STALKING THE PRIZE CAPTURING THE REWARD

Q1 THREE MONTHS INTERIM REPORT FOR THE PERIOD ENDED June 30, 2007

PRESIDENT'S REPORT *to* SHAREHOLDERS

Niko Resources Ltd. reports results for the three months ended June 30, 2007.

OPERATIONAL *and* FINANCIAL HIGHLIGHTS

OPERATIONAL

- Niko raises over $500 million in an equity offering
- The successful D6-R1 exploration well is the deepest location drilled so far in the Block. The well opens up new areas in deeper stratigraphic levels, demonstrating further upside on the Block.
- D6 development remains on schedule for start-up in less than one year
- Cauvery exploration drilling commences
- The Company submits bids for four large offshore exploration blocks in Pakistan

	Three months ended June 30,	
	2007	2006
FINANCIAL (thousands of dollars, except per share amounts and number of shares)		
Petroleum and natural gas sales	**27,952**	29,627
Funds from operations	**13,342**	14,699
Per share, diluted ($)	**0.30**	0.38
Net (loss)	**(6,168)**	(11,627)
Per share, diluted ($)	**(0.14)**	(0.30)
Capital expenditures	**62,798**	9,297
Total assets (end of period)	**670,971**	471,025
Shareholders' equity (end of period)	**633,584**	405,197
Weighted average common shares outstanding	**43,157**	38,537
Common shares outstanding (end of period)		
Basic (thousands)	**43,271**	38,569
Diluted (thousands)	**46,820**	42,097
OPERATIONS		
Average daily production		
Oil and condensate (bbls/day)	**366**	366
Natural gas (Mcf/day)	**84,499**	88,924
Total combined (Mcfe/day)	**86,697**	91,119
Revenues, royalties and operating costs		
Gross revenue received ($/Mcfe)	**3.54**	3.57
Royalties ($/Mcfe)	**(0.19)**	(0.25)
Profit Petroleum ($/Mcfe)	**(1.19)**	(0.59)
Operating costs ($/Mcfe)	**(0.41)**	(0.40)
Operating netback ($/Mcfe)	**1.75**	2.33
Drilling activity		
Gross wells	**3**	–
Net wells	**0.7**	–

The selected financial information is prepared in accordance with Canadian generally accepted accounting principles (GAAP), except for "funds from operations", "funds from operations per share – diluted" and "operating netback", which are used by the Company to analyze the results of operations and liquidity. By examining funds from operations, the Company is able to determine its ability to fund future capital projects and investments. Funds from operations is calculated as cash flows from operating activities prior to the change in operating non-cash working capital and the change in long-term accounts receivable. Funds from operations is not an alternative to cash flow from operating activities as determined in accordance with Canadian GAAP and may not be comparable with the calculation of similar measures for other companies. Funds from operations per share – diluted is calculated by dividing the funds from operations by the weighted average number of diluted shares outstanding. Operating netback is calculated as the average sales price per thousand cubic feet equivalent (Mcfe), less royalties, profit petroleum and operating expenses per Mcfe, and represents the before-tax cash margin directly related to production for every Mcfe sold.

OPERATIONS REVIEW

OPERATIONS UPDATE

India

D6 Block – In the D6 Block, exploration continued with the R1 well, which was successfully drilled during the quarter. R1 is located 22 kilometres southwest of the P2 discovery in 2,010 metres of water, which is the deepest water depth drilled to date in the D6 Block. The R1 well reached a total measured depth of 4,857 metres and encountered two significant gas-bearing zones in the Miocene stratigraphic interval. The success in these zones opens up new areas in the deeper stratigraphic levels for the D6 block. Data obtained from logging and modular dynamic testing (MDT) confirmed the presence of hydrocarbons in the reservoir intervals. All well information has been submitted to the Directorate-General of Hydrocarbons (DGH) and other concerned authorities as a new discovery.

In the ongoing Dhirubhai field development program, KG-D6-A5 was successfully drilled. Extensive coring was carried out on A-5 to provide further reservoir information to aid in the optimal development of the Dhirubhai gas field. The A-5 well will be completed for production later in 2007. Another development well, KG-D6-A6, has finished drilling. The A-6 well was also cored extensively and will also be completed for production later in 2007. Four additional development wells, B4, B6, B-11 and A-13 spudded and are currently drilling. This brings the total number of development wells drilled to date and currently drilling to 13 wells of a total of 18 wells targeted prior to the commencement of production.

The development plan for the Dhirubhai 1 and 3 gas fields has provisions for the natural gas production rate of 2.8 billion cubic feet per day (280 million cubic feet per day net to the Company) with corresponding Phase I initial field development costs estimated at US$5.2 billion (US$520 million net to the Company). The Company has spent US$75.7 million to June 30, 2007 of the expected US$520 million estimated for the project. Commencement of production is scheduled for mid-2008. The approved field development plan of Dhirubhai 1 and 3 provides flexibility in the critical portions of the facilities to facilitate gas production of up to 4.2 billion cubic feet per day.

Construction of the onshore terminal, laying the grid of gas pipelines and installation of the offshore facilities are all progressing to enable gas production from the Dhirubhai gas field in 2008. The operator's reports as of the end of July 2007 indicate that the offshore facilities are 50 percent complete and the onshore facilities are 35 percent complete.

There have been two oil wells drilled in the D6 Block. A high-intensity 3D acquisition program (Q seismic) was carried out to further increase the resolution of the seismic over the field. The field is on schedule to commence production in the second quarter of 2008, initially from two oil producers with initial targeted production of 30,000 to 35,000 barrels per day (3,000 to 3,500 barrels per day net to the Company). More oil producers and gas injector wells will be drilled to complete the oil development plan.

There are currently two drillings rigs active on the D6 block. The C. Kirk Rhein, Jr. rig has finished drilling the A6 development well and is currently drilling the B6 development well. This rig is expected to move to another block in the last calendar quarter of 2007. The Deepwater Frontier rig has returned to D6 and is currently drilling the B4, B11 and A13 development wells. The D-534 drillship is expected to commence drilling on the D6 Block in the fourth calendar quarter of 2007 and the Deepwater Expedition in the third calendar quarter of 2008.

NEC-25 Block – The C Kirk Rhein, Jr. rig is expected to return to the NEC-25 block in the fourth calendar quarter of 2007 for drilling of the third and fourth wells of the planned drilling program. In addition, the Deepwater Driller-4 will commence drilling on the NEC-25 in the fourth calendar quarter of 2007. Development plans for the six gas discoveries that have been declared commercial by the Indian regulatory authorities have been prepared, approved by the Operating Committee and submitted to the Government of India.

Cauvery – In the Cauvery Block, the 3D seismic acquisition program resumed in April 2007 with the receding of monsoon flood waters allowing access for the seismic crew. The 183 square kilometres of 3D seismic planned has been completed, bringing the seismic coverage on the block to a total of 550 square kilometres. A further 250 square kilometres will be acquired, which would provide 3D coverage over most of the block's accessible areas. Based on the evaluation of the seismic acquired last year, three drilling locations have been selected. These drilling sites are in various stages of preparation and are to be ready for the commencement of drilling. The first well of this three-well program spudded in June 2007 and is currently drilling with the remaining two wells to follow.

D4 Block – In the deepwater block MN-DWN-2003/1 (D4), located in the Mahanadi Basin, a 2,365-kilometre 2D seismic acquisition program was completed and the data has been processed. Evaluation of the data set is ongoing and a further 2,800-kilometre 2D seismic program is scheduled for later in 2007, along with a 3,600-square-kilometre 3D seismic program. A drilling date for the first well is yet to be set.

Bangladesh

Block 9 – Two wells in Block 9, Bangora-1 and Bangora-5, are currently producing at a rate of over 70 MMcf/d. Production is currently facility-constrained at this rate and facilities upgrades are expected to commence in the current year. Further drilling prospects have been identified south of Bangora on the anticline between the wells drilled to date and the Lalmai-3 gas discovery. Drilling is planned to commence on these prospects when a drilling rig is available.

Feni and Chattak – A plant turnaround was completed in May and production from the Feni field is currently 5-6 MMcf/d. Future drilling activities at Feni and Chattak remain postponed pending resolution of overdue payment for gas owed to the Company by the Government of Bangladesh.

Thailand

A well was drilled in the Mae Soon oilfield during the quarter, FA-MS-50-01, to a total depth of 1,545-metres and encountered four oil-bearing intervals. Three of the intervals tested at an aggregate 550 barrels of oil per day. The well is expected to commence production in August 2007. The successful results of FA-MS-50-01 are being integrated into the existing seismic database and options for further evaluation of the field are being formulated. It is expected that at least a further eight wells will be re-entered or re-drilled.

New Ventures

Niko has submitted bids for four large offshore exploration blocks in the Indus Basin of southern Pakistan. The total area of these blocks is 9,920 square kilometres with the majority of the acreage within the 200-metre shallow water depth. The successful bidder has not yet been determined.

Production

The following table displays the actual production for the first quarter of Fiscal 2008 and the forecast production for Fiscal 2008. The Company revises the forecast on a quarterly basis and any changes are incorporated in the table below.

Net Production (Daily average)	**Three months ended June 30, 2007**	Lower Estimate Fiscal 2008	Upper Estimate Fiscal 2008
Natural Gas (MMcf/d)			
India			
Hazira	**24**	20	25
Surat	**10**	8	10
Bangladesh			
Block 9	**45**	45	50
Feni	**5**	3	5
Oil (bbls/d)			
India			
Hazira	**271**	195	205
Other [1]	**95**	–	–
Total (MMcfe/d)	**87**	77	91

[1] Less than 2.5 percent of total corporate volumes and revenues are from Canadian oil, Bangladeshi condensate and Hazira condensate production. Therefore, the results from Canadian oil, Bangladeshi condensate and Hazira condensate production are included in "Other", are not discussed separately and a forecast is not prepared for the items included in 'Other'.

OPERATING EXPENSE OUTLOOK

For the quarter ended June 30, 2007, operating expenses averaged $0.41/Mcfe and are anticipated to average $0.40 to $0.42/Mcfe in fiscal 2008.

MANAGEMENT'S DISCUSSION *and* ANALYSIS

Management's Discussion and Analysis (MD&A) of the financial condition, results of operations and cash flows of Niko Resources Ltd. ("Niko" or "the Company") for the three months ended June 30, 2007 should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the same period, as well as in conjunction with the MD&A, audited consolidated financial statements and accompanying notes for the fiscal year ended March 31, 2007. This MD&A is effective August 9, 2007. Additional information relating to the Company, including the Company's Annual Information Form (AIF), is on SEDAR at www.sedar.com.

The Company's activities are focused on Asia. Over the reporting period, revenue and expenses were generated and capital expenditures were made in India, Bangladesh and Canada, and capital expenditures were made in Thailand. The Company's activities are carried out primarily in U.S. dollars as well as the currencies of each country in which the Company operates. The Company reports financial results in Canadian dollars.

The selected financial information presented throughout the MD&A is prepared in accordance with Canadian generally accepted accounting principles (GAAP), except for "funds from operations", "funds from operations per share – diluted", "net operating income", "operating netback", "cash flow netback" and "earnings netback", which are used by the Company to analyze the results of operations and liquidity. By examining funds from operations, the Company is able to determine its ability to fund future capital projects and investments. Funds from operations is calculated as cash flows from operating activities prior to the change in operating non-cash working capital and the change in long-term accounts receivable. Funds from operations is not an alternative to cash flow from operating activities as determined in accordance with Canadian GAAP and may not be comparable with the calculation of similar measures for other companies. Funds from operations per share – diluted is calculated by dividing the funds from operations by the weighted average number of diluted shares outstanding. Net operating income is calculated as revenue less royalties, profit petroleum expenses, operating expenses and pipeline expenses. Operating netback is calculated as the average sales price per thousand cubic feet equivalent (Mcfe), less royalties, profit petroleum and operating expenses per Mcfe, and represents the before-tax cash margin directly related to production for every Mcfe sold. Cash flow netback is calculated as the operating netback less other cash expenses per Mcfe, including general and administrative expenses, interest and financing, current taxes, other income and other expenses, and represents the cash margin for every Mcfe sold. Earnings netback is calculated as the cash flow netback less foreign exchange per Mcfe and non-cash expenses per Mcfe, including depletion and depreciation, future income taxes and stock-based compensation expense, and represents net income for every Mcfe sold. There are no comparable GAAP measures for net operating income, operating netback, cash flow netback or earnings netback, and these measures may not be comparable with the calculation of similar measures in other companies.

The fiscal year for the Company is the 12-month period ended March 31 of each year. The terms "fiscal 2008", "current year" and "the year" are used throughout the MD&A and in all cases refer to the period from April 1, 2007 through March 31, 2008. The term "fiscal 2009" is used throughout the MD&A and refers to the period from April 1, 2008 through March 31, 2009. The terms "previous year", "prior year" and "fiscal 2007" are used throughout the MD&A for comparative purposes and refer to the period from April 1, 2006 through March 31, 2007. The term "fiscal 2006" is used throughout the MD&A for comparative purposes and refers to the period from April 1, 2005 through March 31, 2006.

The quarter being reported on is the three-month period ended June 30, 2007. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from April 1, 2007 through June 30, 2007. The term "prior year's quarter" is used throughout the MD&A for comparative purposes and refers to the period from April 1, 2006 through June 30, 2006.

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. An 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.

The information contained in this MD&A contains forward-looking information about Niko's operations, reserves estimates and production. This forward-looking information is based on assumptions that the Company believes were reasonable at the time such information was prepared, but assurance cannot be given that these assumptions will prove to be correct, and the forward-looking information in this MD&A should not be unduly relied upon. The forward-looking information and the Company's assumptions are subject to uncertainties and risks including, but not limited to, expectations regarding financing sources, projections for capital spending, actual financial condition of the Company, results of operations, commodity prices and exchange rates, uncertainties inherent in estimating oil and natural gas reserves, performance characteristics of the Company's oil and natural gas properties, as well as liabilities inherent in oil and natural gas operations and in operating in foreign countries.

Less than 2.5 percent of total corporate volumes and revenue are from Canadian oil, Bangladesh condensate and Hazira condensate production. Therefore, the results from Canadian oil, Bangladesh condensate and Hazira condensate production are not discussed separately.

OVERALL PERFORMANCE

Funds from operations

The reported funds from operations for the quarter were $13.3 million compared to $14.7 million in the prior year's quarter. Daily production in the quarter decreased by 5 percent from the prior year's quarter to 87 million cubic feet equivalent (MMcfe) as the increase in volumes from Block 9 was more than offset by forecast natural declines at Hazira and Feni. The decrease in revenues net of royalties of $1.2 million or 4 percent was comparable to the decrease in production.

Profit petroleum expense for the quarter increased by $4.5 million from the prior year's quarter. This was mainly due to adverse resolution of a previously disclosed dispute regarding profit petroleum of US$3.7 million (Cdn$4.1 million). The Company calculates and remits profit petroleum expense to the Government of India in accordance with the PSC. The calculation considers revenues, which are the aggregate revenues of the Company and its joint venture partner. The Company's joint venture partner offers a price discount to the contracted prices, reducing the profit petroleum expense. The government has indicated that it does not accept the discounted prices in the calculation of profit petroleum and, as a result, the Company has accrued an additional US$3.7 million (Cdn$4.1 million) related to the profit petroleum

expense of prior years. The remaining change in profit petroleum was largely due to the increase in proportion of Block 9 volumes where the Government of Bangladesh was entitled to a 61 percent share of the profit gas during the year or approximately 34 percent of the revenues, which is higher than the profit petroleum rates on other producing fields.

There was a positive effect on funds from operations from the period-over-period increase of $1.7 million in interest income related to larger cash balances in the quarter compared to the prior year's quarter. There was a realized foreign exchange gain in the current quarter of $0.6 million compared to a realized foreign exchange loss in the prior year's quarter, resulting in a positive effect on funds from operations. The realized foreign exchange gain was on the conversion of funds between currencies. Finally, the Company paid the remaining balance of its debt in October 2006 and, as a result, there was no interest paid in the quarter compared to $0.7 million paid in the prior year's quarter.

Net loss

The reported loss for the quarter is $6.2 million compared to a loss of $11.6 million in the prior year's quarter, an improvement of $5.4 million. A decrease in funds from operations, as discussed above, had the effect of increasing the loss quarter-over-quarter by $1.4 million. The items discussed below net to cause a $6.8 million improvement in non-cash charges.

The increase in the Company's stock-based compensation expense of $0.8 million is due to a higher number of stock options outstanding during the quarter and a higher average exercise price for the outstanding options, resulting in a higher expense per option and increasing the net loss for the quarter.

The unrealized foreign exchange loss increased by $4.1 million, also increasing the loss over the prior year's quarter. There was an unrealized foreign exchange loss incurred due to the strengthening of the Canadian dollar against the U.S. dollar, which was applied to working capital amounts, partially offset by an unrealized foreign exchange gain incurred due to the strengthening of the Indian Rupee against the U.S. dollar, which was applied to working capital amounts.

Depletion, depreciation and accretion expense for the quarter decreased by $11.7 million to $11.2 million. On a per Mcfe basis, this is a reduction of 51 percent. There was a 53 percent decrease in the rate per Mcfe in India as a result of an increase in the Hazira and Surat reserves at March 31, 2007 and a decrease in the remaining costs being depleted due to a translation adjustment in the fourth quarter of fiscal 2007. The 6 percent decrease in the Bangladesh depletion rate was due to an increase in the reserves for Block 9 subsequent to the prior year's quarter, partially offset by an increase in the cost base due to capital additions.

UPDATE ON SIGNIFICANT PROJECTS

Capital Expenditures

The following table displays capital spending during the current quarter and forecast capital spending for fiscal 2008:

Exploration and Development Spending (net to the Company) (millions of dollars)	Three months ended June 30, 2007	Estimated Fiscal 2008
India		
Cauvery	7.0	18-22
D4	–	5-7
D6	46.2	315-325
Hazira	0.4	3-5
NEC-25	2.8	6-8
Surat	–	3-5
Bangladesh		
Block 9	2.7	4-6
Chattak	0.6	1
Feni	0.1	0.1
Thailand	3.0	5-7
Total	62.8	360-386

India

Cauvery – The Company was awarded 100 percent interest in the Cauvery Block, which is located in southern Tamil Nadu, in the NELP-V bidding round in 2005. The block is in the exploration phase and has mainly oil potential.

Capital expenditures in the quarter were $7.0 million, related to seismic activities and commencement of drilling the first of three planned wells. The remaining capital expenditures related to the minimum work program under the Phase I Commitment for seismic and drilling five exploration wells are estimated at US$10.2 million, which must be spent within three years of the issuance of the Production Exploration Licence. Planned capital expenditures estimated for fiscal 2008 include seismic and drilling three exploration wells.

D4 – The Company was awarded a 15 percent interest in the D4 Block, located in the Mahanadi Basin offshore the east coast of India, as part of the NELP-V bidding round in 2005. The block, which is currently in the exploration phase, encompasses more than 17,000 square kilometres and contains similar play types to the natural gas discoveries made by Reliance and Niko in the D6 and NEC-25 blocks. A drilling date for the first well is yet to be set.

A 2,365-kilometre 2D seismic acquisition program was completed in the D4 Block and the data has been processed. Evaluation of the data set is ongoing and a further 2,800-kilometre 2D seismic program is scheduled for later in calendar 2007, along with a 3,600-square-kilometre 3D seismic program. A drilling date for the first well is yet to be set. The estimated cost of the Phase I commitment, which includes seismic and drilling three exploration wells, totals US$97.6 million (US$14.6 million net to the Company), which must be expended by September 2009.

D6 – The Company has a 10 percent working interest in the 7,645-square-kilometre D6 Block. The block was awarded to the Company and its partner in the Government of India's first international bid round in 1999. Development of the Dhirubhai 1 and 3 natural gas fields is ongoing in addition to continued exploration on this block.

In the ongoing Dhirubhai gas development program, the KG-D6-A5 well was successfully drilled. Extensive coring was carried out on A5 to provide further reservoir information to aid in the optimal development of the Dhirubhai gas field. The A5 well is planned to be completed for production later in 2007. Another development well, KG-D6-A6, has been drilled. The A6 well was also cored extensively and is also planned to be completed for production later in 2007. Four additional development wells, B4, B6, B11 and A13, spudded and are currently drilling. This brings the total number of development wells drilled to date and currently drilling to 13 wells of a total of 18 wells targeted prior to the commencement of production.

The development plan for the Dhirubhai 1 and 3 gas fields has provisions for a natural gas production rate of 2.8 billion cubic feet per day (280 million cubic feet per day net to the Company) with corresponding Phase I initial field development costs estimated at US$5.2 billion (US$520 million net to the Company). The Company has spent US$75.7 million to June 30, 2007 of the expected US$520 million estimated for the project. Commencement of production is scheduled for mid-2008. The approved field development plan of Dhirubhai 1 and 3 provides flexibility in the critical portions of the facilities to facilitate gas production of up to 4.2 billion cubic feet per day gross.

Construction of the onshore terminal, laying the grid of gas pipelines and installation of the offshore facilities are all progressing to enable gas production from the Dhirubhai Gas field in 2008.

There have been two oil wells drilled in the D6 Block. A high-intensity 3D acquisition program (Q seismic) was carried out to further increase the resolution of the seismic over the field. The field is on schedule to commence production in the second quarter of calendar 2008, initially from two oil producers with initial targeted production of 30,000 to 35,000 barrels per day (3,000 to 3,500 barrels per day net to the Company). More oil producers and gas injector wells are planned to be drilled to complete the oil development plan.

Capital expenditures in the current quarter were $46.2 million (net) for drilling of an exploration well, R1, a development well, A5, the commencement of drilling a second development well, A6, and production facilities. Forecast activity for fiscal 2008 includes the continuation of the gas development for the Dhirubhai 1 and 3 natural gas fields, development of the oil field and additional exploration drilling.

Hazira – The Company has a 33 percent working interest in the 50-square-kilometre Hazira onshore and offshore block on the west coast of India, which lies adjacent to a large industrial corridor about 25 kilometres southwest of the city of Surat. Gas production began from this field in 1996 and oil production commenced in March 2006.

Capital expenditures in the year were $0.4 million (net), primarily related to workover costs for natural gas wells. Capital expenditures forecast for fiscal 2008 are primarily for recompletions of existing wells.

Surat – The Company was awarded 100 percent interest in the Surat Block in July 2001 and after completion of the exploratory phase retained a development area of 24 square kilometres containing the Bheema and NSA shallow natural gas fields. These fields have been producing natural gas since April 2004.

Forecast activity for fiscal 2008 relates to drilling and tie-in of three planned wells.

NEC-25 – The Company has a 10 percent working interest in the NEC-25 Block, which covers 10,755 square kilometres in the Mahanadi Basin off the east coast of India, awarded to the Company and its partner in the Government of India's first international bid round in 1999. The Company and its partner have capital commitments for Phase II exploration for seismic and two exploration wells as per the PSC and have drilled sufficient wells to meet the commitment.

During the current quarter, the Company spent $2.8 million (net to the Company) primarily on preparation for future drilling activities and the remaining costs of the A6 well. A rig is expected to return in fiscal 2008 to drill the third and fourth wells of the planned eight-well drilling program and a second rig is expected to arrive in fiscal 2008 to drill additional exploration wells. Development plans for the six discoveries that have been declared commercial by the Indian regulatory authorities are being prepared.

Bangladesh

Block 9 – In October 2003 the Company acquired a 60 percent interest in Block 9, a 6,880-square-kilometre onshore block which encompasses the capital city of Dhaka. This field began natural gas production in May 2006 and commerciality was declared in December 2006. The Company and its partner have capital commitments for Phase I exploration, which includes seismic and the drilling of three wells and, in certain circumstances, up to 10 wells. The Company and its partner have completed the seismic and have drilled six wells that apply towards the commitment.

Capital expenditures during the current year were $2.7 million (net to the Company) primarily for the rig demobilization after completion of the Bangora-5 well. Planned capital activity for the remainder of fiscal 2008 includes upgrading the facilities.

Feni – The Feni field covers 43 square kilometres and is located 6 kilometres west of the main natural gas line to Chittagong. The Company has been producing natural gas from the field since November 2004. Future drilling activities at Feni have been postponed pending resolution of overdue payments for gas owed to the Company by the Government of Bangladesh.

Chattak – The Chattak structure covers 376 square kilometres and rights to this block were obtained in October 2003. The upper fault block to the west previously produced from one well, while the down-thrown eastern fault block has not been drilled.

During the quarter, $0.6 million was spent on the block, primarily on insurance premiums related to the previous well blow-out. Future drilling activities at Chattak have been postponed pending further developments in the various disputes between the Company and the Government of Bangladesh.

Thailand

In fiscal 2006 Niko gained a presence in Thailand through the acquisition of a 50 percent equity stake in a production and exploration block in northern Thailand, which includes a development area, Mae Soon, and an exploration area, Fang.

The Company has estimated the remaining cost to complete the required drilling and workovers at US $2.8 million. The Company has performed initial recompletions on four existing wells, resulting in little or no fluid production, and has drilled three unsuccessful exploration wells. The rig was then moved and drilled a successful well in the development area. It is expected that a further eight wells will be re-entered or re-drilled by the end of the current fiscal year.

During the quarter, the Company spent $3.0 million for drilling of the successful well and general and administrative costs.

RESULTS OF OPERATIONS

Revenue and Operating Income

Three months ended June 30, 2007 (thousands of dollars, except daily production)	India	Bangladesh	Canada	Total
Revenue	16,089	11,662	201	27,952
Pipeline revenue	176	–	–	176
Royalty	(1,474)	–	(23)	(1,497)
Profit petroleum	(5,562)	(3,844)	–	(9,406)
Operating and pipeline expenses	(1,959)	(1,309)	(12)	(3,280)
Net operating income [1]	7,270	6,509	166	13,945
Daily production (Mcfe/day)	36,396	50,106	195	86,697

[1] Net operating income is a non-GAAP measure calculated as above.

Three months ended June 30, 2006 (thousands of dollars, except daily production)	India	Bangladesh	Canada	Total
Revenue	20,978	8,431	218	29,627
Pipeline revenue	220	–	–	220
Royalty	(1,979)	–	(24)	(2,003)
Profit petroleum	(2,529)	(2,379)	–	(4,908)
Operating and pipeline expenses	(2,116)	(1,247)	(43)	(3,406)
Net operating income [1]	14,574	4,805	151	19,530
Daily production (Mcfe/day)	50,517	40,406	196	91,119

[1] Net operating income is a non-GAAP measure calculated as above.

INDIA

Revenue, Royalties and Profit Petroleum

The Indian properties, Hazira and Surat, generated revenue of $16.1 million, representing approximately 58 percent of the Company's oil and natural gas revenue in the quarter, compared to $21.0 million or 71 percent in the prior year's quarter.

Average daily natural gas production in India during the quarter was 35 Mcf per day, compared to 49 Mcf per day in the prior year's quarter. Production decreased due to forecast natural declines at Hazira while Surat production remained at the same level.

The average realized price net of royalties was $4.25/Mcf, an increase of $0.29/ Mcf over the previous year. The increase is due to an increased sales price charged for Hazira natural gas partially offset by the change in the Canadian to U.S. dollar foreign exchange rate.

Pursuant to the terms of the Production Sharing Contracts (PSC) the Government of India is entitled to a sliding scale share in the profits once the Company has recovered its investment. For Hazira, in the quarters ended June 30, 2007 and 2006, the government was entitled to 20 percent of the cash flow, defined as revenue less royalties, operating expenses and capital expenditures. The Company currently does not incur any profit petroleum expense with respect to the Surat field.

Profit petroleum expense for the quarter increased by $3.0 million from the prior year's quarter. This is mainly due to the adverse resolution of a previously disclosed dispute regarding profit petroleum of US$3.7 million (Cdn$4.1 million). The Company calculates and remits profit petroleum expense to the Government of India in accordance with the PSC. The calculation considers revenues, which are the aggregate revenues of the Company and its joint venture partner. The Company's joint venture partner offers a price discount to the contracted prices, reducing the profit petroleum expense. The government has indicated that it does not accept the discounted prices in the calculation of profit petroleum and, as a result, the Company has accrued an additional US$3.7 million (Cdn$4.1 million) related to the profit petroleum expense of prior years.

BANGLADESH

Revenue and Profit Petroleum

Revenues from the Bangladesh properties, Block 9 and Feni, increased in the quarter to $11.7 million from $8.4 million in the prior year's quarter. The current quarter includes three months of production from Block 9 compared to two months in the same quarter in the prior year as production from Block 9 commenced in May 2006. The increase in revenues from Block 9 was partially offset by natural declines in the Feni field. In addition, the average price received in the current quarter was $2.49/Mcf compared to $2.25/Mcf in the prior year's quarter due to the increased proportion of production volume from Block 9, as Block 9 volumes were sold at a price of $2.55/ Mcf, compared to a price of $1.92/ Mcf for Feni volumes.

Pursuant to the terms of the Joint Venture Agreement (JVA) for Feni and the PSC for Block 9, the Government of Bangladesh is entitled to a sliding scale share in the revenue and profit gas, respectively. For the Feni project the government's share increases as the Company recovers a multiple of its investment. The government was entitled to 20 percent of the revenue for April and May 2006 and 25 percent in June 2006 compared to 25 percent for the entire quarter ended June 30, 2007. For Block 9, the government's share is based on production levels and whether or not the Company has recovered its investment. In the quarters ended June 30, 2007 and 2006, the government's share was 61 percent of profit gas. Profit gas is calculated as the minimum of (i): 55 percent of revenue for the period and (ii): revenue less operating and capital costs, incurred to date.

The Company does not incur any royalty expense in Bangladesh.

Operating Expenses

Operating expenses increased to $0.41/Mcfe in the current quarter from $0.40/ Mcfe in the prior year's quarter. Operating expenses pertaining to India increased to $0.57/Mcfe in the current quarter from $0.44/Mcfe in the prior year's quarter as a reduction in absolute operating expenses was not sufficient to offset the decrease in production. In Bangladesh, operating expenses decreased from $0.33/Mcfe in the prior year's quarter to $0.29/Mcfe in the current quarter. The decrease in Bangladesh was largely due to the addition of lower-cost Block 9 production, which cost an average of $0.21/Mcfe to produce during the current quarter.

Netbacks

The following table outlines the Company's operating and earnings netbacks for the three months ended June 30, 2007 and 2006:

	Oil Condensate ($/Bbl)	Natural Gas Total ($/Mcf)	2007 Combined Average (1:6) ($/Mcfe)	2006 Combined Average (1.6) ($/Mcfe)
Price	58.13	3.38	3.54	3.57
Royalties	(4.67)	(0.17)	(0.19)	(0.25)
Profit petroleum	(4.15)	(1.21)	(1.19)	(0.59)
Operating expenses	(4.43)	(0.40)	(0.41)	(0.40)
Operating netback	44.88	1.60	1.75	2.33
Pipeline and other income			0.29	0.08
Pipeline expense			(0.01)	(0.01)
General and administrative expense			(0.14)	(0.16)
Interest and financing expense			–	(0.08)
Current taxes			(0.28)	(0.22)
Cash flow netback			1.61	1.94
Foreign exchange loss			(0.50)	(0.22)
Stock-based compensation expense			(0.47)	(0.36)
Depletion and depreciation expense			(1.42)	(2.76)
Earnings netback			(0.78)	(1.40)

Oil and condensate netbacks are calculated by dividing the revenue and costs related to oil and condensate production by total oil and condensate production for the Company, measured in barrels. The natural gas netbacks are calculated by dividing the revenue and costs related to natural gas production in India and Bangladesh by the volume of natural gas production in India and Bangladesh, measured in Mcf. The combined average netback is calculated by dividing the revenue and costs in total for the Company by the total production of the Company measured in Mcfe.

The following tables outline the Company's operating netbacks by country for the three months ended June 30, 2007 and 2006:

Three months ended June 30, 2007	Hazira[1]	Surat	India	Feni	Block 9	Bangladesh	Canada
Average daily production							
Oil and condensate (bbls/day)	276	–	276	6	51	57	33
Natural gas (Mcf/day)	24,257	10,480	34,737	5,062	44,700	49,762	–
Total combined (Mcfe/day)	25,916	10,480	36,396	5,097	45,009	50,106	195
Revenue, royalties and operating expenses							
Gross revenue received ($/Mcfe)	4.94	4.66	4.86	1.95	2.63	2.56	11.01
Royalties ($/Mcfe)	(0.45)	(0.42)	(0.45)	–	–	–	(1.29)
Profit petroleum ($/Mcfe)	(2.36)	–	(1.68)	(0.49)	(0.88)	(0.84)	–
Operating expenses ($/Mcfe)	(0.58)	(0.54)	(0.57)	(1.00)	(0.21)	(0.29)	(0.68)
Operating netback ($/Mcfe)	1.55	3.70	2.16	0.46	1.54	1.43	9.04

[1] The joint venture includes results from Hazira, Bhandut, Cambay and Sabarmati. Bhandut, Cambay and Sabarmati were sold during fiscal 2007.

Three Months Ended June 30, 2006	Joint Venture [1]	Surat	India	Feni	Block 9	Bangladesh	Canada
Average daily production							
Oil and condensate (bbls/day)	296	–	296	19	19	38	33
Natural gas (Mcf/day)	38,029	10,715	48,744	20,580	19,600	40,180	–
Total combined (Mcfe/day)	39,802	10,715	50,517	20,695	19,711	40,406	196
Revenue, royalties and operating expenses							
Gross revenue received ($/Mcfe)	4.71	4.03	4.56	1.96	2.64	2.29	12.03
Royalties ($/Mcfe)	(0.44)	(0.37)	(0.42)	–	–	–	(1.34)
Profit petroleum ($/Mcfe)	(0.70)	–	(0.55)	(0.41)	(0.89)	(0.65)	–
Operating expenses ($/Mcfe)	(0.38)	(0.65)	(0.44)	(0.29)	(0.37)	(0.33)	(2.44)
Operating netback ($/Mcfe)	3.19	3.01	3.15	1.26	1.38	1.31	8.25

[1] The joint venture includes results from Hazira, Bhandut, Cambay and Sabarmati. Bhandut, Cambay and Sabarmati were sold during fiscal 2007.

Netbacks by property and country are calculated by dividing the revenue and costs related to combined oil and natural gas production by the volume measured in Mcfe for that property and country.

CORPORATE

Interest Income

The Company earned interest income of $2.1 million in the current quarter (2006 quarter – $0.4 million) on excess cash balances. The increase is due to higher average cash balances in the quarter as a result of equity issuances in August 2006 and February 2007.

Interest and Financing

The Company did not incur any interest or financing expense in the current quarter. Interest and financing expense in the prior year's quarter was $0.7 million related to the long-term debt balance, which was repaid in October 2006.

General and Administrative (G&A) Costs

The Company incurred G&A costs of $1.1 million in the current quarter compared to $1.4 million in the prior year's quarter. The main causes of the decrease in G&A are a downward adjustment to the previously estimated bonus and increased capitalized G&A related to capital activity in the Thailand and Cauvery blocks.

Foreign Exchange

The Company recorded a foreign exchange loss of $4.0 million in the current quarter compared to a loss of $1.8 million in the prior year's quarter. There was a realized foreign exchange gain in the quarter of $0.6 million on the conversion of funds between currencies. There was a net unrealized foreign exchange loss in the quarter of $4.6 million. This was comprised of an unrealized foreign exchange loss incurred due the strengthening of the Canadian dollar against the U.S. dollar, which was applied to working capital amounts, partially offset by an unrealized foreign exchange gain incurred due to the strengthening of the Indian Rupee against the U.S. dollar, which was applied to working capital amounts.

Stock-based Compensation

Stock-based compensation expense increased to $3.7 million in the current quarter from $3.0 million in the prior year's quarter. The number of options being expensed increased from 2.5 million options in the prior year's quarter to 2.8 million options in the current quarter. The stock options expensed in the current quarter have a higher average exercise price than those expensed in the prior year's quarter, resulting in a higher expense per option.

Depletion

Depletion in India was $6.5 million or $1.96/Mcfe of production in the current quarter compared to $19.0 million or $4.12/Mcfe in the prior year's quarter. The decrease in the rate per Mcfe is mainly a result of a translation adjustment in the fourth quarter of fiscal 2007.

Depletion in Bangladesh was $4.4 million or $0.97/Mcfe of production in the quarter compared to $3.8 million or $1.03/Mcfe in the prior year's quarter. There was a decrease in the depletion rate due to the increase in the reserves for Block 9 subsequent to the prior year's quarter.

Income Taxes

The Company's overall tax provision in the quarter was a current income tax expense of $2.2 million compared to $1.8 million in the prior year's quarter.

Taxes in India in the current quarter were $2.2 million compared to $1.7 million in the prior year's quarter. The Company recorded current income taxes at a rate of 42.23 percent of Indian income after a deduction related to the tax holiday. There was a negative effect on taxes due to lower capital deduction in the quarter as the Hazira and Surat properties are developed. Taxes decreased because of an adjustment increasing profit petroleum expense in the quarter as a result of an adverse resolution of a previously disclosed dispute.

The Company pays taxes in Bangladesh at a rate of 4.0 percent of revenue net of profit petroleum. This amounted to an insignificant amount in the current quarter compared to $0.1 million in the prior year's quarter. The decrease is due to decreased revenue from the Feni field.

The Company does not pay income taxes related to Block 9 production, as indicated in the PSC. The PSC indicates that the calculation for profit petroleum expense includes consideration of income taxes and, therefore, no income tax is assessed for Block 9.

The Company has filed its income tax returns for the years 1998 through 2007 in India, under provisions that provide for a tax holiday for production from the Hazira field.

The Company received a favourable ruling with respect to the tax holiday at the second tax assessment level for the 2001 taxation year. The Income Tax Department has filed an appeal with the third tax assessment level against the order of the second tax assessment level and the matter is currently pending with the third tax assessment level. During the quarter ended December 31, 2006, the second tax assessment level ruled that, among other things, the Company would not receive a tax holiday for the Hazira field for the years 1998, 1999, 2000, 2002 and 2003. Under the Indian income tax system, the Company has filed an appeal before the third tax assessment level against the order from the second tax assessment level for assessments for these years. The matter is currently pending before the third tax assessment level. The 2004 year was assessed at the first level denying the tax holiday claim and the Company will appeal the order to the second tax assessment level. While no assurance can be given, the Company believes that tax assessments such as this are not unusual in India, are in the normal course of doing business in India and that the outcome of the appeals process will result in rulings favourable to the Company. The taxation years 2005 through 2007 have been filed including a deduction for the tax holiday, but have not yet been assessed.

Should the Company fail through the assessment and appeal process to receive a favourable ruling with respect to the taxation years 1998 through 2004, the Company would record a tax expense of US$46.3 million, pay additional taxes of US$23.0 million and write off US$23.3 million of the income tax receivable.

Dividend

During the current quarter the Company continued its policy of paying quarterly dividends on its common shares. As a result, the Company declared a quarterly dividend of $0.03 per common share to shareholders of record on June 29, 2007.

SUMMARY OF QUARTERLY RESULTS

The following tables set forth selected financial information of the Company for the eight most recently completed quarters to June 30, 2007:

Three months ended (thousands of dollars, except per share amounts)	Sept. 30, 2006	Dec. 31, 2006	March 31, 2007	**June 30, 2007**
Petroleum and natural gas sales	28,129	28,637	29,093	**27,952**
Net (loss)	(11,117)	(5,765)	(3,128)	**(6,168)**
Per share				
Basic ($)	(0.28)	(0.14)	(0.08)	**(0.14)**
Diluted ($)	(0.28)	(0.14)	(0.08)	**(0.14)**

Three months ended (thousands of dollars, except per share amounts)	Sept. 30, 2005	Dec. 31, 2005	March 31, 2006	June 30, 2006
Petroleum and natural gas sales	32,899	32,665	22,898	29,627
Net income (loss)	4,393	4,403	(17,491)	(11,627)
Per share				
Basic ($)	0.11	0.11	(0.45)	(0.30)
Diluted ($)	0.11	0.11	(0.45)	(0.30)

Net income has fluctuated over the quarters, due in part to changes in revenue, stock-based compensation expense and depletion.

Sales decreased in the quarter ended March 31, 2006 from the previous quarter due to an adjustment to Feni revenue to a price of US$1.75/Mcf from the price previously recorded. Sales increased in the following quarter with the commencement of production from Block 9. A second factor contributing to the decrease in sales was the decrease in the Indian royalty charged by the government, which the Company collects from the customer and records as revenue. There were forecast natural declines in production at Hazira and Feni in 2006 continuing into 2007, which have been offset by increases in production from Block 9, both of which affected sales. Sales decreased again in the quarter ended June 30, 2007 due to a decrease in production and an increase in the proportion of sales from Block 9, which has a lower price than the other producing properties.

In the quarter ended March 31, 2006, the previously experienced quarterly net income reversed into a net loss. This was due mainly to the decrease in sales and increased depletion expense, which resulted from decreased reserves attributable to the producing properties. In the quarter ended June 30, 2007, there was an adjustment to profit petroleum of $3.7 million of additional expense related to amounts recorded in prior years increasing the net loss during the quarter.

Depletion expense remained relatively constant in 2006 as the increase in depletion expense due to the inclusion of blow-out costs in the depletable base was approximately offset by the decrease in the depletion expense due to reserve additions in Block 9. Depletion expense decreased in the quarter ended March 31, 2007 with the addition of reserves, primarily from Block 9, as well as the foreign currency translation adjustment recognized in the quarter and a lower cost base due to depletion in previous quarters. The Company continued to experience quarterly net losses throughout fiscal 2007, though at a declining quarterly rate, due to increased stock-based compensation expense from stock option grants, with the associated expense weighted towards the beginning of the option life.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

At June 30, 2007, the Company had working capital of $151.1 million, which included $149.5 million of cash and cash equivalents, compared to working capital of $202.3 million, which included $209.4 million of cash and cash equivalents, at March 31, 2007. The change was primarily a result of capital expenditures during the quarter.

The Company has provided performance guarantees to the governments of India and Bangladesh totalling US$8.7 million and US$7.7 million, respectively. The performance guarantee to the Government of Bangladesh is backed by Export Development Canada and, therefore, is not recognized in the financial statements as at June 30, 2007.

In April 2007, the Company agreed to the terms of a US$550 million credit facility. The facility is outlined in a credit-approved term sheet and is subject to satisfactory legal documentation and due diligence, receipt of certain third-party reports and syndication. The purpose of the facility is to fund development of the D6 block and, upon completion of the D6 block development, may be used for other projects. It is expected that the loan agreement will be signed and the Company will be able to draw on the facility in fiscal 2008.

In July 2007, the Company entered into an underwriting agreement to sell 4,762,000 common shares at a price of $105.00 per share to raise gross proceeds of $500 million. The offering closed on August 9, 2007. The Company intends to use the net proceeds of the offering to fund the ongoing exploration and development activities and for general corporate purposes. More specifically, the net proceeds will allow the Corporation to more aggressively pursue some of the opportunities that are potentially available to it. Such opportunities include: (i) accelerating the exploration and potential subsequent development of the Corporation's existing assets; (ii) commencing a high-working-interest exploration program offshore Pakistan, if the Corporation's current bids on four offshore blocks in that region are successful; (iii) bidding for further working interests in additional blocks in the next round of bidding under India's New Exploration Licensing Policy; and (iv) acquiring additional assets in the Corporation's core areas or in new core areas.

The Company has planned capital expenditures of $360 million to $386 million for fiscal 2008.

Based on the cash requirements and cash sources described above, the Company expects its funds will be sufficient to meet its fiscal 2008 working capital requirements and planned capital expenditures.

The Company has a number of contingencies as at June 30, 2007. Refer to the unaudited consolidated financial statements and notes for the current quarter for a complete list of the contingencies and any potential effects on the liquidity of the Company.

The Company is able to make payments to Bangladesh vendors from its Feni and Chattak branch office, but is unable to repatriate funds from the Feni and Chattak branch office or to pay foreign vendors.

The Company has capital commitments under its various performance guarantees as at June 30, 2007. The Company and its partner have capital commitments for Phase I exploration as per the PSC signed for the D4 Block for seismic and drilling three exploration wells, which must be expended by September 2009. The capital commitment is estimated

at US$97.6 million (US$14.6 million net to the Company) and US$0.2 million net to the Company has been spent on seismic. The Cauvery block has a PSC Phase I three-year commitment of minimum capital expenditures to cover seismic and drilling five exploration wells. The Company has completed the seismic and drilled the first exploration well. The cost remaining to complete the work commitment is estimated at US$10.2 million.

The Company and its partner have capital commitments for phase I exploration as per the PSC signed for Block 9 to conduct seismic and drill three wells and, in certain circumstances, up to 10 wells. The Company and its partner have completed the seismic and drilled six wells that apply towards the commitment. The Company and its partner have capital commitments for phase II exploration for seismic and two exploration wells as per the PSC for the NEC-25 Block and have drilled a sufficient number of wells to meet the commitment.

In Thailand, the Company has a commitment for 12 workovers and/or wells in the development portion of the block and 10 exploration wells. The Company has performed four workovers and drilled three exploration wells and one development well. The estimated cost to complete the remaining work commitment is US$2.8 million by the end of the current fiscal year.

Related Parties

The Company has a 45 percent interest in a Canadian property that is operated by a related party, a Company owned by the President and CEO of Niko Resources Ltd. This joint interest originated as a result of the related party buying the interest of the third-party operator of the property in 2002. The transactions with the related party are not significant to the operations of the Company and are in the normal course of business.

FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of cash, restricted cash, short-term investments, prepaid expenses, accounts receivable, and accounts payable and accrued liabilities. As at June 30, 3007 and March 31, 2007, there were no significant differences between the carrying amounts of these instruments and the fair values.

The Company is exposed to fluctuations in foreign currency exchange rates due to the nature of the Company's operations as it earns revenue in both U.S. dollars and Indian rupees and expenditures occur in U.S. dollars, Indian rupees, Bangladeshi takas and Thai baht. The Company manages this risk by maintaining foreign currency bank accounts and periodically entering into foreign exchange forward contracts.

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 financial statements of the Company. For a discussion of those critical accounting estimates, please refer to the MD&A for the Company's financial year ended March 31, 2007, available at www.sedar.com.

FUTURE ACCOUNTING CHANGES

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Screction 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital.

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Sections 3862 and 3863 will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments.

Effective for interim and annual financial statement for fiscal years beginning on or after January 1, 2008, amendments to the CICA Handbook Section 1400 "General standards of financial statement presentation" requires assessment and disclosure of and entity's ability to continue as a going concern.

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008 the new CICA Handbook Section 3031 "Inventories" will replace Section 3030 to establish standards for the measurement and disclosure of inventories.

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision. The Chief Executive Officer and Chief Financial Officer have overseen the design of internal control over financial reporting and have concluded that the internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the controls systems are met.

There were no changes in the internal control over financial reporting during the quarter ended June 30, 2007 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISKS

In the normal course of business the Company is exposed to a variety of risks in its operations. These include operational, currency, taxation, foreign operations, commodity price, political, government policy and legislation, and concentrated sales risks.

The Company is exposed to operational risks inherent in exploring for, developing and producing crude oil and natural gas. There are numerous uncertainties in estimating oil and natural gas reserves and in projecting future production and costs. Uncertainties also exist when predicting the results and timing of exploration and development projects and their related expenditures. Total amounts or timing of production may vary significantly from reserves and production estimates. The Company attempts to limit these risks by maintaining a focused asset base and by hiring qualified professionals with appropriate industry experience. A comprehensive insurance program is maintained to mitigate risks and to protect against significant losses, while maintaining levels of risk within the Company which management believes to be acceptable. This includes traditional industry coverage such as well control insurance.

The Company plans to operate in regions where the petroleum industry is a key component of the economy to help mitigate the risks of operating in foreign jurisdictions. The Company believes that management's experience operating internationally helps to further reduce these risks.

Currency risks had been reduced to primarily a U.S. dollar/Canadian dollar risk by denominating revenue in one currency, the U.S. dollar. Since June 2002, the majority of the Company's revenue has been from U.S.-dollar-denominated contracts. The vast majority of capital expenditures are in U.S. dollars, as is a portion of operating expenses. The remaining operating expenses are in local currency. The currency risks have been increased and include a Euro/Canadian dollar and Swedish Kroner/Canadian dollar risks as there are contracts related to the D6 development program that are in Euros and Swedish Kroner The Company's financial risk profile at March 31, 2007 is described in note 13 to the consolidated financial statements.

Natural gas prices where the Company operates are generally influenced by local market supply and demand and government policies. The Company's natural gas production in India is typically sold with fixed-price contracts at U.S. dollar-equivalent prices and the Company expects to continue entering into natural gas contracts in India on this basis. The price provisions in most of the Hazira natural gas contracts expired in November 2004 and January 2005 and most of the contracts contain a renewal provision to renegotiate based on mutual agreement on market-related prices. The gas price has been revised as per the price revision provisions allowed in most of the Hazira natural gas contracts. The Company has signed price renewal agreements for the future years also with three customers and the remaining customers are paying prices between US$3.51/Mcf and US$4.50/Mcf. The Company's natural gas enjoys a significant price, efficiency and environmental advantage over naphtha, the main competing fuel. Liquefied natural gas imports have begun and are currently priced at levels consistent with market prices and are expected to be a key price determinant in the future.

A portion of the Company's accounts receivable are with organizations in the oil and natural gas industry and are subject to normal industry credit risks. Certain purchasers of the Company's oil and natural gas production are subject to an internal credit review and must provide financial performance guarantees in order to minimize the risk of non-payment.

The Company has agreed to the terms of a US$550 million credit facility. The facility is outlined in a credit-approved term sheet and is subject to satisfactory legal documentation and due diligence, receipt of certain third-party reports and syndication. There is no guarantee that these conditions will be met or that the Company will be able to draw on the facility.

The Company has a number of contingencies as at June 30, 2007. Refer to the unaudited consolidated financial statements and notes for the current quarter for a complete list of the contingencies and any potential effects on the Company.

OUTSTANDING SHARE DATA

At August 9, 2007, the Company had the following outstanding shares:

	Number	Amount
Common shares	48,062,820	$ 1,095,488,000
Preferred shares	nil	nil
Stock options	3,519,500	–

OUTLOOK

The upcoming year will see the start-up of both D6 oil and natural gas production targeted at rates of 2.8 Bcf per day of natural gas and initial targeted production of 30,000-35,000 barrels of oil per day. Niko's interest in this project is 10 percent. These events will culminate in a multi-fold increase in Niko's current production.

Armed with large cash balances including the $500 million received today for an equity offering, Niko is entering its most exciting year ever. Niko will continue to pursue new venture opportunities with the objective of expanding its inventory of high-impact prospective plays.

On behalf of the Board of Directors,

(signed) "Edward S. Sampson"

Edward S. Sampson
Chairman of the Board, President
and Chief Executive Officer

August 9, 2007

CONSOLIDATED BALANCE SHEETS

(THOUSANDS OF DOLLARS)

	As at June 30, 2007 (Unaudited)	As at March 31, 2007 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	**$ 149,506**	$ 209,370
Accounts receivable	**28,770**	21,917
Prepaid expenses	**873**	1,577
	179,149	232,864
Restricted cash (note 11)	**11,254**	12,201
Long-term accounts receivable (note 3)	**24,817**	26,191
Income tax receivable (note 3)	**25,724**	24,180
Property and equipment (note 4)	**430,027**	379,124
	$ 670,971	$ 674,560
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**$ 26,023**	$ 29,313
Current tax payable	**2,002**	1,292
	28,025	30,605
Asset retirement obligation	**9,362**	8,974
	$ 37,387	$ 39,579
Shareholders' equity		
Share capital (note 5)	**615,150**	603,112
Contributed surplus (note 6)	**28,604**	26,723
Accumulated other comprehensive income (note 7)	**(75,260)**	(67,410)
Retained earnings	**65,090**	72,556
	633,584	634,981
	$ 670,971	$ 674,560

Guarantees (note 11)

Contingencies (note 12)

Subsequent event (note 13)

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS *of* OPERATIONS *and* RETAINED EARNINGS

THREE MONTHS ENDED JUNE 30, (UNAUDITED)
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

	2007	2006
Revenue		
Oil and natural gas	**$ 27,952**	$ 29,627
Royalties	**(1,497)**	(2,003)
Profit petroleum	**(9,406)**	(4,908)
Pipeline and other	**2,282**	629
	$ 19,331	$ 23,345
Expenses		
Operating and pipeline	**$ 3,280**	$ 3,406
Interest and financing	**–**	695
General and administrative	**1,098**	1,355
Foreign exchange loss	**3,971**	1,840
Stock-based compensation	**3,743**	2,955
Depletion, depreciation and accretion	**11,206**	22,912
	23,298	33,163
(Loss) before income taxes	**$ (3,967)**	$ (9,818)
Income taxes (note 10)		
Current	**2,201**	1,809
	2,201	1,809
Net (loss)	**(6,168)**	(11,627)
Retained earnings, beginning of period	**72,556**	109,079
Dividends paid	**(1,298)**	(1,157)
Retained earnings, end of period	**$ 65,090**	$ 96,295
Net (loss) per share (note 9)		
Basic and diluted	**$ (0.14)**	$ (0.30)

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS *of* COMPREHENSIVE INCOME

THREE MONTHS ENDED JUNE 30, (UNAUDITED)
(THOUSANDS OF DOLLARS)

	2007	2006
Net (loss)	$ (6,168)	$ –
Other comprehensive income:		
Foreign currency translation	(7,850)	–
Comprehensive income (note 7)	$ (14,018)	$ –

See accompanying notes to Consolidated Financial Statements.

FINANCIALS

CONSOLIDATED STATEMENTS *of* CASH FLOWS

THREE MONTHS ENDED JUNE 30, (UNAUDITED)
(THOUSANDS OF DOLLARS)

	2007	2006
Cash provided by (used in):		
Operating activities		
Net (loss)	$ (6,168)	$ (11,627)
Add items not involving cash from operations:		
Depletion, depreciation and accretion	11,206	22,912
Unrealized foreign exchange loss	4,561	459
Stock-based compensation	3,743	2,955
Change in non-cash working capital	1,987	(1,270)
Change in long-term accounts receivable	(4,214)	(3,007)
	11,115	10,422
Financing activities		
Proceeds from issuance of shares, net of issuance costs (note 5)	9,623	902
Dividends paid	(1,298)	(1,157)
	8,325	(255)
Investing activities		
Addition of property and equipment	(62,798)	(9,297)
Restricted cash contributions	–	(1,543)
Restricted cash returned	–	15,260
Change in non-cash working capital	(10,666)	(15,657)
	(73,464)	(11,237)
Decrease in cash	(54,024)	(1,070)
Effect of translation on foreign currency cash and cash equivalents	(5,840)	(1,806)
Cash and cash equivalents, beginning of period	209,370	39,197
Cash and cash equivalents, end of period	$ 149,506	$ 36,321
Supplemental information:		
Interest paid	$ –	$ –
Taxes paid	$ 3,417	$ 1,236

See accompanying notes to consolidated financial statements.

1. BASIS OF PRESENTATION

The interim consolidated financial statements of Niko Resources Ltd. (the "Company") have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The interim consolidated financial statements have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements for the fiscal year ended March 31, 2007. The disclosures provided herein are incremental to those included with the annual consolidated financial statements and the notes thereto for the year ended March 31, 2007.

Certain comparative figures have been reclassified to conform to the current period's presentation.

2. CHANGES IN ACCOUNTING POLICIES

During the quarter ended March 31, 2007, the Company changed the method by which its foreign operations are translated to Canadian dollars due to a change in the Company's foreign operations' functional currency. The Company's foreign operations' functional currency changed from Canadian dollars to U.S. dollars as a result of the increased significance of the U.S. dollar to the foreign operations' cash flows. Amongst other things, this increased significance of the U.S. dollar is a result of the decision to proceed with a U.S.-dollar-based credit facility and an increased proportion of revenues being earned in U.S. dollars.

Effective January 1, 2007, the Company began translating the accounts of its foreign operations to Canadian dollars using the current rate method, whereas previously it had used the temporal method.

Under the current rate method, accounts are translated to Canadian dollars as follows: assets and liabilities are translated at the exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average exchange rate for the period. Gains and losses resulting from the translation of foreign operations to Canadian dollars are included in other comprehensive income.

Under the temporal method, accounts are translated to Canadian dollars as follows: monetary assets and liabilities are translated at the period-end exchange rate, non-monetary assets and liabilities are translated using historical exchange rates, and revenues and expenses are translated using the average exchange rate for the period. Gains and losses resulting from the translation of foreign operations to Canadian dollars are included in net income for the period.

This change was adopted prospectively on January 1, 2007 and resulted in a foreign currency translation adjustment of $67.3 million with a corresponding decrease in property and equipment. An additional credit of $0.1 million was recorded to the foreign currency translation account for the activity during the quarter ended March 31, 2007.

Effective April 1, 2007 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA); "Financial Instruments – Recognition and Measurement", "Comprehensive Income", "Hedges" and "Financial Instruments – Disclosure and Presentation". These new standards have been adopted prospectively. Adoption of these standards did not impact April 1, 2007 opening balances.

(i) Financial instruments

All financial instruments must be initially recognized at fair value on the balance sheet date. The Company has classified each financial instrument into the following categories: held for trading financial assets and liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings.

Gains and losses on available for sale financial assets are recognized in other comprehensive income and transferred to earnings when the asset is derecognized. The other categories of financial instruments are recognized at amortized costs using the effective interest rate method.

Upon adoption and with any new financial instrument, an irrevocable election is available that allows entities to classify any financial asset or financial liability as held for trading, even if the financial instrument does not meet the criteria to designate it as held for trading. The Company has not elected to classify any financial assets or financial liabilities as held for trading unless they meet the held for trading criteria. A held for trading financial instrument is not a loan or receivable and includes one of the following criteria:

- it is a derivative, except for those derivatives that have been designated as effective hedging instruments;
- it has been acquired or incurred principally for the purpose of selling or repurchasing in the near future; or
- it is part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Upon adoption of these new standards, the Company designated its accounts receivable as loans and receivables, which are measured at amortized cost.

Bank debt, accounts payable and accrued liabilities are classified as other financial liabilities which are also measured at amortized cost. The Company had no available for sale assets or held for trading instruments.

(ii) Derivative instruments and hedging activities

The Company may enter into derivative instrument contracts to manage its commodity price exposure, foreign exchange exposure and interest rate exposure. The Company does not enter into instrument contracts for trading or speculative purposes. The Company may choose to designate derivative instruments as hedges. Hedge accounting continues to be optional. The Company has no qualified hedges.

(iii) Comprehensive Income

Comprehensive income consists of net earnings and other comprehensive income (OCI). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge, the change in fair value of any available for sale financial instruments and foreign exchange gains or losses arising from the translation of foreign operations using the current rate method to Canadian dollars. Amounts included in the OCI are shown net of tax. Accumulated other comprehensive income is a new equity category comprised of the cumulative amounts of OCI. The Company incurred a foreign exchange loss of $7.85 million on the translation of foreign operations to Canadian dollars.

3. LONG-TERM ACCOUNTS RECEIVABLE

As described below, the Company has two long-term accounts receivable:

(a) The long-term account receivable balance consists of gas sales charged to the Bangladesh Oil, Gas and Mineral Corporation (Petrobangla) for production from the Feni field in Bangladesh. The Company commenced production from the Feni field in November 2004 and has made gas deliveries to Petrobangla since that time. The Company formalized a Gas Purchase and Sales Agreement (GPSA) in the quarter ended December 31, 2006 at a price of US$1.75 per Mcf. Prior to formalizing the GPSA, the Company had been recording natural gas revenue and valuing the receivable at prices ranging from US$2.35 per Mcf to US$1.75 per Mcf.

Payment of the receivable is being delayed as a result of various claims raised against the Company as a result of the blowouts which occurred in the Chattak field in January and June 2005. These claims are further discussed in note 12, Contingencies.

Though the Company expects to collect the full amount of the receivable, it is not certain that the collection of the receivable will occur within one year of June 30, 2007. As a result, the receivable has been classified as long-term.

(b) The income tax receivable balance results from refiling income tax returns for the taxation years 2001 through 2004, including an income tax deduction related to a tax holiday. Additional amounts paid by the Company to the Government of India as a result of tax assessments and reassessments for the taxation years 2001 through 2004 are also included in the income tax receivable balance pending final resolution of the tax filing for the taxation year. Any additional amounts assessed at various levels are not recorded by the Company until they are paid or until the taxation year reaches the highest level of appeal.

4. PROPERTY AND EQUIPMENT

During the quarter ended June 30, 2007, the Company capitalized $0.3 million of general and administrative expenses and $0.6 million of stock based compensation expense (2006 – $0.2 million and $0.4 million, respectively).

Costs of $221.9 million (2006 – $178.2 million) associated with the Company's undeveloped properties and major development projects in India (2007 – $199.5 million, 2006 – $90.8 million), Bangladesh (2007 – nil, 2006 – $83.3 million) and Thailand (2007 – $22.4 million, 2006 – $4.1 million) have been excluded from costs subject to depletion and depreciation.

5. SHARE CAPITAL

(a) Authorized

Unlimited number of Common shares

Unlimited number of Preferred shares

(b) Issued

	As at June 30, 2007 Number	As at June 30, 2007 Amount	As at March 31, 2007 Number	As at March 31, 2007 Amount
Common shares				
Balance, beginning of period	42,994,820	$ 603,112	38,532,820	$ 297,747
Equity offering	–	–	4,300,000	300,630
Stock options exercised	276,250	9,623	162,000	4,147
Contributed surplus	–	2,415	–	588
Balance, end of period	43,271,070	$ 615,150	42,994,820	$ 603,112

(c) Stock Options

The Company has reserved for issue 4,327,107 common shares for granting under option to directors, officers, and employees. The options become 100 percent vested one to four years after the date of grant and expire two to five years after the date of grant. Stock option transactions for the respective periods were as follows:

	As at June 30, 2007		As at March 31, 2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	3,753,250	$ 47.06	3,312,500	$ 39.88
Granted	75,500	96.75	839,750	70.81
Forfeited	(4,000)	82.70	(237,000)	45.58
Exercised	(276,250)	34.83	(162,000)	25.60
Outstanding, end of period	3,548,500	$ 49.02	3,753,250	$ 47.06
Exercisable, end of period	1,428,438	$ 34.31	1,545,938	$ 32.16

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2007:

	Outstanding Options			Exercisable Options	
Exercise Price	Options	Remaining Life (Years)	Weighted Average Price	Options	Weighted Average Price
$ 22.20 – $ 26.47	817,500	0.7	$ 22.32	787,500	$ 22.21
$ 27.85 – $ 39.30	157,500	1.9	$ 35.47	112,500	$ 34.18
$ 41.00 – $ 49.30	517,500	3.0	$ 43.44	187,500	$ 43.97
$ 53.70 – $ 63.00	1,641,750	2.4	$ 56.45	340,938	$ 56.97
$ 79.69 – $ 87.88	347,750	3.1	$ 81.73	–	$ –
$ 96.03 – $ 99.00	66,500	3.5	$ 98.47	–	$ –
	3,548,500	2.9	$ 49.02	1,428,438	$ 34.31

Stock-based Compensation

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

Modified Black-Scholes Assumptions

Three months ended June 30, (weighted average)	2007	2006
Fair value of stock options granted (per option)	$ 21.05	$ 18.45
Risk-free interest rate	3.64%	3.33%
Volatility	37%	41%
Expected life (years)	2.8	3.0
Expected annual dividend per share	$ 0.12	$ 0.12

The weighted average grant-date fair values of options granted during the three months ended June 30, 2007 was $30.70 (2006 – $23.87).

6. CONTRIBUTED SURPLUS

	As at June 30, 2007	As at March 31, 2007
Contributed surplus, beginning of period	$ 26,723	$ 6,861
Stock-based compensation	4,296	20,450
Stock options exercised	(2,415)	(588)
Contributed surplus, end of period	$ 28,604	$ 26,723

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

	As at June 30, 2007	As at March 31, 2007
Accumulated other comprehensive income, beginning of period	$ (67,410)	$ –
Other comprehensive income:		
Foreign currency translation	(7,850)	(67,410)
Accumulated other comprehensive income, end of period	$ (75,260)	$ (67,410)

Effective January 1, 2007, the Company began translating the accounts of its foreign operations to Canadian dollars using the current rate method, whereas previously, it had used the temporal method. This change was adopted prospectively and resulted in a foreign currency translation adjustment of $67.3 million with a corresponding decrease in property and equipment. An additional credit of $0.1 million was recorded to the foreign currency translation account for the activity during the quarter ended March 31, 2007.

8. SEGMENTED INFORMATION

The Company's operations are conducted in one business sector, the oil and natural gas industry. Revenues, operating profits and net identifiable assets by geographic segments are as follows:

Three months ended June 30, 2007 (thousands of dollars)	**India**	**Bangladesh**	**Thailand**	**Canada**	**Corporate**	**Total**
Revenue	**16,089**	**11,662**	**–**	**201**	**–**	**27,952**
Segment profit (loss)	**681**	**2,058**	**–**	**71**	**(71)**	**2,739**

Three months ended June 30, 2006 (thousands of dollars)	India	Bangladesh	Thailand	Canada	Corporate	Total
Revenue	20,978	8,431	–	218	–	29,627
Segment profit (loss)	(4,481)	1,009	–	102	(14)	(3,384)

At June 30, 2007 (thousands of dollars)	**India**	**Bangladesh**	**Thailand**	**Canada**	**Corporate**	**Total**
Property and equipment	**241,380**	**164,167**	**22,387**	**709**	**1,384**	**430,027**
Total assets	**287,513**	**197,551**	**23,129**	**915**	**161,863**	**670,971**

At March 31, 2007 (thousands of dollars)	India	Bangladesh	Thailand	Canada	Corporate	Total
Property and equipment	182,845	173,538	20,910	754	1,077	379,124
Total assets	222,624	208,589	20,910	880	221,557	674,560

The reconciliation of the segment profit to net income as reported in the financial statements is as follows:

Three months ended June 30,	**2007**	2006
Segment profit (loss)	**$ 2,739**	$ (3,384)
Interest and other income	**2,106**	411
Interest and financing expenses	**–**	(695)
General and administrative expenses	**(1,098)**	(1,355)
Stock-based compensation expense	**(3,743)**	(2,955)
Foreign exchange gain (loss)	**(3,971)**	(1,840)
Income tax expense	**(2,201)**	(1,809)
Net income (loss)	**$ (6,168)**	$ (11,627)

9. PER SHARE DATA

Three months ended June 30,	**2007**	2006
Weighted average number of common shares outstanding		
– basic and diluted	**43,157,320**	38,536,653

As the Company incurred a net loss for the quarters ended June 30, 2007 and 2006, all outstanding stock options for both periods (2007 – 3,548,500, 2006 – 3,528,750) were considered anti-dilutive and were therefore excluded from the calculation of diluted per share amounts.

10. INCOME TAXES

India's federal tax law contains a seven-year tax holiday provision that pertains to the commercial production or refining of mineral oil, which is generally accepted as including petroleum and natural gas substances.

As a result of the tax holiday in India, the Company pays the greater of 42.23 percent of taxable income in India after a deduction for the tax holiday or a minimum alternative tax of 10.455 percent of Indian income. Taxes are based upon Indian income calculated in accordance with Indian GAAP.

The Company pays taxes in Bangladesh at a rate of 4.0 percent of revenues net of profit petroleum.

The Company does not pay income taxes related to Block 9 production as indicated in the PSC. The PSC indicates that the calculation for profit petroleum expense includes consideration of income taxes and, therefore, no income tax is assessed for Block 9.

11. GUARANTEES

As at June 30, 2007 and March 31, 2007, the following performance security guarantees were included in the restricted cash balance: US$7.0 million for the Cauvery block and US$1.7 million for the D4 block. Additionally, the Company provided a performance security guarantee in connection with Block 9. The value of the Block 9 guarantee is $7.7 million and is not reflected on the balance sheet as it is supported by Export Development Canada.

12. CONTINGENCIES

(a) During the year ended March 31, 2006, the Company was named as a defendant in a lawsuit that was filed in Texas by a number of plaintiffs who claim to have suffered damages as a result of the uncontrolled releases of natural gas that occurred at the Chattak-2 well in Bangladesh in January and June 2005. Total damages sought are in excess of US$250 million. On July 7, 2006, a court hearing was held to hear the Company's pleadings for the lawsuit to be dismissed due to lack of jurisdiction in Texas. The court in Texas dismissed the lawsuit on August 25, 2006 and the plaintiffs are appealing the dismissal. The appeal was heard on July 10, 2007 and the company is currently awaiting the outcome.

The Company believes that the outcome of the lawsuit and the associated cost, if any, are not determinable. As such, no amounts have been recorded in these consolidated financial statements.

(b) During the year ended March 31, 2006, a group of petitioners in Bangladesh (the petitioners) filed a writ with the Supreme Court of Bangladesh (the Supreme Court) against various parties including Niko Resources (Bangladesh) Ltd., a subsidiary of the Company. The petitioners are requesting the following of the Supreme Court with respect to the Company:

(i) that the Joint Venture Agreement for the Feni and Chattak fields be declared null and illegal;

(ii) that the Government realize from the Company compensation for the natural gas lost as a result of the uncontrolled flow problems as well as for damage to the surrounding area;

(iii) that Petrobangla withhold future payments to the Company relating to production from the Feni field (CAD$24.8 million as at June 30, 2007); and

(iv) that all bank accounts of the Company maintained in Bangladesh be frozen.

The Company believes that the outcome of the writ with respect to the first two issues is not determinable.

The Company believes that the full amount owed with respect to the Feni field will be collected from the government. As such, a writedown of this receivable resulting from this writ of petition has not been recorded in these consolidated financial statements.

The Company's Bangladesh branch has been permitted to make payments to Bangladesh vendors. However, payments to foreign vendors from the Bangladesh Feni and Chattak branch are not permitted. The Company's foreign vendors for the Feni and Chattak fields are being paid by Niko Resources (Bangladesh) Ltd., which is incorporated outside of Bangladesh.

(c) During the year ended March 31, 2006, Niko Resources (Bangladesh) Ltd. received a letter from the Government of Bangladesh demanding the following as compensation for the uncontrolled flow problems that occurred in the Chattak field in January and June 2005:

(i) 3 Bcf of free natural gas delivered from the Feni field as compensation for the burnt natural gas;

(ii) 5.89 Bcf of free natural gas delivered from the Feni field as compensation for the subsurface loss;

(iii) Taka 845,583,973 (CAD$12.7 million) for environmental damages, an amount subject to be increased upon further assessment;

(iv) unconditional acceptance that an additional quantity of approximately 45 Bcf of natural gas as compensation for further subsurface loss is to be delivered free or an equivalent monetary value is to be provided to the Government of Bangladesh. Until the actual quantity of natural gas is determined, a bank guarantee in the value of 45 Bcf of natural gas shall be provided; and

(v) any other claims that arise from time to time.

During the quarter ended March 31, 2007, the Company and the Government of Bangladesh agreed to settle the Government's claims through local arbitration based upon international rules. This process is expected to last up to two years.

The Company believes that the outcome of the government's claims and the associated cost to the Company, if any, are not determinable. As such, no amounts have been recorded in these consolidated financial statements.

(d) The Company and its partner are currently in arbitration with the Government of India with respect to the cost recovery status of the investment in the 36" pipeline at Hazira. If successful in the arbitration, the Company would reduce its profit petroleum payments currently being made. Additionally, in October 2002, Gujarat State Petroleum Company Ltd. (GSPCL) and the Company signed a memorandum of understanding in which GSPCL agreed to transfer the rights of the 36" pipeline to the joint venture. At June 30, 2007 the Company is attempting to obtain legal title to the 36" pipeline. For the quarter ended June 30, 2007 the Company included the 36" pipeline in property and equipment at the net book value of $1.8 million (March 31, 2006 – $1.8 million), a net payable to GSPC of $4.8 million (March 31, 2006 – $5.0 million) and a net operating loss to date, calculated as net accrued revenues after operating costs, depletion and foreign exchange of $3.0 million (March 31, 2006 –$3.2 million) with respect to the pipeline.

(e) In accordance with natural gas sales contracts to customers in the vicinity of the Hazira field, the Company and its joint venture partner at Hazira have committed to certain minimum quantities. The Company will use Hazira and D6 volumes to meet its obligations. However, prior to the start-up of D6, the Company expects there will be a shortfall between production levels and minimum contract quantities. The Company has estimated the future contingent liability between nil and US$27 million. The Company is currently negotiating with customers and alternate suppliers to minimize the potential effect to the Company.

(f) The Company calculates and remits profit petroleum expense to the Government of India in accordance with the PSC. The profit petroleum expense calculation considers capital and other expenditures made by the joint venture, which reduce the profit petroleum expense. There are costs that the Company has included in the profit petroleum expense calculations that have been contested by the government.

The Company believes that it is not determinable whether the above issue will result in additional petroleum expense. No amount has been recorded in these consolidated financial statements.

(g) The Company has filed its income tax returns for the years 1998 through 2007 in India, under provisions that provide for a tax holiday for production from the Hazira and Surat fields.

The Company received a favourable ruling with respect to the tax holiday at the second tax assessment level for the 2001 taxation year. The Income Tax Department has filed an appeal with the third tax assessment level against the order of the second tax assessment level and the matter is currently pending with the third tax assessment level. During the quarter ended December 31, 2006, the second tax assessment level ruled that, among other things, the Company would not receive a tax holiday for the Hazira field for the years 1998, 1999, 2000, 2002 and 2003. Under the Indian income tax system, the Company has filed an appeal before the third tax assessment level against the order from the second tax assessment level for assessments for these years. The matter is currently pending before the third tax assessment level. The 2004 year was assessed at the first level denying the tax holiday claim and the Company will appeal the order to the second tax assessment level. While no assurance can be given, the Company believes that tax assessments such as this are not unusual in India, are in the normal course of doing business in India and that the outcome of the appeals process will result in rulings favourable to the Company. The taxation years 2005 through 2007 have been filed including a deduction for the tax holiday, but have not yet been assessed.

Should the Company fail through the assessment and appeal process to receive a favourable ruling with respect to the taxation years 1998 through 2004, the Company would record a tax expense of US$46.3 million, pay additional taxes of US$23.0 million and write off US$23.3 million of the income tax receivable.

(h) A vendor employed by the Company in conjunction with the construction of the Hazira offshore development has claimed US$1.8 million from the Company (US$0.6 million net to the Company) with respect to service tax liability on the contract. The Company and the vendor are obtaining an independent opinion on the applicability of service tax to the contract. The Company believes that the outcome of this dispute is not determinable.

NOTES

13. SUBSEQUENT EVENT

In July 2007, the Company entered into an underwriting agreement to sell 4,762,000 common shares at a price of $105.00 per share to raise gross proceeds of $500 million. The offering closed on August 9, 2007. The Company intends use the net proceeds of the offering to fund the ongoing exploration and development activities and for general corporate purposes.

CORPORATE INFORMATION

OFFICERS AND DIRECTORS

Edward S. Sampson
Chairman of the Board, President and
Chief Executive Officer

Murray Hesje
VP Finance and Chief Financial Officer

William T. Hornaday, B.SC., P.ENG.
Chief Operating Officer

C. J. (Jim) Cummings, LLB
Director

Walter DeBoni, BASc., MBA., P.ENG.
Director

Robert R. Hobbs, CMA
Director

Conrad P. Kathol, B.SC., P.ENG.
Director

Wendell W. Robinson, BBA, MA, CFA
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Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

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Edward S. Sampson
Chairman of the Board, President and
Chief Executive Officer

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Societe Generale Bank
Mumbai, India

EVALUATION ENGINEERS

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Calgary, Alberta

Gaffney, Cline & Associates
United Kingdom

AUDITORS

KPMG LLP
Calgary, Alberta

LISTING AND TRADING SYMBOL

Toronto Stock Exchange
Symbol: NKO

ABBREVIATIONS

Bcf	billion cubic feet
Bcfe	billion cubic feet equivalent
bbl	barrel
CAD	Canadian
CEO	Chief Executive Officer
GPSA	gas purchase and sales agreement
GSPL	Gujarat State Petroleum Corporation Ltd.
JVA	joint venture agreement
Mcf	thousand cubic feet
Mcfe	thousand cubic feet equivalent
MMcf	million cubic feet
Mbbl	thousand barrels
MMbbl	million barrels
NGL	natural gas liquids
PSC	production sharing contract
Petrobangla	Bangladesh Oil, Gas and Mineral Corporation

All amounts are in Canadian dollars unless otherwise stated.

All thousand cubic feet equivalent (Mcfe) figures are based on the ratio of 1 bbl: 6 Mcf.

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