (8,403) | (8,403) |
| Finance and other income | - | - | 1,901 | 1,901 | - | - | 2,155 | 2,155 |
| Bank charges and other finance costs | - | - | (32) | (32) | - | - | (55) | (55) |
| Realized foreign exchange gain (loss) | - | - | (521) | (521) | - | - | 292 | 292 |
| **EBITDAX from continuing operations[1]** | **16,669** | **4,983** | **(4,077)** | **17,575** | **45,825** | **17,300** | **(6,007)** | **57,118** |
| Cash interest expense | (1,949) | - | (16,584) | (18,533) | (3,140) | - | (50,096) | (53,236) |
| Cash restructuring costs | | | (4,363) | (4,363) | - | - | (8,256) | (8,256) |
| Current income tax expense | - | - | - | - | - | - | (1) | (1) |
| Non-cash production and operating expenses | (5) | - | - | (5) | (75) | (6) | - | (81) |
| Depletion and depreciation expenses | (26,176) | (4,719) | - | (30,895) | (43,831) | (6,561) | (443) | (50,835) |
| Exploration and evaluation expenses | (102) | (257) | (427) | (786) | (1,254) | (18) | (7,048) | (8,320) |
| Non-cash restructuring expense | - | - | - | - | - | - | 548 | 548 |
| Asset impairment recovery (loss) | (1,326) | (13,010) | (494) | (14,830) | 118,761 | - | 1,746 | 120,507 |
| Unfulfilled exploration commitments expense | - | - | - | - | - | - | (54,180) | (54,180) |
| Share-based compensation expense | - | - | (23) | (23) | - | - | (107) | (107) |
| Accretion expense | (2,739) | (494) | (826) | (4,059) | (2,002) | (449) | (9,385) | (11,836) |
| Non-cash finance and other income | 1,083 | - | 407 | 1,490 | 400 | - | 90 | 490 |
| Gain (loss) on derivative | - | - | (36) | (36) | - | - | 4,426 | 4,426 |
| Gain on debt modification | - | - | 283,248 | 283,248 | - | - | - | - |
| Interest due upon repayment | - | - | (3,785) | (3,785) | - | - | (11,521) | (11,521) |
| Unrealized foreign exchange gain (loss) | - | - | 1,577 | 1,577 | - | - | (418) | (418) |
| Deferred income tax recovery (expense) | 39,992 | - | - | 39,992 | (39,992) | - | - | (39,992) |
| **Net income (loss) from continuing operations[2]** | **25,447** | **(13,497)** | **254,617** | **266,567** | **74,692** | **10,266** | **(140,652)** | **(55,694)** |
| **Net income (loss) from discontinued operations[2]** | **-** | **-** | **(2,148)** | **(2,148)** | **-** | **-** | **(30,108)** | **(30,108)** |
| **Total net income (loss)** | **25,447** | **(13,497)** | **252,469** | **264,419** | **74,692** | **10,266** | **(170,760)** | **(85,802)** |
| | | | | | | | | |
| **Development capital expenditures** | **(18,599)** | **(12,369)** | **-** | **(30,968)** | **(16,783)** | **(4,896)** | **-** | **(21,679)** |
| | | | | | | | | |
| **Segment net cash flow – continuing operations[1]** | **(13,083)** | **(490)** | **(12,088)** | **(25,661)** | **(2,155)** | **11,241** | **(37,855)** | **(28,769)** |
| **Segment net cash flow – discontinued operations[1]** | **-** | **-** | **(19)** | **(19)** | **-** | **-** | **6,207** | **6,207** |
| **Total net cash flow** | **(13,083)** | **(490)** | **(12,107)** | **(25,680)** | **(2,155)** | **11,241** | **(31,648)** | **(22,562)** |

(1) Refer to "Non-IFRS Measures" for details.

(2) Refer to Note 29 of the audited consolidated financial statements for the year ended March 31, 2017 for detailed segment information.

## SELECTED ANNUAL INFORMATION

The selected annual information provides comparatives for the three most recently completed financial years:

| | Year ended March 31, | | |
|---|---|---|---|
| (thousands of US Dollars) | 2017 | 2016 | 2015 |
| **Continuing Operations**(1)(2) | | | |
| Basic | | | |
| Net income (loss) | 266,567 | (55,694) | (545,140) |
| Weighted average number of common shares | 94,049,713 | 94,037,970 | 93,634,465 |
| Basic net income (loss) per share | $ 2.83 | $ (0.59) | $ (5.82) |
| Diluted | | | |
| Net income (loss)(4) | 164,821 | (55,694) | (545,140) |
| Weighted average number of common shares(3) | 104,192,191 | 94,037,970 | 93,634,465 |
| Diluted net income (loss) per share | $1.58 | $ (0.59) | $ (5.82) |
| **Discontinued Operations**(1)(2) | | | |
| Basic | | | |
| Net income (loss) | (2,148) | (30,108) | (127,774) |
| Weighted average number of common shares | 94,049,713 | 94,037,970 | 93,634,465 |
| Basic net loss per share | $ (0.02) | $ (0.32) | $ (1.36) |
| Diluted | | | |
| Net income (loss) | (2,148) | (30,108) | (127,774) |
| Weighted average number of common shares(3) | 104,192,191 | 94,037,970 | 93,634,465 |
| Diluted net loss per share | $(0.02) | $ (0.32) | $ (1.36) |
| **Total Assets**(1) | 426,008 | 475,326 | 454,654 |
| **Total Current Liabilities**(1) | 410,130 | 847,824 | 761,894 |
| **Total Long-term Liabilities**(1) | 263,064 | 115,953 | 95,436 |

(1) The results for the three most recently completed financial years were prepared in accordance with IFRS and presented in US Dollars.
(2) The Company discontinued operations in Indonesia and Pakistan in fiscal 2016. Prior years have been restated for comparative purposes.
(3) As at March 31, 2017, the total outstanding Convertible Notes of $114,610,000 are convertible into 10,142,478 shares and was considered dilutive.
(4) The gain on debt modification relating to the Convertible Notes has been adjusted in net income.

Fluctuations in net loss from continuing operations over the last three years primarily reflects the recognition of asset impairment in fiscal 2015 of $270 million primarily related to exploration, development and producing assets in the D6 Block. In fiscal 2016, the Company recognized a reversal of impairment of $120 million for development and producing assets in the D6 Block. The Company recorded unfulfilled exploration commitments expense pertaining to its PSCs in Trinidad in fiscal 2015 and fiscal 2016. Net income from continuing operations in fiscal 2017 was primarily due to recognition of a gain on debt modification of $283 million related to revaluation of the Term Loan, Convertible Notes, deferred obligation and contract settlement obligation.

The declining trend of net loss from discontinued operations over the last three years was primarily related to the reduction of exploration activities in Indonesia. In fiscal 2015 and 2016, the Company recognized liabilities of $117 million and $22 million for unfulfilled exploration commitments in Indonesia respectively.

Total assets over the last three years reflect the recognition of asset impairment in fiscal 2015, partially offset by net reversals of impairment in fiscal 2016. Current liabilities in the past three years reflected the recognition of unfulfilled exploration commitments in Indonesia and Trinidad. Current and long-term liabilities over the past three years also reflect the reclassification from long-term to current of the Term Loan and Convertible Notes in fiscal 2015 and reclassification of the contract settlement obligation from long-term to current in fiscal 2016 as a result of defaults under the terms of the agreements underlying these liabilities. In fiscal 2017, the Term Loan, Convertible Notes, deferred obligation and contract settlement obligation were revalued to its fair value as at March 31, 2017 resulting in a significant reduction to its carrying value as a result of executing the Amendments and the 2016 Settlement Agreement. Upon execution of such agreements, the liabilities were reclassified to long-term.

## SUMMARY OF QUARTERLY RESULTS

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollars) | Mar 31, 2017 | Dec 31, 2016 | Sept 30, 2016 | Jun 30, 2016 | Mar 31, 2016 | Dec 31, 2015 | Sept 30, 2015 | Jun 30, 2015 |
| **Oil and natural gas revenue**(1) | 8,097 | 6,667 | 13,266 | 16,355 | 20,373 | 22,175 | 24,943 | 26,679 |
| **Net income (loss)**(1) | | | | | | | | |
| Continuing operations | 24,111 | 22,972 | 241,135 | (21,651) | 77,600 | (27,213) | (76,426) | (29,655) |
| Discontinuing operations(2) | (23) | (2,061) | (72) | 8 | (338) | 3,512 | (33,631) | 349 |
| Total | 24,088 | 20,911 | 241,063 | (21,643) | 77,262 | (23,701) | (110,057) | (29,306) |
| **Earnings (loss) per share - basic**(1) | | | | | | | | |
| Continuing operations | 0.26 | 0.24 | 2.56 | (0.23) | 0.82 | (0.29) | (0.81) | (0.31) |
| Discontinuing operations(2) | (0.00) | (0.02) | 0.00 | 0.00 | 0.00 | 0.04 | (0.36) | (0.00) |
| Total | 0.26 | 0.22 | 2.56 | (0.23) | 0.82 | (0.25) | (1.17) | (0.31) |
| **Earnings (loss) per share - diluted**(1) | | | | | | | | |
| Continuing operations | 0.23 | 0.22 | 1.34 | (0.21) | 0.82 | (0.29) | (0.81) | (0.31) |
| Discontinuing operations(2) | (0.00) | (0.02) | (0.00) | 0.00 | 0.00 | 0.04 | (0.36) | (0.00) |
| Total | 0.23 | 0.20 | 1.34 | (0.21) | 0.82 | (0.25) | (1.17) | (0.31) |

(1) The results for the eight most recent quarters were prepared in accordance with IFRS and presented in US Dollars.

(2) The Company discontinued operations in Indonesia and Pakistan in the third quarter of fiscal 2016. Prior quarters have been restated for comparative purposes.

Oil and natural gas revenue fluctuated throughout the last eight quarters based on changes in production and price. Production has naturally declined in India, partially offset by development activities in India. Natural gas prices have fluctuated in India reflecting semi-annual price notifications issued by the GOI pursuant to India's Domestic Natural Gas Guidelines (the "Guidelines") issued in October 2014 and effective November 2014, and oil prices in the market have declined since mid-2014. Oil and natural gas revenue for the quarters ended September 30, 2016, December 31, 2016 and March 31, 2017 decreased significantly compared to prior quarters as a result of the non-recognition of gas and condensate sales in Block 9 (refer to *Non-payments by Petrobangla of Amounts Due* in the Liquidity and Capital Resources section). Net income (loss) fluctuated throughout the last eight quarters primarily reflecting the fluctuations in oil and natural gas revenues, interest and accretion expenses from financial restructuring, asset impairments or reversals based on management's estimate of recoverability on the Company's assets, and recognition of liabilities for unfulfilled exploration commitments. For the three months ended September 30, 2016, net income from continuing operations of $241 million resulted primarily from recording a gain on debt modification of $255 million as a result of the Amendments executed with the Company's lenders. For the three months ended December 31, 2016, the Company recognized a $28 million gain on debt modification as a result of the 2016 Settlement Agreement.

**Fourth Quarter Analysis**

For the three months ended March 31, 2017, net income resulted primarily from the recognition of deferred income tax recovery of $40 million related to an extension in the carry-forward period for unutilized MAT credits in India from ten to fifteen years. Refer to Note 26 of the audited consolidated financial statements for the year ended March 31, 2017 for details of MAT.

Refer to the Company's previously issued annual and interim MD&A's, available on SEDAR at www.sedar.com for further information regarding changes in the prior quarters.

## CONTRACTUAL OBLIGATIONS

The following table represents the Company's contractual obligations and other commitments as at March 31, 2017:

| (thousands of US Dollars) | Face Value | Carrying Value | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years |
|---|---|---|---|---|---|---|
| Term loan facilities(1)(2) | 364,087 | 200,748 | - | - | - | 200,748 |
| Convertible notes(1)(3) | 100,392 | 9,463 | - | - | - | 9,463 |
| Finance lease obligations(4) | 14,010 | 14,010 | 9,630 | 4,380 | - | - |
| Contract settlement obligation(5) | 26,057 | 530 | - | - | - | 530 |
| Deferred obligation(6) | 4,904 | - | - | - | - | - |
| Decommissioning obligations(7) | 74,898 | 47,994 | 51 | - | - | 47,943 |
| Exploration work commitments | 273,029 | 273,029 | 270,029 | 3,000 | - | - |
| Total contractual obligations | 857,377 | 545,774 | 279,710 | 7,380 | - | 258,684 |

(1) The Term Loan and Convertible Notes are subject to the terms of the Amendments, the Company is not required to make interest payments (including interest previously owing) under the Facilities Agreement or the Indenture during the term of the Amendments, other than in connection with the Waterfall Distribution.

(2) The Term Loan is recorded in the audited consolidated financial statements for the year ended March 31, 2017 at fair value as a result of a debt modification. The face value of the term loan is $364 million as at March 31, 2017 (including accrued interest).

(3) The Convertible Notes are recorded in the audited consolidated financial statements for the year ended March 31, 2017 at fair value as a result of a debt modification. The face value of the convertible notes is Cdn$134 million (US$100 million converted at the period end exchange rate) as at March 31, 2017 (including accrued interest).

(4) Finance lease obligations are included in the table based on the remaining payments on the charter lease for the floating, production, storage and offloading vessel used in the MA field of the D6 Block.

(5) The contract settlement obligation is recorded in the audited consolidated financial statements for the year ended March 31, 2017 at fair value as a result of a debt modification. The face value of the contract settlement obligation is $26 million as at March 31, 2017 (including accrued interest).

(6) The deferred royalty obligation is recorded in the audited consolidated financial statements for the year ended March 31, 2017 at fair value as a result of a debt modification. The face value of the deferred royalty obligation is $5 million as at March 31, 2017.

(7) Decommissioning obligations are included in the table based on the estimated undiscounted future liability of the Company. Decommissioning obligations excludes the costs related to wells or facilities that were not completed as at March 31, 2017. Site restoration funds totalling $9 million have been set up for certain of these obligations and are reflected in restricted cash.

The total unfulfilled exploration commitment obligation recorded in the audited consolidated financial statements for the year ended March 31, 2017 is $270 million. Exploration work commitments of $129 million in Trinidad and $3 million in Brazil are backed by parent company guarantees. In the Company's review, the parent company guarantees for unfulfilled exploration commitments for the three PSCs in Trinidad have expired subsequent to March 31, 2017. Refer to discussion in *Exploration Subsidiaries* under Liquidity and Capital Resources.

## OUTSTANDING SHARE DATA

In December 2016, 4,000 of Convertible Notes were converted into 353 common shares pursuant to the conversion provision of the Indenture. The Company did not issue any other common shares or securities convertible or exchangeable into common shares.

As at June 15, 2017, the Company has 94,049,967 common shares, 1 preferred share, and 73,333 stock options outstanding.

## OFF BALANCE SHEET ARRANGEMENTS

The Company had no off balance sheet arrangements in place as at March 31, 2017.

## RELATED PARTY TRANSACTIONS

Key management of the Company includes its directors and executive officers (Chief Executive Officer and Chief Financial Officer). In fiscal 2017, the Board of Directors appointed the Chief Operating Officer as Chief Executive Officer. Non-management directors receive an annual fee and participate in the Company's stock option program. The Chief Executive Officer receives a salary, and is eligible for a discretionary bonus under the terms of the employment agreement. The Chief Executive Officer and Chief Financial Officer received a salary, are eligible for an annual bonus and participate in the Company's stock option program. The Company does not have other short-term benefits, defined contribution plans or defined benefit plans and does not provide post-employment benefits.

Key management compensation includes the following:

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Annual fee for non-management directors(1) | 402 | 270 |
| Executive officers – salaries, bonuses and other benefits(1) | 869 | 2,384 |
| | 1,271 | 2,654 |

(1) Amounts are based on cash payments made during the year ended March 31, 2017 and March 31, 2016 respectively.
(2) No share-based payments were made during the year ended March 31, 2017.

## FINANCIAL INSTRUMENTS

The Company is exposed to credit risk, liquidity risk, foreign currency risk and commodity price risk as a part of normal operations. A detailed description of the Company's financial instruments and risk management is included in Note 18 to the audited consolidated financial statements for the year ended March 31, 2017.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and the Vice President, Finance and Chief Financial Officer has assessed the design and effectiveness of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at March 31, 2017. There have been no significant changes in ICFR during the three and twelve months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, ICFR.

## CHANGES IN ACCOUNTING STANDARDS

Accounting pronouncements issued but not yet effective include:

**IFRS 9 – Financial Instruments**
IFRS 9 includes revised requirements for the classification and measurement of financial liabilities and application of the existing derecognition requirements from IAS 39. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. In December 2011, amendments indicated instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 to IFRS 9 on the basis of the entity's date of adoption and if the entity chooses to restate prior periods. In November 2013, amendments to IFRS 9 incorporated its new general hedge accounting model. The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is currently assessing the impact of adopting this new standard on its audited consolidated financial statements.

**IFRS 15 – Revenue from Contracts with Customers**
In May 2014, IASB issued IFRS 15 which replaces IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers" and SIC 31 "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 establishes revenue recognition principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is currently proposed to be effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company is currently assessing the impact of adopting this new standard on its audited consolidated financial statements.

**IFRS 16 – Leases**
In January 2016, IASB issued IFRS 16 – Leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The new standard is effective for periods beginning on or after January 1, 2019. The Company is currently assessing the impact of adopting this new standard on its audited consolidated financial statements.

## 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 audited consolidated financial statements of the Company. In the past financial years, changes to the Indian natural gas pricing formula have materially impacted accounting estimates used in pricing forecasts of oil and natural gas reserves in the D6 Block and asset impairment calculations for the D6 cash generating unit ("CGU").

Significant estimates and judgements made by management are described below.

**Pricing Forecasts**
The Company uses forecasted commodity prices for the assumptions in evaluating oil and gas reserves, asset impairment, fair value of long-term debt and derivatives on deferred obligations. Forecasted commodity prices are based on estimates from reserve evaluators in addition to current applicable gas prices. The gas prices for currently producing fields in the D6 Block in India are to be determined on a semi-annual basis and will be calculated based on a volume weighted average of prices in the US, Canada, Europe and Russia based on the twelve month trailing average price with a lag of three months with deductions for transportation and treatment charges.

In March 2016, the GOI approved a proposal to grant marketing freedom to producers including pricing freedom for the gas to be produced from discoveries in high pressure-high temperature, deepwater and ultra-deepwater areas. The New Guidelines apply to future discoveries as well as existing discoveries which had yet to commence commercial production as of January 1, 2016 (such as existing undeveloped discoveries in the D6 Block in India). The marketing freedom so granted would be capped by a ceiling price arrived at on the basis of landed price of alternative fuels. The landed price-based ceiling will be calculated every six months and applied prospectively for the next six months. The price data used for the calculation of the ceiling price shall be the trailing four quarters data with one quarter lag. The notified ceiling price for the period of April 1, 2016 to September 30, 2016 for gas produced from discoveries in high temperature-high pressure, deepwater, and ultra-deepwater areas that had not commenced production as of January 1, 2016 was $6.61 / MMbtu GCV. The notified gas price ceiling for April 1, 2017 to September 30, 2017 is $5.56 / MMbtu GCV.

The following commodity price estimates were used for the Company's oil and gas reserves:

| Year ending March 31[(2)] | Brent Crude ($/bbl) | India Crude Oil ($/bbl)[(1)] | India NGL ($/bbl)[(1)] | India Natural Gas – Producing Fields ($/MMbtu) | India Natural Gas – Undeveloped Discoveries ($/MMbtu) |
|---|---|---|---|---|---|
| 2018 | 53.78 | 53.18 | 38.48 | 2.69 | 5.96 |
| 2019 | 57.16 | 56.56 | 41.86 | 3.07 | 6.80 |
| 2020 | 61.45 | 60.85 | 46.15 | 3.20 | 7.21 |
| 2021 | 66.43 | 65.83 | 51.13 | 3.33 | 7.75 |
| 2022 | 73.19 | 72.59 | 57.89 | 3.47 | 8.38 |
| 2023 | 78.79 | 78.19 | 63.49 | 3.62 | 9.23 |
| 2024 | 80.35 | 79.75 | 65.05 | 3.83 | 9.94 |
| Thereafter | 2% | 2% | 2% | 7% | 2% |

(1) Crude oil and condensate prices used for India evaluations are benchmarked to the world Brent crude prices.
(2) Block 9 reserves are excluded from the Company's total oil and gas reserves as at March 31, 2017 due to the non-recognition of oil and gas revenues during the fiscal year (refer to discussion on *Non-payments by Petrobangla of Amounts Due* under Liquidity and Capital Resources).

**Oil and Natural Gas Reserves**
Reserve estimates can have a significant effect on net earnings as a result of their impact on the depletion rate, provisions for decommissioning obligations and asset impairments. An independent qualified reserves evaluator estimates the quantity of oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgments. Estimates of economically recoverable oil and gas reserves and future cash flows from those reserves are based on a number of variables and assumptions such as geological interpretation, commodity prices, operation and capital costs and production forecasts, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available, or as economic conditions change.

**Exploration and evaluation assets**
Reclassification and transfer of assets from exploration and evaluation to development and producing assets is based on management's judgement and assessment of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven and

probable reserves, completion of drilling, testing and resource assessments by third party reservoir engineers.

**Depletion, Depreciation and Amortization**
The net carrying value of producing assets are depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved reserves of oil and natural gas reserves. Revisions to reserve estimates and the associated future cash flows could significantly increase or decrease depletion expense charged to net income/loss. Accordingly the impact to the audited consolidated financial statements in future periods could be material. The Company's property, plant and equipment are depreciated based upon estimates of useful lives and salvage values.

**Asset Impairment**
At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired or require a reversal of previously recorded impairments. If any such indication exists, the Company estimates the recoverable amount of the asset. Events and circumstances may change resulting in indicators of impairment in future periods that could result in a material impairment. Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed their recoverable amount, by comparing the relevant costs to the fair value or value in use.

The recoverability of development and producing asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgements and the circumstances. The Company allocates costs to a CGU based on geographic location, shared infrastructure, and common geological and geophysical characteristics. In general, the Company has determined that each PSC constitutes a CGU. In assessing the recoverability of these assets, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value-in-use. The determination of the value-in-use of CGUs requires the use of assumptions and estimates including future commodity prices, quantity of reserves and expected production volumes, asset retirement obligations, future development and production costs, and discount rates. Changes in the assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU.

**Fair Value of Long-Term Debt**
The Company estimates fair value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation at that date of modification of such debt agreements. Subsequently, the Company will mark to market the fair value of the debt upon the occurrence of certain events (such as the trigger of a sale) or when there is a significant change to fair values in the market. Assumptions used when determining fair value includes quoted trading prices of the Convertible Notes, estimated discount rates, and estimated net proceeds under the Waterfall Distribution (refer to Note 2). The difference between the fair value and the carrying value is recognized on the statement of comprehensive income (loss) as a gain on debt modification.

**Decommissioning Obligations**
In accounting for the decommissioning obligation, the Company makes assumptions regarding the timing and the amount of reclamation and abandonment expenditures, inflation and discount rates. The estimates are reviewed at the end of each reporting period.

**Share-Based Compensation**
The fair value of share-based compensation is calculated using the Black-Scholes option pricing model which is based on significant assumptions such as share price volatility, expected life, dividends yields, risk-free interest rates and expected forfeiture rates.

**Income Taxes**
The Company estimates current and deferred income taxes based on interpretation and judgement in applying tax laws in the various jurisdictions in which it operates and pays income taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. Determination of income taxes is subject to measurement uncertainty. Management makes certain judgements in estimating the timing of temporary difference reversals and the realization of deferred tax assets. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

**Contingencies**
Contingencies are subject to measurement uncertainty as the related financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies requires the application of judgements and estimates including the determination of whether a present obligation exists and the reliable estimation of the timing and amount of cash flows required to settle the contingency.

## 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.

- The ability of the Company to continue as a going concern;
- The ability for the strategic plan to be accomplished at all or on a timely basis;
- The Company's ability to comply with the terms under the Term Loan, Convertible Notes, and 2016 Settlement Agreement;
- No assurance that debt or equity financing or cash generated by operations will be sufficient or available to meet obligations for exploration, development, and production of oil and natural gas reserves in the future;
- The Company's ability to meet all of its financing obligations and contractual commitments (including work commitments);
- The Company's ability to fund its operating and capital budgets particularly if the Company is unable to lift a Stay Order issued in Bangladesh pending resolution of certain legal proceedings or otherwise receive amounts due to Niko Block 9 for gas and condensate supplied from the Block 9 PSC;
- The Company's ability to obtain appropriate and timely approvals from government authorities for exploration and development activities;
- Changes in capital markets and uncertainties 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;
- Future oil and natural gas prices are subject to fluctuations in the market including the future long-term natural gas price outlook in India which could result in deferral of development plans, relinquishment of interests and material adverse effect on the Company's operations and financial condition;
- Adverse operating risks associated with the oil and natural gas operations including hazards and injury;
- Credit risk, liquidity risk, foreign currency risk and commodity risk;
- Adverse factors including climate and geographical conditions, weather conditions, environmental and labour disputes;
- Fluctuations in foreign exchange rates that impact the Company's non-US Dollar transactions;
- Changes in taxation policies, taxation laws and interpretations thereof;
- Uncertainties associated with the negotiations with foreign governments and third parties 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.

Additional information related to the Company and its identified risks is included in the Company's AIF for the year ended March 31, 2017 available on SEDAR at www.sedar.com.

A complete description of the potential effects of the Company's contingencies on the Company as at March 31, 2017 are described in Note 32 of the audited consolidated financial statements for the year ended March 31, 2017.

## BASIS OF PRESENTATION

The financial data included in this MD&A is in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as at March 31, 2017. All financial information is presented in thousands of US Dollars unless otherwise indicated.

The term "fiscal 2017" is used throughout the MD&A and in all cases refers to the period from April 1, 2016 through March 31, 2017. The term "fiscal 2016" is used throughout the MD&A and in all cases refers 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.

## NON-IFRS MEASURES

The selected financial information presented throughout this MD&A is prepared in accordance with IFRS, except for "EBITDAX", "Segment EBITDAX", and "Segment Net Cash Flow". These non-IFRS financial measures, which have been derived from the audited consolidated financial statements for the year ended March 31, 2017 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 under IFRS and therefore may not be comparable to similar measures presented by other issuers. The non-IFRS measures are further defined for use throughout this MD&A as follows:

**EBITDAX and Segment EBITDAX**
The Company utilizes EBITDAX and Segment EBITDAX to assess performance and to help determine its ability to fund future capital projects and to repay debt. EBITDAX is defined 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 debt modification, gain or loss on asset disposal, gain or loss on derivatives, asset impairment, share-based compensation expense, restructuring costs, accretion expense, unfulfilled exploration commitment expense and unrealized foreign exchange gain or loss). The most directly comparable measure under IFRS presented in the audited consolidated financial statements to EBITDAX is net income (loss) on the statement of comprehensive income (loss).

**Segment Net Cash Flow**
Segment net cash flow is the change in cash and cash equivalents for each of the Company's reportable segments (India, Bangladesh and Other). The Company utilizes segment net cash flow as a measure to identify the net change in cash and cash equivalents from each of the reportable segment's operating, investing and financing activities (adjusted for items that are related to Corporate including general and administrative costs, finance and other income, foreign exchange, finance expenses, restructuring costs, share-based compensation, gain or loss on derivative, and gain or loss on debt modification). The most directly comparable measure under IFRS presented in the audited consolidated financial statements to segment net cash flow is the statement of cash flows.

## FORWARD LOOKING INFORMATION STATEMENTS

Certain information 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 information". Forward-looking information is frequently characterized by words such as "may", "will", "plans", "expects", "projects", "intends", "believes", "targets", "anticipates", "estimates" "scheduled", "continues", "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), 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 material factors and 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, readers should not place undue reliance on this forward-looking information. Previously disclosed forward looking information are updated for actual results when information is made available or when a withdrawal occurs.

In particular and without limitation, this MD&A contains forward-looking information pertaining to the following:

- the Company's ability to effect a transaction pursuant to a strategic plan;
- the Company's ability to comply with the amended terms of the Facilities Agreement, the Notes and the Indenture Amendment;
- the Company's ability to meet cash requirements of the Company's operating subsidiaries in India and Bangladesh;
- the Company receiving a natural gas price that is competitive with market, particularly in the D6 Block;
- the enforcement of rights under the Convertible Notes, Facilities Agreement and the 2016 Settlement Agreement;
- the Company's plan with respect to future development activities and the timing of these activities;
- the timing and receipt of government approvals;
- sources of funding for the Company's planned operating, investing, and financing cash outflows;
- the Company's ability to meet projected cash flows;
- the Company's expectations of the development of discoveries and capital expenditure programs;
- the Company's ability to satisfy certain contractual obligations;
- the resolution of various legal claims raised against the Company; and

- the potential for asset impairment and recoverable amounts of such assets.

Certain statements in this MD&A constitute forward-looking information. Specifically, this MD&A contains forward looking information relating to the Company's ability to fund its cash requirements over the next several months, the ability of the Company to successfully complete its strategic plan on a timely basis, the Company not being liable in respect of claims made by the GOI and the successful pursuit of legal rights by the Company related to disputes with the Government of Bangladesh and its subsidiary entities. Such forward-looking information is based on a number of risks, uncertainties and assumptions, which may cause actual results or other expectations to differ materially from those anticipated and which may prove to be incorrect. There can be no assurances that the Company will be able to successfully complete its strategic plan on a timely basis or that the Company will be able to meet the goals and purposes of its business plan (including resolving various disputes against governments and others in its favour) or fund its operations over the next several months. The failure to meet or satisfy any of the foregoing is likely to have a material adverse impact on the Company and thereby significantly impair the value of security holders' interest in the Company. Undue reliance should not be placed on forward-looking information. Such forward-looking information reflects the Company's current beliefs and assumptions and is based on information currently available to the Company. This forward-looking information is based on certain key expectations and assumptions, many of which are not within the control of the Company and include expectations and assumptions regarding the future actions of the Company's lenders, future actions of the GOI, future actions of the People's Republic of Bangladesh, Petrobangla or Bapex, whether courts in the People's Republic of Bangladesh will recognize the exclusive jurisdiction of the international tribunals constituted under the Rules of the International Centre for Settlement of Investment Disputes, Niko being able to terminate or otherwise overcome a certain stay order in respect of Block 9 PSC, non-defaulting parties not seeking to require a subsidiary of the Company to withdraw from the Block 9 PSC or JOA, future commodity prices, 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, prevailing 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, the availability and cost of labour and services and general market conditions. The reader is cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results may vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors and such variations may be material. Such risk factors include, but are not limited to: risks related to the ability of the Company to continue as a going concern, risks related to the Company not being able to increase its cash resources, the risks associated with the Company meeting its obligations under the amended Facilities Agreement and successfully completing its strategic plan, risks related to the various legal claims against the Company or its subsidiaries, risks related to non-payments by Petrobangla of amounts due to subsidiaries of the Company, as well as 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, costs and expenses, commodity price and exchange rate fluctuations, government regulation, marketing and transportation risks, environmental risks, competition, the ability to access sufficient capital from internal and external sources, changes in tax, royalty and environmental legislation, the impact of general economic conditions, imprecision of reserve estimates, the lack of availability of qualified personnel or management, stock market volatility, risks associated with meeting all of the Company's financing obligations and contractual commitments (including work commitments), the risks discussed under "Risk Factors" in the Company's AIF for the year-ended March 31, 2017 and in the Company's public disclosure documents, and other factors, many of which are beyond the Company's control. Niko makes no representation that the actual results achieved during the forecast period will be the same in whole or in part as those forecast.

The forward looking information included in this MD&A is expressly qualified in its entirety by this cautionary statement. The forward looking information included herein is made as of the date of this MD&A and Niko assumes no obligation to update or revise any forward looking information to reflect new events or circumstances, except as required by law.

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Niko Resources Ltd.

We have audited the accompanying consolidated financial statements of Niko Resources Ltd., which comprise the consolidated statements of financial position as at March 31, 2017 and March 31, 2016, the consolidated statements of comprehensive income (loss), changes in shareholders' deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

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

*Emphasis of Matter*
Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Niko Resources Ltd.'s ability to continue as a going concern.

(Signed) "KPMG LLP"
Chartered Professional Accountants
Calgary, Canada
June 15, 2017

## AUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (thousands of US Dollars) | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | 11,394 | 37,074 |
| Restricted cash (Note 7) | 8,492 | 21,059 |
| Accounts receivable (Note 8) | 6,071 | 15,165 |
| Inventories (Note 10) | 3,655 | 4,167 |
| | 29,612 | 77,465 |
| Restricted cash (Note 7) | 9,086 | 9,100 |
| Long-term accounts receivable (Note 9) | 6,784 | 6,571 |
| Exploration and evaluation assets (Note 11) | 4,737 | 4,768 |
| Property, plant and equipment (Note 12) | 344,629 | 346,339 |
| Income tax receivable (Note 26) | 31,160 | 31,083 |
| | 426,008 | 475,326 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 13) | 129,199 | 174,200 |
| Unfulfilled exploration commitments obligation (Note 14) | 270,029 | 267,927 |
| Current portion of long-term debt (Notes 2 and 15) | 9,630 | 371,017 |
| Current portion of long-term liabilities (Note 16) | - | 33,165 |
| Current portion of decommissioning obligations (Note 17) | 51 | 290 |
| Current tax payable | 1,221 | 1,225 |
| | 410,130 | 847,824 |
| Decommissioning obligations (Note 17) | 47,943 | 44,711 |
| Long-term debt (Notes 2 and 15) | 214,591 | 14,010 |
| Long-term liabilities (Note 16) | 530 | 17,240 |
| Deferred tax liabilities (Note 26) | - | 39,992 |
| | 673,194 | 963,777 |
| **Shareholders' Deficit** | | |
| Share capital (Note 19) | 1,366,867 | 1,366,867 |
| Contributed surplus | 143,142 | 143,114 |
| Equity component of convertible notes (Note 15(c)) | - | 23,182 |
| Currency translation reserve | 2,147 | 2,147 |
| Deficit | (1,759,342) | (2,023,761) |
| | (247,186) | (488,451) |
| | 426,008 | 475,326 |

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

Approved on behalf of the Board,

(Signed) "William T. Hornaday"
William T. Hornaday
Chief Executive Officer

(Signed) "E. Alan Knowles"
E. Alan Knowles
Chairman of the Audit Committee, Director

## AUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | Year ended March 31, | |
|---|---|---|
| (thousands of US Dollars) | 2017 | 2016 |
| Oil and natural gas revenue (Note 20) | 44,385 | 94,170 |
| Production and operating expenses | (22,724) | (31,122) |
| General and administrative expenses | (5,439) | (8,403) |
| Finance and other income (Note 22) | 3,391 | 2,645 |
| Finance expense (Note 23) | (26,409) | (76,648) |
| Foreign exchange gain (loss) | 1,056 | (126) |
| Depletion and depreciation expenses (Note 12) | (30,895) | (50,835) |
| Exploration and evaluation expenses (Note 21) | (786) | (8,320) |
| Share-based compensation expense | (23) | (107) |
| Restructuring costs (Note 24) | (4,363) | (7,708) |
| Asset impairment (loss) reversal (Note 25) | (14,830) | 120,507 |
| Unfulfilled exploration commitments expense (Notes 14 and 31) | - | (54,180) |
| Gain on derivative (Note 16(a)) | (36) | 4,426 |
| Gain on debt modification (Notes 15 and 16) | 283,248 | - |
| Income (loss) before income tax from continuing operations | 226,575 | (15,701) |
| | | |
| Income tax expense (Note 26) | - | (1) |
| Deferred income tax recovery (expense) (Note 26) | 39,992 | (39,992) |
| Income tax recovery (expense) from continuing operations | 39,992 | (39,993) |
| | | |
| Net income (loss) from continuing operations | 266,567 | (55,694) |
| Net income (loss) from discontinued operations (Note 27) | (2,148) | (30,108) |
| Total net income (loss) and comprehensive income (loss) | 264,419 | (85,802) |
| | | |
| Earnings (loss) per share (Note 28) | | |
| Basic – continuing operations | 2.83 | (0.59) |
| Basic – discontinued operations | (0.02) | (0.32) |
| | 2.81 | (0.91) |
| | | |
| Diluted – continuing operations | 1.58 | (0.59) |
| Diluted – discontinued operations | (0.02) | (0.32) |
| | 1.56 | (0.91) |

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

## AUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT

| (thousands of US Dollars, except number of common shares) | Number of Common shares | Share capital | Contributed surplus | Currency translation reserve | Equity component of convertible notes | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, March 31, 2015 | 94,019,172 | 1,366,605 | 143,299 | 2,147 | 23,232 | (1,937,959) | (402,676) |
| Share-based compensation expense | - | - | (235) | - | - | - | (235) |
| Conversion of convertible notes | 30,442 | 262 | 50 | - | (50) | - | 262 |
| Net loss for the year | - | - | - | - | - | (85,802) | (85,802) |
| Balance, March 31, 2016 | 94,049,614 | 1,366,867 | 143,114 | 2,147 | 23,182 | (2,023,761) | (488,451) |
| Share-based compensation expense | - | - | 28 | - | - | - | 28 |
| Conversion of convertible notes | 353 | - | - | - | - | - | - |
| Derecognition on debt modification (Notes 15 and 16) | - | - | - | - | (23,182) | - | (23,182) |
| Net income for the year | - | - | - | - | - | 264,419 | 264,419 |
| Balance, March 31, 2017 | 94,049,967 | 1,366,867 | 143,142 | 2,147 | - | (1,759,342) | (247,186) |

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

# AUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

| (thousands of US Dollars) | Year ended March 31, 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) from continuing operations | 266,567 | (55,694) |
| Adjustments for: | | |
| Depletion and depreciation expenses | 30,895 | 50,835 |
| Accretion expense | 4,059 | 11,836 |
| Deferred income tax expense (recovery) | (39,992) | 39,992 |
| Unrealized foreign exchange loss (gain) | (1,577) | 418 |
| Asset impairment loss (reversal) (Note 25) | 14,830 | (120,507) |
| Exploration and evaluation write-off (Note 11) | 261 | 150 |
| Share-based compensation expense | 28 | 118 |
| Restructuring costs (recovery) (Note 24) | - | (548) |
| Finance and other income | (1,490) | (490) |
| Gain on derivative (Note 16(a)) | 36 | (4,426) |
| Gain on debt modification (Notes 15 and 16) | (283,248) | - |
| Interest due upon repayment of term loan facilities (Note 15(b)) | 3,785 | 11,521 |
| Unfulfilled exploration commitments expense (Notes 14 and 31) | - | 54,180 |
| Change in non-cash working capital | 8,995 | 48,562 |
| Change in long-term accounts receivable | (636) | (1,508) |
| Cash from operating activities from continuing operations | 2,513 | 34,439 |
| Cash used in operating activities from discontinued operations (Note 27) | (19) | (304) |
| Net cash from operating activities | 2,494 | 34,135 |
| **Cash flows from investing activities:** | | |
| Exploration and evaluation expenditures | (379) | (5,512) |
| Property, plant and equipment expenditures | (30,963) | (22,113) |
| Proceeds from asset sales, net of costs | - | 393 |
| Contribution of restricted cash (Note 7) | (486) | (1,225) |
| Release of restricted cash (Note 7) | 531 | 609 |
| Change in non-cash working capital | 13,999 | (8,067) |
| Repayment of contract settlement obligation (Note 16(b)) | (3,000) | (3,767) |
| Cash used in investing activities from continuing operations | (20,298) | (39,682) |
| Cash from investing activities from discontinued operations (Note 27) | - | 6,511 |
| Net cash used in investing activities | (20,298) | (33,171) |
| **Cash flows from financing activities:** | | |
| Repayment of long-term debt (Note 15) | (20,576) | (37,637) |
| Repayment of long-term liability (Note 16(a)) | - | (889) |
| Release of restricted cash (Note 7) | 12,700 | 15,000 |
| Net cash used in financing activities | (7,876) | (23,526) |
| Change in cash and cash equivalents | (25,680) | (22,562) |
| Cash and cash equivalents, beginning of year | 37,074 | 59,636 |
| Cash and cash equivalents, end of year | 11,394 | 37,074 |

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

# NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Nature of Business

Niko Resources Ltd. (the "Company") is a company incorporated in Alberta, Canada. The address of its registered office and principal place of business is Suite 510, 800 - 6 Avenue SW, Calgary, Alberta, T2P 3G3. The Company is engaged in the exploration, development and production of oil and natural gas primarily in India and Bangladesh. The Company's common shares are traded on the Toronto Stock Exchange under the symbol "NKO".

## 2. Going Concern

*Non-payments by Petrobangla of Amounts Due*

Since June 2016, Bangladesh Oil, Gas and Mineral Corporation ("Petrobangla") has paid reduced amounts to the operator of the Block 9 PSC for invoiced amounts due for gas and condensate supplied from March 2016 to March 2017 pursuant to the Block 9 gas and condensate sales agreements, with the amounts withheld equal to the 60 percent share in the Block 9 PSC held by Niko Exploration (Block 9) Limited ("Niko Block 9") and totalling $31.5 million to date. Niko Block 9 has issued notices of dispute and force majeure under the Block 9 PSC and sales agreements to the Government of Bangladesh ("GOB") and Petrobangla. As the cash flow that was expected to be generated by the Block 9 PSC was targeted to fund the current and projected capital expenditures related to the drilling program in Block 9 in fiscal 2017 as well as other cash requirements of the Company, since late September 2016 Niko Block 9 has not paid cash calls that were due and has been issued default notices by the operator of the Block 9 PSC. Under the terms of the joint operating agreement ("JOA") between the participating interest holders in the Block 9 PSC, during the continuance of a default, the defaulting party shall not have a right to its share of gas and condensate sales proceeds, which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party. In addition, if the defaulting party does not cure a default within sixty days of the default notice, the non-defaulting parties have the option to require the defaulting party to withdraw from the PSC and JOA. To date, the non-defaulting parties have not exercised this option. Refer to Note 32(a)(ii) for further details on this matter.

*Funding of Projected Cash Requirements of the Company*

The Company's cash flow has been negatively impacted by the failure of Petrobangla to comply with its legal obligations as outlined above. As a result, the Company's cash balances as at March 31, 2017 and projected revenues from its assets in India are not expected to be sufficient to fund the projected cash requirements of the Company's assets in India and its other cash requirements over the next several months. However, the Company's cash resources, and therefore its ability to fund its operations, could be positively enhanced by various factors, including the following:

- Receiving payments from Petrobangla of amounts due,
- Executing sale(s) of the Company's interests in its core assets in India and Bangladesh, or
- Obtaining financing for planned development projects in the D6 Block.

No assurance can be made that appropriate steps will be taken, or goals accomplished, in a manner or on a timely basis so as to enhance the Company's cash resources sufficiently. The failure to enhance the Company's cash resources on a timely basis will have a material adverse impact on the ability of the Company to fund its operations.

*Term Loan and Convertible Notes*

In July 2016, the Company executed an amendment (the "Fourth Amendment") to the terms of the Facilities Agreement with its Term Loan Lenders and executed a supplemental indenture to the Indenture governing its Convertible Notes (the "Indenture Amendment") (collectively, the "Amendments"). As a result of the Amendments, the Company is not required to make interest payments (including interest previously owing) under the Facilities Agreement or the Indenture during the term of the Amendments, nor make payments under the deferred obligation, other than in connection with waterfall distributions ("Waterfall Distribution"). The Amendments restrict the Company's ability to utilize potential proceeds from sales of assets and settlements of arbitration and / or tax claims, as any proceeds from these types of transactions will be required to be distributed amongst the lenders under the amended Facilities Agreement, the holders of the Convertible Notes (the "Noteholders") and the Company pursuant to the Waterfall Distribution. The Waterfall Distribution under the Amendments is described in Note 15(b); and, in respect of amounts to be retained by the Company, is subject to the 2016 Settlement Agreement described under "Diamond Settlement" below.

*Diamond Settlement*

In October 2016, Niko executed an agreement (the "2016 Settlement Agreement") with subsidiaries of Diamond Offshore ("Diamond") relating to the settlement of outstanding claims under drilling contracts and the agreement executed in December 2013 (the "2013 Settlement Agreement") (including related judgements granted by courts in Texas and Alberta), in compliance with the terms of the Fourth Amendment. The terms of the 2016 Settlement Agreement are described in Note 16(b).

*Claim from the Government of India in Alleged Migration of Natural Gas Dispute*
In November 2016, the contractor group of the D6 Block in India received a letter from the Government of India ("GOI"), in which the GOI made a claim of approximately $1.55 billion (Niko share $155 million) against the contractor group in respect of gas said to have migrated from neighboring blocks to the D6 Block. Reliance Industries Limited, the operator of the D6 Block, has invoked the dispute resolution mechanism in the PSC and issued a Notice of Arbitration to the GOI, with the arbitration process currently underway. Niko believes the contractor group is not liable for the amount claimed by the GOI and is working with the contractor group to defend against the claim by invoking the dispute resolution mechanism in the PSC.

*Exploration Subsidiaries*
The Company's exploration subsidiaries that previously owned interests in PSCs in Trinidad and Indonesia have significant accounts payable and accrued liabilities (including PSC obligations) and unfulfilled exploration work commitments reflected on the Company's balance sheet as at March 31, 2017. In August 2016, three of the Company's indirect subsidiaries received written notice from the Government of the Republic of Trinidad and Tobago ("GORTT") requesting that unfulfilled exploration work commitments be performed under each of the subsidiaries' respective PSCs within sixty days, failing which the GORTT would terminate the three PSCs and exercise its rights on the parent company guarantees for unfulfilled exploration commitments of $118 million. In May 2017, the Company's indirect subsidiaries received written notices from the GORTT terminating the three PSCs. In the Company's view, the parent guarantees for unfulfilled exploration commitments for the three PSCs have expired.

*Contingent Liabilities*
The Company and its subsidiaries are subject to various claims from other parties, as described in Note 32 and are actively defending against these claims. An adverse outcome on one or more of these claims could significantly impact the future cash flows of the Company.

*Ability of the Company to Continue as a Going Concern*
As a result of the foregoing matters (including the ongoing obligations of the Company and its subsidiaries), there are material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern.

These audited consolidated financial statements for the year ended March 31, 2017 do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize on its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these financial statements.

## 3. Basis of Presentation

*(a) Statement of compliance*

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

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

*(b) Basis of measurement*

The audited consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments as described in sections Notes 4(d) and (l).

*(c) Functional and presentation currency*

The audited consolidated financial statements are presented in US Dollars and all values are rounded to the nearest thousand dollars ($000), except where otherwise indicated.

## 4. Significant accounting policies

*(a) Basis of consolidation*

Subsidiaries are entities controlled by the Company. Control exists when an entity is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The financial statements of subsidiaries are included in the audited consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the audited consolidated financial statements.

*(b) Cash and cash equivalents*

Cash and cash equivalents include cash on hand, amounts on deposit with banks and term deposits.

*(c) Joint arrangements*

The majority of the Company's activities are conducted jointly with others through unincorporated jointly controlled operations. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. The Company accounts for its joint operations in the audited consolidated financial statements by including the proportionate share on a line-by-line basis of its interest in assets, liabilities, revenue and expenses from the date that joint control commences. Those parties who participate in joint operations are referred as joint operating parties in the Company's audited consolidated financial statements.

The following table sets out information of the Company's interests in joint operations as at March 31, 2017:

| **Block**(1) | **Country** | **Working Interest %** |
|---|---|---|
| Block 9 | Bangladesh | 60 |
| D6 | India | 10 |
| Hazira(2) | India | 33.33 |
| Block 4b(3) | Trinidad | 100 |
| NCMA2(3) | Trinidad | 70 |
| NCMA3(3) | Trinidad | 100 |
| PEPB-M-729 | Brazil | 30 |
| PEPB-M-621 | Brazil | 30 |

(1) Inactive and / or relinquished blocks that are subject to government approval are excluded from the table above.

(2) The Company signed an asset sale and purchase agreement in fiscal 2017 for its operating interest in the Hazira Field. Closing of the sale transaction is subject to government approval.

(3) Subsequent to March 31, 2017, the PSC for each respective block were terminated by the GORTT. Refer to Note 2.

*(d) Financial assets*

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value. All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value depending on their classification. The Company classifies financial assets into the following categories: (i) financial assets at fair value through profit or loss; (ii) loans and receivables and held-to-maturity investments and (iii) available-for-sale financial assets.

(i) Financial assets at fair value through profit or loss are measured at fair value with the corresponding gains or losses recognized in profit or loss. The Company classifies cash, cash equivalents and restricted cash as held-for-trading financial assets.

(ii) Loans and receivables and held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired. The Company's loan and receivables includes trade and other current and long-term receivables. The Company does not have any financial instruments classified as held-to-maturity.

(iii) Available-for-sale and held-for-sale financial assets are non-derivative financial assets that are initially recognized at fair value plus transaction costs. Any subsequent gains and losses, except for impairment losses and foreign exchange gains and losses, are recognized in other comprehensive income (loss) and transferred to profit or loss when the asset is derecognized or impaired. The Company does not have any financial assets classified as held-for-sale.

The Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired at the end of each reporting period. Any loss determined is recognized through profit or loss.

*(e) Inventories*

Inventories of stock, spares and consumables are purchased for use in oil and gas operations and are valued at the lesser of cost and net realizable value. The costs of purchase of inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services.

Inventory of oil and condensate is valued at the lower of cost and net realizable value. Cost is comprised of operating expenses that have been incurred in bringing inventories to their present location and condition and the portion of depletion expense associated with the oil and condensate production. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

*(f) Oil and natural gas exploration, development and producing expenditure*

Oil and natural gas exploration and development expenditures are accounted for using the method described below:

(i) Pre-license costs: Pre-licence costs are expensed in the period in which they are incurred.

(ii) Licence and property acquisition costs: Licence and property acquisition costs are capitalized as exploration and evaluation assets.

(iii) Geological and geophysical costs: Geological and geophysical costs are expensed in the period in which they are incurred.

(iv) Exploration and evaluation costs: All costs incurred directly attributable to an exploration well (drilling, testing and evaluating for technical feasibility and commercial viability of extraction) including appraisal and any directly attributable general and administration costs and share-based payments are initially capitalized as exploration and evaluation assets. If hydrocarbons are not found, the accumulated exploration costs are written off as a dry hole. If hydrocarbons that may be capable of commercial development are found, subject to further appraisal activity that may include the drilling of further wells, the costs shall continue to be carried as exploration and evaluation assets. All such carried costs are subject to regular technical, commercial and management review to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off or impaired. If technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a development asset into the cash generating unit to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. If technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in profit or loss.

(v) Development and production assets: Expenditures for development and producing assets including the costs of drilling development wells and the construction of production facilities are capitalized under development assets after technical feasibility and commercial viability of producing hydrocarbons has been demonstrated. Development assets are transferred to producing assets when they are put in use. After recognition as an asset, development and producing assets are carried at cost less any accumulated depletion and impairment losses.

(vi) Farm-outs: The Company may enter into agreements to transfer a portion of its interests in oil and gas properties to third parties. Proceeds from these arrangements are first deducted from any exploration and evaluation, development and producing assets recorded for the assets and any excess is recognized as other income.

*(g) Other property, plant and equipment*

Other property, plant and equipment include buildings, office equipment, furniture and fixtures, and vehicles. These costs are initially recorded at historical cost less accumulated depreciation and impairment losses. Initial costs include expenditures that are directly attributable to the acquisition of the asset. The costs of the day-to-day servicing of the equipment are recognized in profit or loss as incurred.

*(h) Depletion and depreciation*

Exploration and evaluation assets are not amortized prior to the conclusion of appraisal activities.

Development and producing assets are not depleted until production commences. The net carrying value of producing assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved reserves of oil and natural gas. The depletion calculation takes into account the estimated future development costs required to develop the proved reserves.

Proved and probable reserves are estimated using independent reservoir engineering reports and techniques and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Depreciation for finance lease assets is charged based on the unit-of-production method over the life of the total proved reserves.

Depreciation for other property, plant and equipment is recognized in profit or loss on a declining balance method or straight-line method depending on the nature of the asset over the estimated useful lives of each group of property, plant and equipment. Land is not depreciated.

| The estimated useful lives of other property, plant and equipment are: | |
| --- | --- |
| Buildings | 30 years |
| Roads | 10 years |
| Plant and machinery | 10 - 15 years |
| Office equipment, furniture and fittings | 5 - 10 years |
| Computers | 1 - 3 years |
| Vehicles and aircrafts | 8 - 20 years |
| Pipelines | 30 years |

*(i) Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

*(j) Impairment*

The carrying amounts of the Company's exploration and evaluation assets, property, and plant and equipment are tested for impairment at each reporting period when indicators of impairment exist. Indicators are events, changes or circumstances that indicate the carrying value may not be recoverable.

At the end of each reporting period, impairment is assessed at the cash generating unit ("CGU") level. The Company's property, plant and equipment are grouped into CGUs based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. If indicators of impairment exist, the recoverable amount of the CGU is estimated. The recoverable amount is the greater of the asset's fair value less cost to sell and the value-in-use. Fair value, less costs to sell or dispose, is assessed by utilizing market valuation based on an arm's length transaction between active participants. In the absence of such information, fair value less costs to dispose is derived by estimating the discounted future net cash flows. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate.

Impairments are only reversed when there is significant evidence that the impairment no longer exists based on changes in event and circumstances. A reversal in impairment is limited to the extent of what the carrying amount would have been had no impairment been recognized.

*(k) Financial liabilities and equity instruments*

Financial liabilities at fair value through profit or loss are measured at fair value with the corresponding gains or losses recognized in profit or loss. All other financial liabilities are measured at amortized cost using the effective interest method, less any impairment losses. The Company classifies accounts payable, accrued liabilities, unfulfilled exploration commitments obligation, finance lease obligation, contract settlement obligation, tax payable, Convertible Notes and Term Loan as other financial liabilities.

The Convertible Notes are considered a compound instrument as they can be converted to a fixed number of common shares at the option of the holder. The liability component of a compound instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method.

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

A substantial modification of the terms of an existing financial liability or a part of it shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the original financial liability and the new financial liability shall be recognized as a gain or loss on debt modification on the statement of profit or loss.

*(l) Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value through profit or loss and re-measured at their fair value at each subsequent reporting date based on changes in fair value. The Company's deferred obligation is a derivative financial instrument. The fair value of the deferred obligation is based on estimates of production volumes and natural gas prices in the reserve report for the D6 Block as at March 31, 2017, also taking into consideration the Waterfall Distribution. Any gains and losses on the deferred obligation are presented as gain or loss on derivative.

*(m) Leases*

A lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. At the commencement of the lease term, the Company recognizes the finance lease as assets and liabilities in the statements of financial position at the lesser of the fair value of the leased property and the present value of the minimum lease payments. Any initial direct costs of the lessee are added to the amount recognised as an asset.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's policy on borrowing costs. Contingent rents are charged as expenses in the periods in which they are incurred.

An operating lease is a lease other than a finance lease. Lease payments under an operating lease are generally recognised as an expense on a straight-line basis over the lease term.

*(n) Decommissioning obligations*

The PSCs that the Company has entered into include an obligation for abandonment of wells and facilities including removal of all equipment and installations and site restoration, collectively termed decommissioning obligations. Provision is made for the estimated cost of decommissioning obligations for wells drilled, and for equipment or installations upon completion. The provision is capitalized in the relevant asset category.

The provision is estimated using the present value of the estimated future cash outflows required to reclaim, settle and abandon wells and facilities in the future, discounted using the relevant risk free rate. Subsequent to the initial measurement, the obligation is accreted over time to reflect the passage of time and changes in the estimated future cash flows. Accretion expense is included in finance costs recognized in profit or loss. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

*(o) Revenue recognition*

Revenues from the sale of crude oil, condensate and natural gas from properties in which the Company has interests in joint operations are recognized on the basis of the Company's working interest.

Revenues from the sale of crude oil, condensate and natural gas are recorded when the significant risks and rewards of ownership have transferred to the buyer, which is at the delivery point as defined in the various sales contracts and if collection is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable. Revenue recorded is net of value added tax ("VAT"), other sales-related taxes, royalties and the government share of the profit oil and gas as determined under the Company's PSCs.

*(p) Finance income and finance expense*

Finance income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Finance expense comprises (i) interest expense on debt obligations; (ii) accretion on decommissioning obligations, debt obligations and other long-term liabilities; and (iii) bank charges and other finance costs.

*(q) Foreign currency translation*

(i) Foreign operations

The financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency), which is US Dollars for all entities. For the purpose of the audited consolidated financial statements, the results and financial position of each group entity are expressed in US Dollars, which is the presentation currency for the audited consolidated financial statements.

(ii) Foreign transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Exchange differences are recognized in the statement of comprehensive income (loss) in the period in which they arise.

*(r) Share-based payments*

The Company uses the fair value method for recognition of all share-based compensation arrangements. Share-based compensation for options granted to employees and directors, is based on the estimated fair value at the time of the grant. For stock options, the fair value is estimated using the Black-Scholes option-pricing model. Compensation costs are recognized over the vesting period of the stock options. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

*(s) Taxation*

Income tax expense comprises of current tax, minimum alternate tax and deferred tax.

Current tax is the amount of income taxes payable in respect of the taxable profit for the period. Taxable profit differs from profit as reported in the audited consolidated statement of comprehensive income (loss) because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Minimum alternate tax is the amount of tax payable in respect of accounting profits. The Company pays the greater of minimum alternate tax and current tax for blocks in India.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the audited consolidated financial statements and the corresponding tax bases used in the calculation of taxable profit. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences and the carry-forward of unused tax losses and unused tax credits.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint operations, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized as an expense or income in net income, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

*(t) Per share amounts*

Basic per share information is computed by dividing the net income or loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. Diluted per share information is computed by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise Convertible Notes and/or share options granted to employees.

*(u) Segment reporting*

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Company has reportable segments comprised of oil and gas exploration, development and/or production activities within India, Bangladesh, and Other.

*(v) Discontinued Operations*

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and represents either a separate major line of business or a geographical area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or that is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control. Discontinued operations are presented separately in the audited consolidated statements of comprehensive profit or loss, statements of cash flows and respective financial statement notes.

## 5. Critical Accounting Estimates and Judgements

The preparation of the audited consolidated financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions regarding the application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses and unsettled transactions and events as of the date of the audited consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty and actual results may differ from those estimated. Estimates and their underlying assumptions are reviewed on an ongoing basis and revisions to these estimates are made in the year which the estimates are revised and any future years that are impacted. Significant estimates and judgement made by management in the preparation of these audited consolidated financial statements include the following:

**Pricing Forecasts**
The Company uses forecasted commodity prices for the assumptions in evaluating oil and gas reserves, asset impairment, fair value of long-term debt and derivatives on deferred obligations. Forecasted commodity prices are based on estimates from reserve evaluators in addition to current applicable gas prices. The gas prices for currently producing fields in the D6 Block in India are to be determined on a semi-annual basis and will be calculated based on a volume weighted average of prices in the US, Canada, Europe and Russia based on the twelve month trailing average price with a lag of three months with deductions for transportation and treatment charges.

In March 2016, the GOI approved a proposal to grant marketing freedom to producers including pricing freedom for the gas to be produced from discoveries in high pressure-high temperature, deepwater and ultra-deepwater areas. The new guidelines apply to future discoveries as well as existing discoveries which had yet to commence commercial production as of January 1, 2016 (such as existing undeveloped discoveries in the D6 Block in India). The marketing freedom so granted would be capped by a ceiling price arrived at on the basis of landed price of alternative fuels. The landed price-based ceiling will be calculated every six months and applied prospectively for the next six months. The price data used for the calculation of the ceiling price shall be the trailing four quarters data with one quarter lag. The notified ceiling price for the period of April 1, 2016 to September 30, 2016 for gas produced from discoveries in high temperature-high pressure, deepwater, and ultra-deepwater areas that had not commenced production as of January 1, 2016 was \$6.61 / MMbtu GCV. The notified ceiling price for the period of October 1, 2016 to March 31, 2017 was \$5.30 / MMbtu GCV.

The following commodity price estimates were used for the Company's oil and gas reserves:

| Year ending March 31[(2)] | Brent Crude ($/bbl) | India Crude Oil ($/bbl)[(1)] | India NGL ($/bbl)[(1)] | India Natural Gas – Producing Fields ($/MMbtu) | India Natural Gas – Undeveloped Discoveries ($/MMbtu) |
|---|---|---|---|---|---|
| 2018 | 53.78 | 53.18 | 38.48 | 2.69 | 5.96 |
| 2019 | 57.16 | 56.56 | 41.86 | 3.07 | 6.80 |
| 2020 | 61.45 | 60.85 | 46.15 | 3.20 | 7.21 |
| 2021 | 66.43 | 65.83 | 51.13 | 3.33 | 7.75 |
| 2022 | 73.19 | 72.59 | 57.89 | 3.47 | 8.38 |
| 2023 | 78.79 | 78.19 | 63.49 | 3.62 | 9.23 |
| 2024 | 80.35 | 79.75 | 65.05 | 3.83 | 9.94 |
| Thereafter | 2% | 2% | 2% | 7% | 2% |

(1) Crude oil and condensate prices used for India evaluations are benchmarked to the world Brent crude prices.

(2) Block 9 reserves are excluded from the Company's total oil and gas reserves as at March 31, 2017 due to the non-recognition of oil and gas revenues during the fiscal year (refer to Note 2).

**Oil and Natural Gas Reserves**

Reserve estimates can have a significant effect on net earnings as a result of their impact on the depletion rate, provisions for decommissioning obligations, fair value of long-term debt and asset impairments. An independent qualified reserves evaluator estimates the quantity of oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgments. Estimates of economically recoverable oil and gas reserves and future cash flows from those reserves are based on a number of variables and assumptions such as geological interpretation, commodity prices, operation and capital costs and production forecasts, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available, or as economic conditions change.

**Exploration and evaluation assets**

Reclassification and transfer of assets from exploration and evaluation to development and producing assets is based on management's judgement and assessment of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven and probable reserves, completion of drilling, testing and resource assessments by third party reservoir engineers.

**Depletion, Depreciation and Amortization**

The net carrying value of producing assets are depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved reserves of oil and natural gas reserves. Revisions to reserve estimates and the associated future cash flows could significantly increase or decrease depletion expense charged to net income/loss. Accordingly the impact to the audited consolidated financial statements in future periods could be material. The Company's property, plant and equipment are depreciated based upon estimates of useful lives and salvage values.

**Asset Impairment**

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired or require a reversal of previously recorded impairments. If any such indication exists, the Company estimates the recoverable amount of the asset. Events and circumstances may change resulting in indicators of impairment in future periods that could result in a material impairment. Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed their recoverable amount, by comparing the relevant costs to the fair value or value in use.

The recoverability of development and producing asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgements and the circumstances. The Company allocates costs to a CGU based on geographic location, shared infrastructure, and common geological and geophysical characteristics. In general, the Company has determined that each PSC constitutes a CGU. In assessing the recoverability of these assets, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. The determination of the value-in-use of CGUs requires the use of assumptions and estimates including future commodity prices, quantity of reserves and expected production volumes, asset retirement obligations, future development and production costs, and discount rates. Changes in the assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU.

**Fair Value of Long-Term Debt**

The Company estimates fair value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation at that date of modification of such debt agreements. Subsequently, the Company will mark to market the fair value of the debt upon the occurrence of certain events (such as the trigger of a sale) or when there is a significant change to fair values in the market. Assumptions used when determining fair value includes quoted trading prices of the Convertible Notes, estimated discount rates, and estimated net proceeds under the Waterfall Distribution (refer to Note 2). The difference between the fair value and the carrying value is recognized on the statement of comprehensive income (loss) as a gain on debt modification.

**Decommissioning Obligations**
In accounting for the decommissioning obligation, the Company makes assumptions regarding the timing and the amount of reclamation and abandonment expenditures, inflation and discount rates. The estimates are reviewed at the end of each reporting period.

**Share-Based Compensation**
The fair value of share-based compensation is calculated using the Black-Scholes option pricing model which is based on significant assumptions such as share price volatility, expected life, dividends yields, risk-free interest rates and expected forfeiture rates.

**Income Taxes**
The Company estimates current and deferred income taxes based on interpretation and judgement in applying tax laws in the various jurisdictions in which it operates and pays income taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. Determination of income taxes is subject to measurement uncertainty. Management makes certain judgements in estimating the timing of temporary difference reversals and the realization of deferred tax assets. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

**Contingencies**
Contingencies are subject to measurement uncertainty as the related financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies requires the application of judgements and estimates including the determination of whether a present obligation exists and the reliable estimation of the timing and amount of cash flows required to settle the contingency.

## 6. Accounting Pronouncements

Accounting pronouncements issued but not yet effective include:

**IFRS 9 – Financial Instruments**
IFRS 9 includes revised requirements for the classification and measurement of financial liabilities and application of the existing derecognition requirements from IAS 39. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. In December 2011, amendments indicated instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 to IFRS 9 on the basis of the entity's date of adoption and if the entity chooses to restate prior periods. In November 2013, amendments to IFRS 9 incorporated its new general hedge accounting model. The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is currently assessing the impact of adopting this new standard on its audited consolidated financial statements.

**IFRS 15 – Revenue from Contracts with Customers**
In May 2014, IASB issued IFRS 15 which replaces IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers" and SIC 31 "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 establishes revenue recognition principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is currently proposed to be effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company is currently assessing the impact of adopting this new standard on its audited consolidated financial statements.

**IFRS 16 – Leases**
In January 2016, IASB issued IFRS 16 – Leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The new standard is effective for periods beginning on or after January 1, 2019. The Company is currently assessing the impact of adopting this new standard on its audited consolidated financial statements.

## 7. Restricted Cash

| (thousands of US Dollars) | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| *Current portion of restricted cash* | | |
| Term loan facilities reserve accounts(1) | 7,300 | 20,000 |
| Site restoration(2) | 562 | 1,059 |
| Performance security guarantee(3) | 630 | - |
| | 8,492 | 21,059 |
| *Non-current portion of restricted cash* | | |
| Performance security guarantee(3) | - | 630 |
| Site restoration(2) | 9,086 | 8,470 |
| | 9,086 | 9,100 |
| | 17,578 | 30,159 |

(1) Under the terms of the Fourth Amendment of the Term Loan executed in July 2016 the required minimum cash balance of the reserve accounts was reduced to $10.3 million, with further reductions dependent upon the occurrence of specific events. In the third quarter of fiscal 2017, the minimum cash balance was reduced to $7.3 million as a result of the cash settlement under the 2016 Settlement Agreement. Refer to Notes 15(b) and 16(b).

(2) In accordance with the provisions of certain of the Company's PSCs, funds are required to be deposited 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. As at March 31, 2017, current portion of the site restoration funds comprises of $0.6 million relating to the Surat PSC in India, with any excess amount of restricted cash subject to release upon approval of the GOI.

(3) The Company is required to provide funds to support performance security guarantees related to the exploration commitments for certain exploration blocks in Indonesia.

## 8. Accounts Receivable

| (thousands of US Dollars) | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| Oil and gas revenues receivable(1) | 2,118 | 12,612 |
| Receivable from joint operators | 636 | 548 |
| Advances to vendors | 1,305 | 672 |
| Prepaid expenses and deposits | 1,671 | 800 |
| VAT receivable | 178 | 231 |
| Other receivables | 163 | 302 |
| | 6,071 | 15,165 |

(1) Oil and gas revenues receivable from Petrobangla of $13 million were impaired in the second quarter of fiscal 2017 as a result of uncertainty in the collection of amounts withheld by Petrobangla equal to Niko Block 9's share of net natural gas and condensate sales revenue from the Block 9 PSC in Bangladesh for March to August 2016. Refer to Notes 2 and 32(a)(ii).

## 9. Long-term Receivable

| (thousands of US Dollars) | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| Long term receivable | 85 | 790 |
| Gas pool account receivable(1) | 6,699 | 5,781 |
| | 6,784 | 6,571 |

(1) Effective November 2014, the D6 contractor group has been paid the earlier price of $4.20 / MMBtu net calorific value ("NCV") for the production in the D1 D3 fields in the D6 Block and the difference between the higher of the revised price and the $4.20 / MMBtu NCV has been deposited into a gas pool account. Refer to the cost recovery dispute described in Note 32(b)(i). In fiscal 2016, the Company impaired the gas pool account receivable due to the uncertainty of timing regarding resolutions of the cost recovery dispute. For the year ended March 31, 2017, the Company recorded interest income of $0.9 million related to the gas pool account receivable.

## 10. Inventories

| (thousands of US Dollars) | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| Stock, spares and consumables | 3,348 | 3,775 |
| Oil and condensate inventories | 307 | 392 |
| | 3,655 | 4,167 |

## 11. Exploration and Evaluation Assets

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Opening balance | 4,768 | 37,321 |
| Additions | 379 | 5,512 |
| Disposals and other arrangements | - | - |
| Transfers | (149) | (40,124) |
| Expensed | (261) | (150) |
| Reversal of impairment | - | 2,209 |
| Closing balance | 4,737 | 4,768 |

In fiscal 2016, exploration and evaluation costs of $6 million were incurred related to drill stem tests ("DSTs") programs on two discoveries (the "Other Satellites") in the D6 Block. The Company's oil and gas reserves as at March 31, 2016, as evaluated by an independent reserves evaluator, reflected significant undeveloped proved and probable reserves for MJ and Other Satellite discoveries. As a result, the Company recognized a reversal of the impairment of $2 million related to the costs of the initial drilling of the Other Satellites, and reclassified $40 million of costs relating to MJ and Other Satellites exploration and evaluation assets to development. Upon transfer to development assets, the Company completed an impairment test on the D6 CGU as per Note 12(a).

## 12. Property, Plant and Equipment

*(a) Development and producing assets*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| *Cost* | | |
| Opening balance | 1,201,207 | 1,016,047 |
| Additions | 30,687 | 21,635 |
| Transfers from other asset categories | 513 | 40,124 |
| Reversal of impairment | - | 123,401 |
| Closing balance | 1,232,407 | 1,201,207 |
| *Accumulated depletion* | | |
| Opening balance | (873,866) | (824,666) |
| Additions | (29,661) | (49,200) |
| Closing balance | (903,527) | (873,866) |
| Net development and producing assets | 328,880 | 327,341 |

For the evaluation of development and producing assets of the D6 CGU, the Company determines the value in use based on the net present value of the cash flows from each CGU using estimates of total proved plus probable reserves evaluated by independent reserve evaluators along with the associated year end commodity price forecast and estimated market pre-tax discount rates between 12 and 15 percent to consider risks specific to the assets. Refer to the pricing forecast estimates used for impairment in Note 5.

In fiscal 2016, the Company recognized a net reversal of impairment of $123 million to development and producing assets in the D6 CGU. An impairment of $78 million was recorded in the second and third quarters of fiscal 2016 and a reversal of $201 million was recorded in the fourth quarter of fiscal 2016. The reversal primarily resulted from increases in the forecasted future natural gas prices for future natural gas production from existing undeveloped discoveries in the D6 Block in accordance with the New Guidelines issued in March 2016, and due to increases in estimated reserves assigned to the D6 Block by the Company's independent reserve evaluator.

As at March 31, 2017, management identified a trigger for an impairment evaluation for the Block 9 CGU due to withheld payments by Petrobangla for Niko's share of gas and condensate sales from the Block 9 PSC arising from legal disputes between Niko and the GOB, Petrobangla and Bapex. In this situation, it is the opinion of both Deloitte and Niko that reserves associated with Niko's interest in Block 9 can no longer be recognized. If the situation in Bangladesh can be resolved such that payments for the Company's share of Block 9 gas and condensate sales resume, then reserves for Block 9 could again be recognized. The Company has assessed the carrying value of its assets related to Block 9 and determined that no impairment is necessary as the Company's estimate of the expected fair value less costs to sell exceeds the carrying value of these assets. For the evaluation of development and producing assets of Block 9, key assumptions used in determining the fair value less costs to sell included internal estimates of the Company's share of future sales of natural gas and condensate from the Block 9 PSC and the value thereof if the situation in Bangladesh can be resolved (using forecast prices based on Deloitte's benchmark price forecasts as at March 31, 2017), the value of the outstanding amounts owed by Petrobangla for gas sales and condensate since March 2016, and other factors.

Effective April 1, 2016, the Company changed its depletion calculation for the common facilities of the D6 cash generating unit ("CGU"). The cost of these facilities are now depleted over the total proved reserves of the D6 CGU instead of being depleted over the total proved reserves of producing fields in prior periods.

*(b) 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, 2016 | 18,479 | 2,924 | 3,577 | 10,778 | 35,758 |
| Additions | 1 | - | 3 | 90 | 94 |
| Balance, March 31, 2017 | 18,480 | 2,924 | 3,580 | 10,868 | 35,852 |
| *Accumulated depreciation* | | | | | |
| Balance, March 31, 2016 | (11,353) | (1,913) | (3,538) | (10,013) | (26,817) |
| Additions | (416) | (265) | (13) | (540) | (1,234) |
| Balance, March 31, 2017 | (11,769) | (2,178) | (3,551) | (10,553) | (28,051) |
| Net book value, March 31, 2017 | 6,711 | 746 | 29 | 315 | 7,801 |

| (thousands of US Dollars) | Land and buildings | Vehicles, helicopters and aircraft | Office equipment, furniture and fittings | Pipelines | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| Balance, March 31, 2015 | 18,423 | 3,072 | 9,114 | 10,782 | 41,391 |
| Additions | 156 | - | 12 | 3 | 171 |
| Disposals and adjustments | (100) | (148) | (5,549) | (7) | (5,804) |
| Balance, March 31, 2016 | 18,479 | 2,924 | 3,577 | 10,778 | 35,758 |
| *Accumulated depreciation* | | | | | |
| Balance, March 31, 2015 | (10,908) | (1,932) | (8,611) | (9,529) | (30,980) |
| Additions | (545) | (123) | (476) | (491) | (1,635) |
| Disposals and adjustments | 100 | 142 | 5,549 | 7 | 5,798 |
| Balance, March 31, 2016 | (11,353) | (1,913) | (3,538) | (10,013) | (26,817) |
| Net book value, March 31, 2016 | 7,126 | 1,011 | 39 | 765 | 8,941 |

*(c) Capital work-in-progress*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Opening balance | 10,057 | 12,670 |
| Additions | 172 | - |
| Disposals | - | (673) |
| Transfers | (2,281) | 2,672 |
| Impairment | - | (4,612) |
| Closing balance | 7,948 | 10,057 |

## 13. Accounts Payable and Accrued Liabilities

| (thousands of US Dollars) | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| India | 28,422 | 34,161 |
| Bangladesh | 13,516 | 2,577 |
| Indonesia | 62,395 | 62,478 |
| Trinidad | 22,679 | 22,492 |
| Other[(1)] | 2,187 | 52,492 |
| | 129,199 | 174,200 |

(1) As a result of the Amendments in July 2016, $70 million of interest and other amounts payable related to the Term Loan, Convertible Notes and deferred obligation were derecognized. Refer to Notes 15(b), 15(c) and 16(a) for further details.

## 14. Unfulfilled Exploration Commitments Obligation

| (thousands of US Dollars) | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| Indonesia | 141,209 | 139,107 |
| Trinidad | 128,820 | 128,820 |
| | 270,029 | 267,927 |

## 15. Long-term Debt

### *(a) Finance Lease Obligation*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Opening balance | 22,586 | 30,223 |
| Repayments | (8,576) | (7,637) |
| Closing balance | 14,010 | 22,586 |
| Current portion | 9,630 | 8,576 |
| Long-term portion | 4,380 | 14,010 |

The Company recognized a finance lease for the floating, production, storage and offloading vessel ("FPSO") used in the D6 Block in India. The finance lease asset is included in producing properties within property, plant and equipment. The lease has an initial charter period of 3,650 days maturing in August 2018, which is cancellable by paying exit costs. The lease has an option to purchase the leased asset.

### *(b) Term Loan Facilities*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Opening balance | 274,079 | 292,559 |
| Interest transferred from accounts payable and accrued liabilities | 56,972 | - |
| Interest due upon repayment | 3,785 | 12,968 |
| Repayment | (12,000) | (31,448) |
| Gain on debt modification | (122,088) | - |
| Closing balance | 200,748 | 274,079 |
| Current portion | - | 274,079 |
| Long-term portion | 200,748 | - |

In December 2013, the Company entered into a Facilities Agreement with certain institutional investors providing for senior secured Term Loan facilities (see Key Terms of Original Facilities Agreement below).

In July 2016, the Company executed the Fourth Amendment that amended the terms of the Facilities Agreement (see Key Terms of the Fourth Amendment below). As a result of the Fourth Amendment, the Company is not required to make interest payments (including interest previously owing) on the Term Loan, other than in connection with the Waterfall Distribution. Upon execution of the amendment, the Company made a principal repayment of $12 million on the Term Loan and withdrew $9.7 million from a reserve account required under the terms of the amended Facilities Agreement.

Key Terms of Original Facilities Agreement

Prior to July 2016, the key terms under the original Facilities Agreement and related documentation were as follows:

*Specific terms*

- 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, and after contract settlement payments
- Repayment: On September 30, 2017
- Interest: Quarterly cash interest payments at 15 percent per annum; commencing June 2014, additional interest payable upon repayment ("D6 PIK Interest") of 5 percent per annum. Approval from the GOI of the grant of first ranking security over the Company's participating interest in the D6 Block has not been received. If security is provided, the D6 PIK Interest would be reduced by 25 percent.

*Uncommitted D6 facility*

The original Facilities Agreement included a provision for an uncommitted facility that can be funded at the option of any of the lenders if the Company was unable to fund the cash call requirements of the D6 Block. Advances under this facility would be 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. The uncommitted facility was amended under the Fourth Amendment.

*Financial Covenants*

In the original Facilities Agreement, the Company was subject to the following financial covenants:

- 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*

In the original Facilities Agreement, the Company agreed to several other undertakings and covenants, including:

- Maintenance of certain reserve accounts, including:
  - A reserve account for anticipated expenditures in the D6 Block, with a minimum balance that increased over time to the greater of $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 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.
- 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.
- Requirement that, subject to certain exceptions, asset sales be completed at fair market value with at least 90 percent of the consideration received in the form of cash (including assumed liabilities).
- Restrictions on the incurrence of debt, granting of liens, investments and similar transactions.

*Change in Control*

Under the original Facilities Agreement, if a change in control of the Company occurred or the Company's indirect subsidiary, Niko (NECO) Ltd., disposed of any part of its rights in respect of the D6 PSC, the Company shall have made an offer to prepay all of the outstanding principal (plus a 1 percent prepayment fee) and accrued and unpaid interest (including cash interest and D6 PIK interest) within ten days of the change of control. The change in control provision was amended under the Fourth Amendment.

*Deferred Obligation*

As a condition of the original 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 received from the D6 Block in India, commencing April 1, 2015 for a period of seven years. The terms of the deferred obligation were amended under the Fourth Amendment. Refer to Note 16(a).

*Security*

The obligations under the original Facilities Agreement and the deferred obligation 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 with respect to Block 9 in Bangladesh which will become effective upon consent by Petrobangla and the Bangladesh government, 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. Authorization has been received from the Reserve Bank of India and authorization from the GOI has been sought, but not yet granted.

Key Terms of the Fourth Amendment

The key terms of the Fourth Amendment entered into in July 2016 are as follows:

- the Lenders may elect, at any time on or after the second anniversary of the Implementation Date and with 90 days prior written notice, to require the Company to commence a marketing and sale process (a "Sales Process") for its interest in the D6 PSC. Upon the failure of the Company to maintain a minimum cash balance of $5 million, the decision of the D6 contractor group to commit to capitalizing new development projects, or the occurrence of an event of default under the Fourth Amendment (each a "Trigger Event"), the Lenders may require the commencement of the Sales Process prior to the second anniversary of the Implementation Date. At any time, the Company shall have the right to commence a Sales Process in respect of the D6 PSC, Block 9 or any of its other assets;
- extension of the waiver of certain financial covenants and undertakings under the Term Loan;
- waiver of certain covenants of the Company under the Facilities Agreement, including limitations in respect of the conduct of the Company's business as it relates to capital expenditures and other matters;
- limiting the events of default and remedies to certain matters, including the remedies of the Lenders in an event of default to the appointment of a receiver;
- accrual of cash interest under the Term Loan at the previously defined non-default rates of interest (15 percent);
- elimination of the requirements to pay cash interest on the Term Loan during the Hold Period;
- entitlement of the Lenders to additional capitalized interest ("PIK Interest") on the Term Loan calculated on a notional principal amount of $168 million (less any proceeds distributed to the Lenders) at a simple rate of 6 percent per annum;
- a principal repayment of $12 million on the Term Loan on the Implementation Date;
- a reduction in the required minimum cash balance of a reserve account specified in the Facilities Agreement from $20 million to $10.3 million. The funds in this reserve account are restricted to either (i) payment for specified potential expenditures by specified dates, subject to the approval of the majority of the Lenders, or (ii) future distributions in accordance with the waterfall distribution noted below. The required minimum balance was subsequently reduced to $7.3 million after a payment on the contract settlement obligation (refer to Note 16(b));
- a requirement to distribute any net proceeds ("Waterfall Proceeds") of transactions (sales of assets, settlements of insurance, arbitration and/or tax claims, excess operating cash above an agreed cash flow forecast, etc.) to the Lenders, Noteholders and the Company on the following basis (the "Waterfall Distribution"):
    - first tranche of the first $168 million:
        - (i) 100 percent to the Lenders
    - PIK Interest of up to $12 million:
        - (i) 100 percent to the Lenders
    - second tranche of the next US $100 million, on a *pro rata* basis:
        - (i) 62.67 percent to the Lenders,
        - (ii) 29.33 percent to the Noteholders, and
        - (iii) 8.00 percent to be retained by the Company (of which 20 percent is payable to Diamond)
    - third tranche of the next US $120 million, on a *pro rata* basis:
        - (i) 40 percent to the Lenders,
        - (ii) 40 percent to the Noteholders, and
        - (iii) 20 percent to be retained by the Company (of which 20 percent is payable to Diamond)
    - fourth tranche of any proceeds above the Third Tranche, on a *pro rata* basis:
        - (i) 20 percent to the Lenders,
        - (ii) 20 percent to the Noteholders, and
        - (iii) 60 percent to be retained by the Company (of which 20 percent is payable to Diamond, subject to a cap).

  The cumulative proceeds distributed to each of (a) the Lenders shall not exceed the total principal and interest amounts outstanding to the Lenders as at the Implementation Date plus interest accruing at a rate of 15 percent per annum from the Implementation Date plus any amounts owing under the D6 Royalty Agreement plus any PIK Interest, and (b) the Noteholders shall not exceed the total principal and interest outstanding to the Noteholders as at the Implementation Date plus interest accruing at a rate of 7 percent per annum from the Implementation Date. All Waterfall Proceeds retained by the Company will be retained free from the security (and claims for payment) held by the Lenders and Noteholders under the Fourth Amendment and the Indenture (as amended), respectively;
- issuance of a preferred share to the Agent on behalf of the Lenders (refer to note 19(a)); and
- extension of the maturity date of the Term Loan to December 31, 2025.

As a result of the Fourth Amendment, the value of the Term Loan obligation is now primarily dependent of the net proceeds that would be distributed in the future under the Waterfall Distribution mechanism to the Term Loan lenders upon the sale of the assets of the Company and other events, and is therefore highly uncertain.

On the date of the Fourth Amendment, the future cash flows related to the Term Loan were estimated to be substantially less than the carrying value of the Term Loan and related interest payable of a combined $323 million and therefore the Company derecognized the previous carrying value of the Term loan and related interest payable, net of debt closing costs and recognized the Term Loan obligation at its estimated fair value of $201 million, resulting in a gain on debt modification of $122 million. The estimated fair value of the Term Loan was determined using various factors including the estimated fair value of the Convertible Notes (refer to Note 15(c)), estimated discount rates and the corresponding net proceeds that may be payable to the Term Loan lenders under the Waterfall Distribution mechanism.

### *(c) Convertible Notes*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Opening balance | 88,362 | 90,641 |
| Interest transferred from account payable and accrued liabilities | 9,927 | - |
| Conversion of convertible notes | - | (262) |
| Foreign currency translation | (335) | (2,017) |
| Gain on debt modification | (88,491) | - |
| Closing balance | 9,463 | 88,362 |
| Current portion | - | 88,362 |
| Long-term portion | 9,463 | - |

In December 2012, under the original Indenture agreement, the Company issued Cdn$115 million principal amount of convertible unsecured notes that matured on December 31, 2017 and bore interest at 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.

In July 2016, the Company executed the Indenture Amendment that amended the terms of the Convertible Notes. As a result of the Indenture Amendment, the Company is not required to make interest payments (including interest previously owing) on the Convertible Notes, other than in connection with the Waterfall Distribution as described in Note 15(b). See Key Terms of Indenture Amendments below.

The Convertible Notes will be direct senior secured obligations of the Company and will rank equally with one another (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, subordinate only to the indebtedness owing to the Lenders, as more particularly set out in the Intercreditor Agreement.

The Convertible Notes are convertible at the option of each holder into common shares at a conversion price of Cdn$11.30 per share. The Convertible Notes were redeemable at the option of the Company, provided that the Convertible Notes will not be redeemable on or before December 31, 2015. On and after January 1, 2016 and at any time prior to or on the Maturity Date, provided that the Current Market Price at the time of the Redemption Notice is not less than 130 percent of the Conversion Price, the Convertible Notes may be redeemed at the option of the Company, in whole or in part, from time to time, on notice at a Redemption Price equal to their principal amount plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date.

The Convertible Notes are guaranteed by the Company’s subsidiaries, Niko Resources (Cayman) Ltd., Niko (NECO) Ltd. and Niko Exploration (Block 9) Ltd. Each guarantor guarantees that the Convertible Notes shall be paid in accordance with the agreement terms. The guarantees of the Convertible Notes are subordinated to the guarantees provided to the lenders of the Company's Term Loan.

The Convertible Notes are secured by certain assets of the Company and the guarantors, including share pledges of certain key subsidiaries and security over certain bank accounts, but such security is subordinated to the Term Loan such that the Noteholders will have limited rights of enforcement and recourse to such security, which will be subject to the Intercreditor Agreement (as described below).

The indenture provides that an event of default in respect of the Convertible Notes will occur:

- if an event of default occurs or exists under the Facilities Agreement and the Lenders have commenced enforcement actions for breach of contract;
- if the Security ceases to be effective as a result of the deliberate action of the Company and has not been rectified within 30 business days; and
- is caused by a failure to make any payment of Waterfall Proceeds under the terms of the Amendments and which has not been rectified within 15 business days. .

If an event of default in respect of the Convertible Notes has occurred and is continuing, the note trustee may, in its discretion, and shall upon request of holders of not less than 25 percent of the principal amount of Convertible Notes then outstanding, declare the principal of and interest on all outstanding Convertible Notes to be immediately due and payable. In certain cases, the holders of more than 50 percent of the principal amount of the Convertible Notes then outstanding may, on behalf of the holders of all Convertible Notes, waive any event of default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

<u>Key Terms of Indenture Amendments</u>

The key terms of the Indenture Amendments entered into in July 2016 are as follows:

- elimination of the requirements to pay cash interest under the Indenture (as amended) during the Hold Period, including any cash interest that would otherwise be payable on conversion and accrued and unpaid interest as of the Implementation Date, except pursuant to the distribution of Waterfall Proceeds;
- replacement of the events of default under the existing Indenture with events of default limited to those above;
- accrual of cash interest under the Convertible Notes at the previously defined non-default rate of interest (7 percent);
- to provide for the distribution of Waterfall Proceeds to the Noteholders pursuant to the Waterfall Distribution;
- the maturity date of the Convertible Notes will be extended to December 31, 2025;
- the Convertible Notes will be secured by certain assets of the Company and the guarantors as described above;
- elimination of the Company's ability to pay principal or interest in common shares;
- the redemption of the Convertible Notes will require the Agent's consent;
- the Note Trustee will be authorized and directed to execute and deliver the Intercreditor Agreement and the documents that will evidence and give effect to the security under the Indenture (the "Security Documents"); and
- removal of the covenant of the Company under the Indenture requiring the Company to maintain a listing of the Convertible Notes on the Toronto Stock Exchange.

<u>Key Terms of Intercreditor Agreement</u>

The key terms of the Intercreditor Agreement entered into in July 2016 are as follows:

- the Noteholders agree to postpone and fully subordinate payment of the obligations under the Convertible Notes and the security granted to them pursuant to the Indenture Amendments in favour of the Lenders' security and to prior repayment of the Company's obligations to the Lenders, save and except for payments permitted under the Waterfall Distribution;
- the Company, the Noteholders and the Lenders agree that the Company may make, and the Noteholders and the Lenders may accept, payments made in compliance with the Waterfall Distribution;
- the Noteholders agree that until the Lenders have been repaid in full, they will not be entitled to take additional security, demand payment of the obligations under the Convertible Notes, appoint a receiver or initiate insolvency proceedings or take any enforcement action against the assets of the Company;
- to the extent the Noteholders or the Lenders receive any distributions or proceeds from the Company contrary to the provisions of the Fourth Amendment or the Indenture (as amended), such proceeds shall be held in trust and immediately turned over to the party entitled to receive such proceeds under the Waterfall Distribution;
- the Company shall release the Agent under the Facilities Agreement, the Lenders, the Trustee under the Indenture, and the Noteholders (and each of their respective current and former officers, directors, shareholders, unitholders, employees, members, partners, advisors and agents) from liability relating to the actions or omissions of such parties occurring prior to the Implementation Date;
- the Agent and the Lenders shall release the Company, the Guarantors, the Trustee, and the Noteholders (and each of their respective current and former officers, directors, shareholders, unitholders, employees, members, partners, advisors and agents) from liability relating to the actions or omissions of such parties occurring prior to the Implementation Date; and
- the Trustee, on behalf of itself and each of the Noteholders, shall release the Company, the Guarantors, the Agent, and the Lenders (and each of their respective current and former officers, directors, shareholders, unitholders, employees, members, partners, advisors and agents) from liability relating to the actions or omissions of such parties occurring prior to the Implementation Date.

As a result of the Indenture Amendment and the Intercreditor Agreement, the value of Convertible Notes obligation is now primarily dependent of the net proceeds that would be distributed in the future under the Waterfall Distribution mechanism to the holders of the Convertible Notes upon the sale of the assets of the Company and other events, and is therefore highly uncertain.

On the date of the Indenture Amendment, the future cash flows related to the Convertible Notes were estimated to be substantially less than the carrying value of the Convertible Notes and related interest payable of a combined $98 million and therefore the Company derecognized the previous carrying value of the Convertible Notes and related interest payable, net of debt closing costs and recognized the Convertible Notes obligation at its estimated fair value of $10 million, resulting in a gain on debt modification of $88 million. The gain on debt modification also included $23 million related to the amount included in equity pertaining to the conversion feature on the debt. The estimated fair value of the conversion feature on modification was nil. The estimated fair value of the Convertible Notes was determined based on the active trading price of Cdn$11.00 per $100 of Convertible Notes on the date of the Indenture Amendment.

## 16. Long-term Liabilities

### *(a) Deferred Obligation*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Opening balance | 19,423 | 24,644 |
| Accretion | 826 | 2,873 |
| Payment | - | (889) |
| Transfer to/from accounts payable and accrued liabilities | 2,779 | (2,779) |
| Loss (gain) on valuation of derivative | 36 | (4,426) |
| Gain on debt modification | (23,064) | - |
| Closing balance | - | 19,423 |
| Current portion | - | 2,183 |
| Long-term portion | - | 17,240 |

In December 2013, as a condition of the 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. Changes in the valuation of the deferred obligation were reflected on the statement of comprehensive income (loss) as gain or loss on derivative.

In July 2016, the Company executed the Fourth Amendment that amended the terms of the Facilities Agreement including terms of the deferred obligation. As a result of the Fourth Amendment, the Company is not required to make payments (including amounts previously owing) on the deferred obligation, other than in connection with the Waterfall Distribution as described in Note 2, with payments on the deferred obligation under the Waterfall Distributions to be last in priority after all other claims under the Term Loan have been completely satisfied. Given this priority in the Waterfall Distribution hierarchy, the future cash flows related to the deferred obligation on the date of the Fourth Amendment were estimated to be zero and therefore the Company derecognized the previous carrying value of the deferred obligation and related accounts payable of a combined $23 million, resulting in a gain on debt modification of $23 million.

### *(b) Contract Settlement Obligation*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Opening balance | 30,982 | 28,237 |
| Additions | 573 | - |
| Accretion | - | 6,512 |
| Repayments | (3,000) | (3,767) |
| Gain on debt modification | (28,025) | - |
| Closing balance | 530 | 30,982 |
| Current portion | - | 30,982 |
| Long-term portion | 530 | - |

In December 2013, the Company entered into an agreement with Diamond Offshore relating to the settlement of payment obligations and other commitments under the Ocean Monarch and Ocean Lexington drilling contracts. The 2013 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. The outstanding balance was to be paid over subsequent years up to September 30, 2017, subject to early prepayment upon the occurrence of certain events. The amounts due were non-interest bearing.

In October 2016, the Company executed the 2016 Settlement Agreement with subsidiaries of Diamond relating to the settlement of outstanding claims under drilling contracts and the 2013 Settlement Agreement (including related judgements granted by courts in Texas and Alberta), in compliance with the terms of the Fourth Amendment.

Under the 2016 Settlement Agreement, in exchange for full and final mutual releases of outstanding claims under the drilling contracts and the 2013 Settlement Agreement (including related judgements), the Company:

(i) agreed to make future payments to Diamond equal to 20 percent of amounts to be retained by the Company pursuant to the Waterfall Distribution, subject to a cap;
(ii) paid to Diamond a cash settlement amount; and
(iii) assigned to Diamond a portion of potential contingent payments under the previously announced sale agreement for the Company's interest in five Indonesian PSCs.

On the date of the execution of the 2016 Settlement Agreement, the future cash flows were estimated to be substantially less than the carrying value of the contract settlement obligation and related interest payable of a combined $32 million and therefore the Company derecognized the previous carrying value of the contract settlement obligation and related interest payable, net of cash settlement payments and recognized the contract settlement obligation at its estimated fair value of $0.5 million, resulting in a gain on debt modification of $28 million. The estimated fair value of the contract settlement obligation was determined using various factors including the estimated fair value of the Convertible Notes (refer to Note 15(c)), estimated discount rates and the corresponding net proceeds that may be payable to Diamond under the Waterfall Distribution mechanism.

## 17. Decommissioning Obligations

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Opening balance | 45,001 | 44,292 |
| Provisions made during the year | - | - |
| Change in estimate during the year | (167) | (647) |
| Settlement during the year | (73) | (1,095) |
| Accretion | 3,233 | 2,451 |
| Closing balance | 47,994 | 45,001 |
| Current portion | 51 | 290 |
| Long-term portion | 47,943 | 44,711 |

The Company's decommissioning obligations are expected to be settled over a period of approximately one to fifteen years and discounted using a weighted average discount rate of 6 or 10 percent, depending on the block. The Company has estimated the net present value of the decommissioning obligations to be $48 million as at March 31, 2017 (2016 - $45 million) based on an undiscounted total future liability of $75 million (2016 - $76 million). The abandonment program of the Surat block in India has been completed as at March 31, 2017.

In accordance with provisions of its PSCs, funds are required to be deposited in separate accounts for funding of future decommissioning obligations of Hazira, Surat and Block 9. Refer to Note 7.

## 18. Financial Instruments and Risk Management

*(a) Financial Instruments*

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, income tax receivable, accounts payable and accrued liabilities, long-term debt. The fair values of cash and cash equivalents, restricted cash, accounts receivable, income tax receivable, accounts payable and accrued liabilities, approximate their carrying value, unless otherwise noted due to the short-term maturity of these instruments.

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).

As a result of the Amendments executed, the Company determined that the estimated fair value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation were substantially less than the carrying value of these obligations at that date and the difference between the fair value and the carrying value of these was recognized on the statement of comprehensive income (loss) as a gain on debt modification.

The Convertible Notes is classified as a Level 1 financial instrument and the estimated fair value of the Convertible Notes on the date of Indenture Amendment was determined based on the quoted trading price.

The Term Loan is classified as a Level 3 financial instrument and the estimated fair value of the Term Loan on the date of the Fourth Amendment was determined using the estimated fair value of the Convertible Notes, estimated discount rates and the corresponding net proceeds that may be payable to the Term Loan lenders under the Waterfall Distribution mechanism.

The deferred obligation and contract settlement obligation are classified as a Level 3 financial instrument and the estimated fair value of these amounts were determined based on the priority of payments under the Waterfall Distribution mechanism.

The following table compares the face value and fair value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation as at March 31, 2017:

| (thousands of US Dollars) | Face Value[1] | Fair Value |
|---|---|---|
| Term Loan (Note 15(b)) | 364,087 | 200,748 |
| Convertible Notes (Note 15(c)) | 100,392 | 9,463 |
| Deferred obligation (Note 16(a)) | 4,904 | - |
| Contract settlement obligation (Note 16(b)) | 26,057 | 530 |
| | 495,440 | 210,741 |

(1) Includes accrued interest and other amounts owing as at March 31, 2017.

*(b) Credit Risk*

Credit risk is the risk of financial loss if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to its oil and gas receivables with its joint operating partners and purchasers of the Company's production. The Company manages credit risk by entering into sales contract with established creditworthy counterparties and limiting exposure to any one counterparty. The Company is currently subject to credit risk in Bangladesh due to amounts withheld by Petrobangla equal to the Company's share of gas and condensate supplied from the Block 9 PSC. Refer to Notes 2, 6 and 32(a)(ii). As at March 31, 2017, the carrying amount of accounts receivable represents the maximum credit exposure.

*(c) Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages and mitigates its exposure to liquidity risk though its management of cash, debt and capital program by the use of cash flow forecasts.

The carrying values of the financial liabilities as at March 31, 2017 are as follows:

| (thousands of US Dollars) | Carrying amount | < 1 year | > 1 year |
|---|---|---|---|
| Accounts payable and accrued liabilities | 129,199 | 129,199 | - |
| Unfulfilled exploration commitments obligation | 270,029 | 270,029 | - |
| Current taxes payable | 1,221 | 1,221 | - |
| Finance lease obligations[1] | 14,010 | 9,630 | 4,380 |
| Term Loan[2] | 200,748 | - | 200,748 |
| Convertible Notes[2] | 9,463 | - | 9,463 |
| Contract settlement obligation[2] | 530 | - | 530 |
| Decommissioning obligations | 47,994 | 51 | 47,943 |

(1) The carrying value of the finance lease obligation is the fair value of $14 million. The lease payments are $11 million per year (including principal and interest) until August 2018.

(2) The carrying value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation approximately equals the fair value as at March 31, 2017.

*(d) Foreign Currency Risk*

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company holds the majority of its cash balances in US Dollars which is the Company's functional currency. The Company's revenues and majority of capital expenditures are denominated in US Dollars. The Company is exposed to fluctuations between the Indian Rupee against the US Dollar on Indian Rupee denominated financial instruments including cash and cash equivalents, accounts receivable, income tax receivable, accounts payable and deferred tax liability. In addition, the Company is subject to fluctuations in the value of the Euro compared to the US Dollar, as applicable to certain vendor payables for its subsidiary in India. The Company's corporate operations is exposed to fluctuations in the value of the Canadian Dollar against the US Dollar on Canadian denominated financial instrument including cash and cash equivalents, accounts payable and accrued liabilities and Convertible Notes. As at March 31, 2017, the Company does not have forward exchange rate contracts in place to mitigate foreign currency risk.

In respect of financial instruments existing at March 31, 2017, a 1 percent strengthening or weakening of the Indian Rupee against the US Dollar with all other variables assumed constant, would have resulted in a decrease or increase, respectively, of $0.5 million in the statement of comprehensive income (loss) for the year ended March 31, 2017. In respect of financial instruments existing at March 31, 2017, a 1 percent strengthening or weakening of the Canadian Dollar against the US Dollar with all other variables assumed constant, would have resulted in a decrease or increase, respectively, of $0.1 million in the statement of comprehensive income (loss) for the year ended March 31, 2017.

*(e) Commodity Price Risk*

Commodity price risk is the risk that the fair value of future cash flows may have potential adverse impact due to changes in commodity prices. Commodity prices for oil and natural gas are impacted by global economic events that dictate the level of supply and demand as well as the relationship between the Canadian and US Dollar. Crude oil prices are subject to fluctuation and volatility as evident in today's market. A US$10.00/bbl increase or decrease in crude oil would respectively increase or decrease net cash flow for the year ended March 31, 2017 by $2 million, net of the impact on royalty and profit petroleum as applicable.

As per the natural gas pricing formula, the gas price on currently producing fields in the D6 Block are determined on a semi-annual basis. Prices are calculated based on a volume weighted average of prices in the US, Canada, Europe and Russia based on the twelve month trailing average price with a lag of three months, with deductions for transportation and treatment charges. A US$0.10/mcf increase or decrease in natural gas in the D6 Block would respectively increase or decrease net cash flow for the year ended March 31, 2017 by $0.9 million, net of the impact on royalty and profit petroleum as applicable.

As at March 31, 2017, the Company has not entered into any contracts to hedge against commodity price risk.

*(f) Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has minimum exposure to interest rates. As at March 31, 2017, the Company has not entered into any contracts to hedge against interest rate risk.

**19. 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.

In connection with the execution of the Fourth Amendment, the Company issued one preferred share during fiscal 2017. The preferred share was issued to the Agent, on behalf of the Lenders, and has the following terms: (i) one vote, (ii) the right to nominate for election up to two persons to the Board, (iii) an annual preferential cumulative dividend, if declared by the Board, at the rate of 0.00001% per annum on the redemption price of Cdn$1.00, and (iv) in the event of the liquidation, dissolution or winding-up of the Company distribution of capital of Cdn$1.00, in priority to the holders of the common shares of the Company.

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

Under the Company's share option plan, the Company has reserved 9,404,997 common shares for granting stock options to directors, officers, and employees. From the date of grant, the options vest immediately to five years and expire from one to six years. All stock options are settled in equity.

Stock option transactions for the respective periods were as follows:

| | Year ended March 31, 2017 | | Year ended March 31, 2016 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (Cdn$) | Number of options | Weighted average exercise price (Cdn$) |
| Opening balance | 1,199,067 | 20.20 | 2,241,431 | 20.00 |
| Forfeited | (3,749) | 26.88 | (321,452) | 29.96 |
| Expired | (1,061,280) | 21.74 | (720,912) | 15.24 |
| Closing balance | 134,038 | 7.78 | 1,199,067 | 20.20 |
| Exercisable | 134,038 | 7.78 | 1,063,946 | 21.76 |

**20. Revenue**

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Natural gas sales | 51,545 | 115,650 |
| Oil and condensate sales | 7,406 | 11,295 |
| Less: | | |
| Royalties | (3,437) | (3,614) |
| Government's share of profit petroleum | (11,129) | (29,161) |
| Net oil and natural gas revenue | 44,385 | 94,170 |

Since late September 2016, Niko Block 9 has not paid cash calls that were due and has been issued default notices by the operator of the Block 9 PSC. Under the terms of the JOA between the participating interest holders in the Block 9 PSC, during the continuance of a default, the defaulting party shall not have a right to its share of gas and condensate sales proceeds, which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party. As a result, the Company has not recognized $19 million of net oil and gas revenue that it otherwise would have been entitled to from September 2016 to March 2017. Refer to Notes 2 and 32(a)(ii) for further discussion of non-payments by Petrobangla of amounts due.

Recorded revenues for Niko Block 9's working interest share of gas and condensate deliveries from April 2016 to August 2016 from the Block 9 PSC to Petrobangla in Bangladesh represented 37 percent of the Company's gross revenues for the year ended March 31, 2017 (2016 – 43 percent).

**21. Exploration and Evaluation Expenses**

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Geological and geophysical | 98 | 419 |
| Exploration and evaluation | 261 | 1,135 |
| General and administrative | 261 | 1,446 |
| Annual financial obligations | 166 | 5,293 |
| Share-based compensation | - | 27 |
| Exploration and evaluation | 786 | 8,320 |

**22. Finance and Other Income**

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Finance income | 1,479 | 724 |
| Other income | 1,912 | 1,921 |
| Finance and other income | 3,391 | 2,645 |

### 23. Finance Expense

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Interest expense | 22,318 | 64,757 |
| Accretion expense | 4,059 | 11,836 |
| Bank charges | 32 | 55 |
| Finance expense | 26,409 | 76,648 |

As a result of the Amendments in July 2016, the Company is not required to make interest payments on the Term Loan or the Convertible Notes, other than in connection with Waterfall Distributions. Refer to Notes 15(b) and (c) for further details. As a result, effective July 2016, the Company has not recognized interest expense on the Term Loan and the Convertible Notes.

### 24. Restructuring Costs

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Severance | 1,824 | 1,170 |
| Advisory costs | 1,966 | 6,640 |
| Share-based compensation expense (recovery) | - | (353) |
| Other | 573 | 251 |
| Restructuring costs | 4,363 | 7,708 |

### 25. Asset Impairment (Loss) Reversal

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Exploration and evaluation | - | 2,209 |
| Development and producing assets | - | 123,401 |
| Other plant, property and equipment | - | - |
| Capital inventory | - | (4,612) |
| Operating inventory | - | (993) |
| Other receivables(1) | (14,830) | 502 |
| Total asset impairment (loss) reversal | (14,830) | 120,507 |

(1) Oil and gas revenues receivable from Petrobangla of $13 million were impaired during fiscal 2017 as a result of uncertainty in the collection of amounts withheld by Petrobangla equal to Niko Block 9's share of net natural gas and condensate sales revenue from the Block 9 PSC in Bangladesh for March to August 2016. Refer to Notes 2, 8 and 32(a)(ii).

### 26. Taxes

*(a) Income tax recovery (expense)*

The Company is subject to tax on income earned in India. India's federal tax law contains a tax holiday deduction for seven years for profits from the commercial production of mineral oil. The Company is subject to current tax of the greater of 43.26 percent of taxable income in India after a deduction for the tax holiday or a minimum alternate tax of 20 percent of Indian income. Indian income is calculated in accordance with Indian Generally Accepted Accounting Principles. Refer to the application of the tax holiday provisions in contingency Note 32(d).

The Company is not subject to tax on income earned in Bangladesh as it is indicated in the terms of the PSC that the Government of Bangladesh shall pay income taxes on behalf of the contractor.

The Company is subject to tax on income earned in the other jurisdictions in which it operates, however the Company does not have oil and gas revenues in these jurisdictions. Income items taxed include interest income and capital gains. Income tax on these items was not significant during the year.

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Current tax expense | - | (1) |
| | | |
| Origination and reversal of temporary differences | 39,992 | (39,992) |
| Deferred income tax recovery (expense) | 39,992 | (39,992) |
| | | |
| Total | 39,992 | (39,993) |

*(b) Reconciliation of effective tax rate*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Income (loss) for the year | 264,419 | (85,802) |
| Total tax (expense) recovery | 39,992 | (39,993) |
| Income (loss) excluding tax | 224,427 | (45,809) |
| Tax using the Company's domestic tax rate (27 percent) | 60,595 | (11,396) |
| Share-based compensation expensed | 7 | (27) |
| Income subject to tax holiday | - | 4,909 |
| Income exempt from tax | 5,199 | (1,759) |
| Adjustment to foreign statutory tax rates | 3,586 | (9,811) |
| Foreign tax credits | - | (1,247) |
| Other non-deductible expenses | 2,582 | 568 |
| Unrecognized deferred tax asset | (103,404) | 40,298 |
| Prior year adjustments | 576 | 10,726 |
| Other | (9,133) | 7,732 |
| Total | (39,992) | 39,993 |

*(c) Unrecognized deferred tax assets*

Deferred tax assets have not been recognized in respect of the following temporary differences:

| (thousands of US Dollars) | As at March 31, 2017 | As at March 31, 2016 |
|---|---|---|
| Deductible temporary differences | 96,342 | 222,749 |
| Minimum alternate tax credit | 13,147 | - |
| Capital tax losses | 42,959 | 31,663 |
| Non-capital tax losses | 110,784 | 365,185 |
| | 263,232 | 619,597 |

The deductible temporary differences do not expire. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom. The Canadian capital tax losses do not expire. The Canadian non-capital tax losses of $329 million will expire between fiscal 2027 and fiscal 2037.

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

*(d) Recognized deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| (thousands of US Dollars) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Property, plant and equipment | - | - | (83,432) | (79,305) | (83,432) | (79,305) |
| Decommissioning obligations | 15,582 | 14,397 | - | - | 15,582 | 14,397 |
| Capital lease obligation | 6,061 | 9,770 | - | - | 6,061 | 9,770 |
| Convertible debentures | - | - | (28,122) | (2,069) | (28,122) | (2,069) |
| Term loan | - | - | (30,794) | - | (30,794) | - |
| Minimum alternative tax | 32,663 | - | - | - | 32,663 | - |
| Unused losses | 88,042 | 17,215 | - | - | 88,042 | 17,215 |
| Tax assets / (liabilities) | 142,348 | 41,382 | (142,348) | (81,374) | - | (39,992) |

Movements in deferred tax balances during the year are as follows:

| (thousands of US Dollars) | As at March 31, 2016 | Recognized in profit or loss | As at March 31, 2017 |
|---|---|---|---|
| Property, plant and equipment | (79,305) | (4,127) | (83,432) |
| Decommissioning obligations | 14,397 | 1,185 | 15,582 |
| Capital lease obligation | 9,770 | (3,709) | 6,061 |
| Convertible debentures | (2,069) | (26,053) | (28,122) |
| Term loan | - | (30,794) | (30,794) |
| Minimum alternative tax | - | 32,663 | 32,663 |
| Unused losses | 17,215 | 70,827 | 88,042 |
| Tax liabilities | (39,992) | 39,992 | - |

In fiscal 2017, an extension was granted in the carry-forward period for unutilized Minimum Alternative Tax (“MAT”) credits in India from ten to fifteen years. The Company’s MAT credit totalling $46 million was offset against the Company’s deferred tax liability resulting in a deferred income tax recovery of $40 million for the year ended March 31, 2017.

## 27. Discontinued Operations

In fiscal 2016, the Company reclassified the Indonesia and Pakistan operating segments as discontinued operations. Net loss from discontinued operations for the years ended March 31, 2017 and 2016 is as follows:

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Other income | - | 736 |
| Expenses | | |
| Foreign exchange loss | (27) | (82) |
| Other expenses | (38) | (223) |
| Restructuring costs | 20 | (733) |
| Asset impairment loss | - | (7,592) |
| Unfulfilled exploration commitments expense | (2,103) | (22,214) |
| Net loss from discontinued operations | (2,148) | (30,108) |

Discontinued operations reported in the audited consolidated statements of cash flows are as follows:

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Cash flow used in operating activities | (19) | (304) |
| Cash flow from investing activities | - | 6,511 |
| Cash flow from financing activities | - | - |

## 28. Per Share Amounts

| (thousands of US Dollars, except number of common shares) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| **Continuing Operations** | | |
| Basic | | |
| Net income (loss) | 266,567 | (55,694) |
| Weighted average number of common shares | 94,049,713 | 94,037,970 |
| Basic net income (loss) per share | 2.83 | (0.59) |
| | | |
| Diluted | | |
| Adjusted net income (loss)[2] | 164,821 | (55,694) |
| Weighted average number of common shares[1] | 104,192,191 | 94,037,970 |
| Diluted net income (loss) per share | 1.58 | (0.59) |
| | | |
| **Discontinued Operations** | | |
| Basic | | |
| Net loss | (2,148) | (30,108) |
| Weighted average number of common shares | 94,049,713 | 94,037,970 |
| Basic net loss per share | (0.02) | (0.32) |
| | | |
| Diluted | | |
| Net loss | (2,148) | (30,108) |
| Weighted average number of common shares[1] | 104,192,191 | 94,037,970 |
| Diluted net loss per share | (0.02) | (0.32) |

(1) As at March 31, 2017, the total outstanding Convertible Notes of $114,610,000 are convertible into 10,142,478 shares and were considered dilutive.
(2) The gain on debt modification relating to the Convertible Notes has been adjusted in net income.
(3) For the year ended March 31, 2017 and March 31, 2016, stock options were excluded from the earnings per share calculation of diluted earnings as these options were anti-dilutive.

## 29. Segmented Information

*(a) Revenues from reportable segments*

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Natural gas sales | | |
| India | 31,013 | 63,555 |
| Bangladesh | 20,532 | 52,095 |
| Oil and condensate sales | | |
| India | 6,323 | 8,583 |
| Bangladesh | 1,083 | 2,712 |
| Total oil and natural gas revenue | 58,951 | 126,945 |

*(b) Capital additions from reportable segments*

| (thousands of US Dollars) | Year ended March 31, 2017 | | Year ended March 31, 2016 | |
|---|---|---|---|---|
| Continuing Segments | Exploration and evaluation assets | Property, plant and equipment | Exploration and evaluation assets | Property, plant and equipment |
| Bangladesh | - | 12,369 | 50 | 4,896 |
| India | - | 18,584 | 5,462 | 16,702 |
| Total | - | 30,953 | 5,512 | 21,598 |

*(c) Segmented assets*

| (thousands of US Dollars) | As at March 31, 2017 | | | As at March 31, 2016 | | |
|---|---|---|---|---|---|---|
| Segment | Total Exploration and evaluation assets | Total Property, plant and equipment | Total Assets | Total Exploration and evaluation assets | Total Property, plant and equipment | Total Assets |
| Bangladesh | 4,737 | 28,740 | 35,327 | 4,768 | 21,090 | 36,968 |
| India | - | 315,889 | 378,537 | - | 325,249 | 400,029 |
| Other | - | - | 67 | - | - | 939 |
| Corporate | - | - | 11,447 | - | - | 35,014 |
| | 4,737 | 344,629 | 425,378 | 4,768 | 346,339 | 472,950 |
| Discontinued | - | - | 630 | - | - | 2,376 |
| Total | 4,737 | 344,629 | 426,008 | 4,768 | 346,339 | 475,326 |

*(d) Segment income (loss) from reportable segments*

| | Year ended March 31, 2017 | | | | Year ended March 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollar) | India | Bangladesh | Other | Total | India | Bangladesh | Other | Total |
| Natural gas revenue | 31,013 | 20,532 | - | 51,545 | 63,555 | 52,095 | - | 115,650 |
| Crude oil and condensate revenue | 6,323 | 1,083 | - | 7,406 | 8,583 | 2,712 | - | 11,295 |
| Royalties | (3,452) | - | 14 | (3,438) | (3,631) | - | 17 | (3,614) |
| Profit petroleum | (380) | (10,748) | - | (11,128) | (687) | (28,474) | - | (29,161) |
| **Net oil and natural gas revenue** | **33,504** | **10,867** | **14** | **44,385** | **67,820** | **26,333** | **17** | **94,170** |
| Production and operating expenses | (16,840) | (5,884) | - | (22,724) | (22,070) | (9,039) | (13) | (31,122) |
| General and administrative expenses | - | - | (5,439) | (5,439) | - | - | (8,403) | (8,403) |
| Finance and other income | 1,083 | - | 2,308 | 3,391 | 400 | - | 2,245 | 2,645 |
| Finance expense | (4,688) | (494) | (21,227) | (26,409) | (5,142) | (449) | (71,057) | (76,648) |
| Foreign exchange gain (loss) | - | - | 1,056 | 1,056 | - | - | (126) | (126) |
| Depletion and depreciation expenses | (26,176) | (4,719) | - | (30,895) | (43,831) | (6,561) | (443) | (50,835) |
| Exploration and evaluation expenses | (102) | (257) | (427) | (786) | (1,254) | (18) | (7,048) | (8,320) |
| Share-based compensation expense | - | - | (23) | (23) | - | - | (107) | (107) |
| Restructuring costs | - | - | (4,363) | (4,363) | - | - | (7,708) | (7,708) |
| Asset impairment (loss) recovery | (1,326) | (13,010) | (494) | (14,830) | 118,761 | - | 1,746 | 120,507 |
| Unfulfilled exploration commitments expense | - | - | - | - | - | - | (54,180) | (54,180) |
| Gain (loss) on derivative | - | - | (36) | (36) | - | - | 4,426 | 4,426 |
| Gain on debt modification | - | - | 283,248 | 283,248 | - | - | - | - |
| Deferred income tax recovery (expense) | 39,992 | - | - | 39,992 | (39,992) | - | - | (39,992) |
| Current income tax expense | - | - | - | - | - | - | (1) | (1) |
| **Net segment income (loss) from continuing operations** | **25,447** | **(13,497)** | **254,617** | **266,567** | **74,692** | **10,266** | **(140,652)** | **(55,694)** |
| **Net segment loss from discontinued operations** | **-** | **-** | **(2,148)** | **(2,148)** | **-** | **-** | **(30,108)** | **(30,108)** |
| **Total net income (loss) and comprehensive income (loss)** | **25,447** | **(13,497)** | **252,469** | **264,419** | **74,692** | **10,266** | **(170,760)** | **(85,802)** |

## 30. Related party transactions

Key management of the Company includes its directors and executive officers (Chief Executive Officer and Chief Financial Officer). In fiscal 2017, the Board of Directors appointed the Chief Operating Officer as Chief Executive Officer. Non-management directors receive an annual fee and participate in the Company's stock option program. The Chief Executive Officer receives a salary, and is eligible for a discretionary bonus under the terms of the employment agreement. The Chief Executive Officer and Chief Financial Officer received a salary, are eligible for an annual bonus and participate in the Company's stock option program. The Company does not have other short-term benefits, defined contribution plans or defined benefit plans and does not provide post-employment benefits.

Key management compensation includes the following:

| (thousands of US Dollars) | Year ended March 31, 2017 | Year ended March 31, 2016 |
|---|---|---|
| Annual fee for non-management directors(1) | 402 | 270 |
| Executive officers – salaries and bonuses(1) | 869 | 2,384 |
| | 1,271 | 2,654 |

(1) Amounts are based on cash payments made during the year ended March 31, 2017 and March 31, 2016 respectively.
(2) No share-based payments were made during the year ended March 31, 2017.

## 31. Commitments and contractual obligations

*(a) Exploration commitments*

| | As at March 31, 2017 |
|---|---|
| Indonesia(1) | 141,209 |
| Trinidad(1)(2) | 128,820 |
| Brazil(3) | 3,000 |
| | 273,029 |

(1) Amounts have been recognized as unfulfilled exploration commitments as at March 31, 2017. Refer to Note 14.In May 2017, the Company's indirect subsidiaries received written notices from the GORTT terminating three PSCs in Trinidad. In the Company's view, the parent company guarantees for unfulfilled exploration commitments for the three PSCs have expired. Refer to Note 2.
(2) Exploration commitments in Brazil are backed by parent company guarantees.

*(b) Finance lease obligation*

The future minimum lease payments of the Company's FPSO finance lease used in the D6 Block in India are as follows. Refer to Note 15(a) for details.

| | As at March 31, 2017 |
|---|---|
| <1 year | 10,757 |
| 1 - 5 years | 4,509 |
| Subtotal | 15,266 |
| Imputed interest | (1,256) |
| Carrying value | 14,010 |

## 32. Contingent liabilities

*(a)* (i) *ICSID Arbitration Disputes - Bangladesh*

NRBL is a party to two arbitration disputes to be decided upon by Tribunals constituted under the rules of ICSID.

1. "Payment Claim": Dispute over payment for gas delivered from the Feni field from November 2004 to April 2010 under the Feni GPSA with Petrobangla.
2. "Compensation Claim": Dispute over compensation claims arising from the uncontrolled flow problems that occurred in Chattak field in January and June 2005.

For the Payment Claim, i) in September 2014, the Tribunals decided that Petrobangla owed NRBL for the gas delivered and accrued interest, ii) in September 2015, the Tribunals decided that Petrobangla shall pay the amounts owed into escrow accounts, and iii) in May 2016, the Tribunals decided that Petrobangla shall pay the amounts owed to NRBL forthwith and free of any restrictions. The amounts owed to date total approximately $36 million. There is no assurance that Petrobangla will comply with the decision of the Tribunals. As such, no amounts have been recorded in these audited consolidated financial statements.

For the Compensation Claim, the Company's position is that it is not liable for any compensation claims. In March 2016, Bapex filed a memorial with the Tribunals that included a request that the Tribunals declare the JVA null and void based on the premise that the JVA was procured through corruption and dismiss all claims of NRBL in arbitration. In addition, Bapex requested compensation of $118 million for Bapex's losses and approximately $905 million for the GOB's losses and other expenses. A hearing on the corruption claim was held in April 2017 with a decision from the Tribunal to be delivered before the end of calendar 2017.

(ii) *Lawsuits in Local Courts - Bangladesh*
NRBL is named as a defendant in three lawsuits filed in local courts in Bangladesh.

The first lawsuit (the "Money Suit") was filed during fiscal 2006 by the GOB and Petrobangla, claiming approximately $105 million in damages related to the same issues under dispute in the Compensation Claim described above.

In May 2016, a writ petition was filed before the Supreme Court of Bangladesh, High Court Division by a citizen of Bangladesh against (i) the GOB, (ii) Petrobangla, (iii) Bapex, (iv) NRBL and (v) the Company. The writ petition relates to the Feni GPSA and the JVA for the Feni and Chattak fields in Bangladesh. Pending resolution of the writ petition, the Court issued a Stay Order for a period of one month on any kind of benefit given by the GOB, Petrobangla or Bapex to NRBL or Niko or any of its affiliates or subsidiaries, including payments made for gas supplied from the Block 9 PSC. The Court subsequently extended the Stay Order.

In June 2016, another writ petition has been filed before the Supreme Court of Bangladesh, High Court Division (the "Court") in Dhaka by a citizen of Bangladesh against (i) the Government of Bangladesh (ii) Petrobangla, (iii) Bapex, (iv) Niko Exploration (Block 9) Ltd. ("Niko Block 9"), an indirect subsidiary of the Company, (iv) Niko Resources (Cayman) Ltd. ("Niko Cayman"), a direct subsidiary of the Company and (v) the Company. The writ petition relates to the October 2004 approval by Petrobangla of the acquisition by Niko Cayman of Niko Block 9 (previously Chevron International Bangladesh Limited) from Chevron Corporation. Niko Block 9 owns a 60 percent interest in the Block 9 production sharing contract ("Block 9 PSC"). Pending resolution of the writ petition, the Court has issued a stay order until September 2016 against all direct and indirect payments to Niko Block 9, Niko Cayman or Niko under the Block 9 PSC or the Block 9 joint operating agreement including payments made for gas supplied from the Block 9 PSC. The Court subsequently extended the Stay Order.

The Company believes that ICSID have exclusive jurisdiction to decide all disputes relating to Feni GPSA and the JVA and the Block 9 PSC provides for ICSID arbitration as the default dispute resolution mechanism to decide disputes relating to the Block 9 PSC. In addition, the Company believes that Petrobangla's withholding of funds related to invoiced amounts due for gas and condensate supplied from the Block 9 PSC constitutes breaches of the purchase and sales agreements governing gas and condensate supplied from the Block 9 PSC as well as a breach of the Block 9 PSC.

The Company continues to vigorously pursue its rights in these matters. In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(b)* (i) *Cost Recovery Dispute – India*
The contractor group of the D6 PSC in India is party to an arbitration dispute with the GOI relating to the calculation of cost recovery and profit petroleum for the D6 PSC. In November 2011, after unsuccessful attempts to resolve the dispute, the operator of the D6 Block, on behalf of the contractor group, commenced an arbitration proceeding against the GOI. It is the GOI's position that the contractor group is in breach of the PSC for the D6 Block due to the failure to drill all of the wells and attain production levels contemplated in the Addendum to the Initial Development Plan ("AIDP") for the Dhirubhai 1 and 3 fields and therefore, the GOI asserts that certain costs should be disallowed for cost recovery. The contractor group is of the view that the disallowance of recovery of costs incurred by the joint operation has no basis in the terms of the PSC and that there are strong grounds to challenge the positions of the GOI.

Since May 2012, the GOI has issued various letters disallowing the recovery of certain costs and demanding payment for its share of profit petroleum based on the GOI's calculation of the costs that should be disallowed for cost recovery and other adjustments. The GOI has also requested compensation to be assessed at a later date for its share of profit petroleum and royalties on the difference in the value of the gas quantities contemplated in the AIDP and the gas quantities actually produced.

In October 2014, the Cabinet Committee of Economic Affairs of the GOI approved the new domestic gas pricing policy for India, effective November 1, 2014. Since November 2014 the D6 contractor group has been paid the earlier price of $4.20 / MMbtu NCV for gas sales from the Dhirubhai 1 and 3 fields and the difference between the revised price and the $4.20 / MMbtu NCV has been deposited to a gas pool account and "whether the amount so collected is payable or not to the contractors of this block would be dependent on the outcome of the award of the pending arbitration and any attendant legal proceedings". Deposits to the gas pool account for natural gas sales from the D1-D3 fields from November 2014 to March 2016 totaled $82 million (Niko share $8.2 million), of which $4 million (Niko share $0.4 million) of royalties was paid to the GOI out of the gas pool account. Commencing April 2016 and thereafter to date, the revised gas price under the Guidelines was below the $4.20 / MMbtu NCV and deposits were not required to be made to the gas pool account.

(ii) *Alleged Migration of Natural Gas Dispute – India*
In the third quarter of fiscal 2016, an international reservoir engineering firm (commissioned by the operator of the D6 Block

and the operator of two adjoining blocks, and under the supervision of the Director General of Hydrocarbons of the GOI) issued a third party report stating that their analysis indicated connectivity and continuity of the reservoirs across the D6 Block and the adjoining blocks and that, in their opinion, a portion of the natural gas produced from the D1 D3 facilities in the D6 Block had likely migrated from the adjoining blocks. In the Company's opinion, the operator of the D6 Block has acted in accordance with the provisions of the D6 PSC, with all wells drilled within the block boundaries as per the development plan approved by the relevant authorities under the PSC.

In November 2016, the contractor group of the D6 Block received a letter from the GOI in which the GOI made a claim of $1.55 billion (Niko share $155 million) against the contractor group in respect of gas said to have migrated from neighboring blocks to the D6 Block. This claim reflects the GOI's estimate of the gas migrated from neighboring blocks and produced and sold by the contractor group up to March 31, 2016 multiplied by the prevailing price, a deduction for royalties already paid, the addition of interest, and without deduction for any capital and operating expenditures incurred by the contractor group. In addition, the GOI updated its estimate of the costs that should be disallowed for cost recovery as at March 31, 2016 to $3.02 billion (Niko share $302 million) and its demand for payment for additional profit petroleum to $175 million (Niko share $17.5 million).

RIL, the operator of the D6 Block, invoked the dispute resolution mechanism in the PSC and issued a Notice of Arbitration to the GOI in November 2016, with the arbitration process currently underway. Niko believes the contractor group is not liable for the amount claimed by the GOI and is working with the contractor group to defend against the claim by invoking the dispute resolution mechanism in the PSC.

In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(c)* *Minimum Contracted Quantities Dispute - India*

In accordance with previous contracts for natural gas sales from the Hazira field in India, the Company had committed to deliver certain minimum quantities. For the period ended December 31, 2007, the Company was unable to deliver the minimum quantities to certain customers and the Company's joint operating partner in the Hazira field delivered the shortfall volumes from other gas sources. The Company's joint operating partner has filed claims for losses incurred as a result of the delivery of these shortfall volumes. The arbitrations for these claims are in process. In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(d)* *Tax Holiday Disputes - India*

The Company is claiming tax holiday deductions under the India Income Tax Act ('Act') for eligible undertakings related to the Hazira and Surat fields. The tax department has contended 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. With respect to undertakings eligible for the tax holiday deduction, the Act was retrospectively 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.

In March 2015, the High Court of Gujarat in India issued a favorable judgment on the retrospective application of the definition of undertakings and whether or not mineral oil includes natural gas for the purposes of the income tax holiday claims for the Company's fields in India. The judgment states that the GOI's retrospective application of the definition of undertakings as "all blocks licensed under a single contract shall be treated as a single undertaking" is clearly unconstitutional and has been struck down. As such, the Company's position that an undertaking can be defined as a well or cluster of wells has been upheld for the purposes of the tax holiday provisions in the Act. The judgement also states that the term "mineral oil" for the purposes of the tax holiday provisions in the Act takes within its purview both petroleum products and natural gas.

Based on the ruling of the High Court, the accounting treatment of considering the advance tax payment of $18 million made by the Company related to tax holiday as income tax receivables is appropriate.

In October 2015, the GOI filed a petition in the Supreme Court of India to challenge the favorable tax judgment issued by the High Court of Gujarat. Should the Supreme Court overturn the ruling of the High Court, the Company would have to change its tax position and record a tax expense of approximately $48 million (comprised of additional taxes of $31 million and write off approximately $18 million of income tax receivable). In addition, the Company could be obligated to pay interest on taxes for the past periods.

The Company has received similar unfavorable tax assessments for the taxation years 2012, 2013 and 2014 relating to the tax holiday deduction claimed by the Company's subsidiary that owns its interest in the D6 Block, for which there is a contingent obligation of $40 million. The Company has filed the appeal against these tax assessments.

In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(e) Unfulfilled Commitments Disputes – India*

The Cauvery and D4 blocks in India are under relinquishment. The Company believes it has fulfilled all commitments for the Cauvery and D4 blocks while the GOI contends that the Company has unfulfilled commitments of $7 million. In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(f) Other Lawsuits*

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 more likely than not to prevail or win or not be 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.