STALKING THE PRIZE CAPTURING THE REWARD

Q1 INTERIM REPORT FOR THE THREE MONTH PERIOD ENDED June 30, 2008

PRESIDENT'S REPORT *to* SHAREHOLDERS

Niko Resources Ltd. reports results for the three months ended June 30, 2008.

OPERATIONAL HIGHLIGHTS

New Ventures

- In May of 2008, Niko signed a production sharing contract (PSC) in the Kurdistan Region of Iraq whereby it will operate and currently has a 36 percent participating interest in the 846 square kilometre block.
- In July of 2008, Niko signed a Heads of Agreement whereby it will operate and earn a 75 percent participating interest in a 16,845 square kilometre block in Madagascar.

Exploration

- In Pakistan, a contract has been awarded to conduct a 3,200 square kilometre 3D seismic program.
- In the Kurdistan Region, field scouting began and a tender for a 300 to 500 kilometre 2D seismic program will be issued shortly.
- In D6, the L1 well was the first discovery in the Pleistocene channel complex.

Development

- D6 gas development is expected to start-up in the third calendar quarter of 2008. Volumes are expected to ramp-up to 2.8 Bcf/d (280 MMcf/d working interest to the Company).
- D6 oil development is expected to start-up in the third calendar quarter of 2008. Expected peak oil production is 40,000 bbls/d (4,000 bbls/d working interest to the Company).
- The development plan for the D6 satellite fields was submitted.

	Three months ended June 30,	
	2008	2007
Operations		
Average daily production		
Oil and condensate (bbls/d)	**252**	366
Natural gas (Mcf/d)	**77,044**	84,499
Total combined (Mcfe/d)	**78,557**	86,697
Revenues, royalties and operating costs ($/Mcfe)		
Oil and natural gas revenue	**3.45**	3.54
Pipeline revenue	**0.01**	0.02
Royalties	**(0.16)**	(0.19)
Profit petroleum	**(0.78)**	(1.19)
Operating costs		(0.41)
Operating netback ($/Mcfe)	**2.18**	1.77
Drilling activity		
Gross wells	**3**	3
Net wells	**0.3**	0.7

Financial Highlights (thousands of dollars)	Three months ended June 30, 2008	2007
Petroleum and natural gas sales	**24,628**	27,952
Funds from operations	**16,227**	13,342
Net income (loss)	**6,207**	(6,168)
Capital expenditures	**111,129**	62,798

The selected financial information is prepared in accordance with Canadian generally accepted accounting principles (GAAP), except for "funds from operations" and "operating netback", which are used by the Company to analyze the results of operations. By examining funds from operations, the Company is able to assess its past performance and 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 a non-GAAP measure and does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies. Operating netback is calculated as the average sales price per thousand cubic feet equivalent (Mcfe), plus pipeline revenue, less royalties, profit petroleum and operating expenses per Mcfe, and represents the before-tax cash margin for every Mcfe sold. The reporting currency of the Company is the Canadian dollar. Amounts presented are in Canadian dollars unless otherwise indicated.

OPERATIONS REVIEW

OPERATIONS UPDATE

India

D6 Block:

Exploration: The MK-1 Cretaceous exploration well, located 11 kilometres from the MA oil development, was drilled during the quarter; the rig has been released and the well results are under evaluation. Subsequent to June 30, 2008, the L1 well, located just outside the Dhirubhai 1 and 3 development area, was the first discovery in the Pleistocene submarine channel complex play. This complex extends over a significant portion of the block, particularly in the northern and eastern areas.

Gas Development: The Dhirubhai 1 and 3 discoveries are expected to start production during the third calendar quarter of 2008.

The development plan for the Dhirubhai 1 and 3 gas fields provides for natural gas production at a rate of 2.8 Bcf/d (280 Mmcf/d working interest to the Company) envisaged within the first year of production operations. The Phase I initial field development costs are estimated at US$5.2 billion (US$520 million net to the Company). The Company had spent US$328 million to June 30, 2008 of the US$520 million estimated for the project. Fourteen of the planned 18 Phase I wells will be tied in after start-up. The development provides flexibility in the critical components of the facilities to increase production to 4.2 Bcf/d (420 MMcf/d working interest to the Company).

The development plan for eight of the natural gas discoveries in the D6 Block has been submitted to the Government of India. The discoveries are adjacent to the Dhirubhai 1 and 3 gas fields that are currently under development. It is intended that these satellite discoveries be tied back to the Dhirubhai 1 and 3 facilities. Numerous other prospects have been identified in deeper water areas of the block where further upside potential will be evaluated.

Oil Development: Production from the MA discovery is expected to commence in the third calendar quarter of 2008.

The field is estimated to have a peak oil production rate of 40,000 bbls/d (4,000 bbls/d working interest to the Company). The initial field development costs, excluding the FPSO, are estimated at US$1.5 billion (US$150 million net to the Company) and the Company had spent US$52 million to June 30, 2008. A large portion of these costs will be spent subsequent to start-up to drill and tie in four of the planned six oil development wells and after a period of oil production, to convert some of the oil wells to gas producers.

NEC-25 Block: Geotechnical and geophysical studies have been completed with results used in the selection of drilling locations. One well, B3, was drilled during the quarter. The rig has been released and the well results are under evaluation. Additional exploratory locations are planned to be drilled in the coming year.

The offshore environmental study has been completed and onshore studies are in progress. Development plans have been submitted for the six gas discoveries that have been declared commercial by the Indian regulatory authorities.

Cauvery: Two wells were drilled in Cauvery during fiscal 2008 and petrophysical analysis of the electric logs indicated no significant hydrocarbons were encountered in the wells. The 2007 Cauvery 3D seismic program was completed in September 2007. A total of 915 square kilometres of seismic data have been acquired on the Block. The seismic has been processed and drilling prospects will be identified to allow drilling of three new locations in early calendar 2009.

D4 Block: In the deepwater block, MN-DWN-2003/1 (D4), located in the Mahanadi Basin, analysis of the 2,365 kilometre 2D seismic acquisition program has been completed. Based on the analysis, a further 2,800 kilometre 2D seismic program and a 3,600 square kilometre 3D seismic program have been designed and acquisition is underway with completion expected in late calendar 2008. Once the new seismic data is processed and interpreted, initial drilling locations will be selected, possibly as early as mid-calendar 2009. Drilling is expected to follow shortly thereafter.

Hazira: The Hazira field is currently producing 47 MMcf/d (16 MMcf/d working interest to the Company). Workovers for onshore wells are ongoing. A new transition 3D seismic program is planned for later in calendar 2008 to explore for deeper oil and gas targets in the eastern half of the Hazira field.

Surat: Current production from the Surat field is approximately 8 MMcf/d. This includes production from the three wells drilled in fiscal 2008.

Bangladesh

Block 9: Two wells in Block 9, Bangora-1 and Bangora-5, are currently producing at a combined facility constrained rate of more than 70 MMcf/d (47 MMcf/d working interest to the Company). Facilities upgrades have commenced and are expected to allow production targets to increase to nearly 120 MMcf/d (80 MMcf/d working interest to the Company) by the fourth calendar quarter of 2008. A condensate plant module is scheduled to be installed and operational by mid-calendar 2009, which will increase condensate yields. Further drilling prospects have been identified south of the producing Bangora structure on the 40-kilometre-long Bangora-Lalmai anticline. Drilling is planned to commence on these prospects when a drilling rig is available.

Feni and Chattak: Production from the Feni field is 4 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.

Pakistan

Four production sharing agreements (PSAs) were signed in March 2008 and a contract has been awarded to conduct a 3,200 square kilometre 3D seismic program, which is expected to commence data acquisition in late calendar 2008.

Kurdistan Region

In May of 2008, the Company signed a PSC for the Qara Dagh block. Field scouting is underway and a tender for a 300 to 500 kilometre 2D seismic program will be issued shortly with data acquisition expected to commence later in the third quarter of calendar 2008.

Madagascar

In July of 2008, the Company signed a Heads of Agreement whereby it has farmed-in to a production sharing contract for a property located off the west coast of Madagascar. The agreement is subject to the execution of definitive agreements and the approval of the Office of National Mines and Strategic Industries, who act on behalf of the Republic of Madagascar and the Company is awaiting approval.

Production

The following table displays working interest production in the three months ended June 30, 2008 and forecast production for fiscal 2009:

Working Interest Production (Daily average)	**Three months ended June 30, 2008**	Lower Estimate [1] Fiscal 2009	Upper Estimate [1] Fiscal 2009
Natural Gas (MMcf/d)			
India			
D6	–	90 [2]	130 [2]
Hazira	18	13	15
Surat	9	6	7
Bangladesh			
Block 9	46	54	58
Feni	5	3	4
Oil (Bbls/d)			
India			
D6	–	1,100 [2]	1,350 [2]
Hazira	162	150	166
Other [3]	90	–	–
Total (MMcfe/d)	79	174	223

[1] Refer to "Forward-looking Information" in this MD&A for a description of how forecast production is estimated.

[2] Production from the D6 Block is expected to commence in the third calendar quarter of 2008. The above number represents the part year's production during the period, spread over the entire year, and is not representative of the daily rate.

[3] Less than 1 percent of total corporate volumes 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 do not have separate forecasts.

OPERATING EXPENSE OUTLOOK

During the three months ended June 30, 2008, operating expenses averaged $0.34/Mcfe, and are anticipated to average less than $0.36/Mcfe in fiscal 2009.

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, 2008 should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the same periods, as well as in conjunction with the MD&A, audited consolidated financial statements and accompanying notes for the fiscal year ended March 31, 2008. This MD&A is effective August 12, 2008. 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 the Asian continent. Over the reporting period, revenue and expenses were generated and capital expenditures were made in India, Bangladesh and Canada, and capital expenditures were made for new ventures. 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", "net operating income", "operating netback", "funds from operations netback" and "earnings netback", which are used by the Company to analyze the results of operations. These non-GAAP measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

The terms "current quarter", "the quarter" and "the first quarter" are used throughout the MD&A and in all cases refer to the period from April 1, 2008 through June 30, 2008. The terms "prior year's quarter" and "2007 quarter" are used throughout the MD&A for comparative purposes and refer to the period from April 1, 2007 through June 30, 2007. The fiscal year for the Company is the 12-month period ended March 31. The terms "fiscal 2009", "current year" and "the year" are used throughout the MD&A and in all cases refer to the period from April 1, 2008 through March 31, 2009. The term "fiscal 2010" is used throughout the MD&A and refers to the period from April 1, 2009 through March 31, 2010. The terms "previous year", "prior year" and "fiscal 2008" are used throughout the MD&A for comparative purposes and refer to the period from April 1, 2007 through March 31, 2008. The term "fiscal 2007" is used throughout the MD&A for comparative purposes and refers to the period from April 1, 2006 through March 31, 2007.

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.

Less than 1 percent of total corporate volumes and 4 percent of total corporate revenue are from Canadian oil, Bangladeshi condensate and Hazira condensate production. Therefore, the results from Canadian oil, Bangladeshi condensate and Hazira condensate production are not discussed separately.

Certain prior-year amounts have been reclassified to conform to current year presentation.

Forward-Looking Information

This MD&A contains forward-looking information about Niko's operations, reserves estimates, production and capital spending. 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 Company prepares production forecasts taking into account historical and current production, actual and planned events that are expected to increase or decrease production and production levels indicated in the Company's reserve reports. The Company prepares capital spending forecasts based on internal budgets for operated properties, budgets prepared by the Company's joint venture partners, when available, for non-operated properties, field development plans and actual and planned events that are expected to affect the timing or amount of the capital spending. The Company prepares operating expense forecasts based on historical and current levels of expenses and actual and planned events that are expected to increase or decrease production and/or the associated expenses. The Company discloses the nature and timing of expected future events based on the Company's budgets, plans, intentions and expected future events for operated properties are based on budgets, expected future events and other communications received from the Company's joint venture partners, when available, for non-operated properties. 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. The Company updates forward-looking information related to operations, production and capital spending on a quarterly basis and updates reserves on an annual basis.

Non-GAAP Measures

By examining funds from operations, the Company is able to assess its past performance and 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 a non-GAAP measure and does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other companies.

Three months ended June 30 ($ thousands)	2008	2007
Cash flow provided by operating activities (GAAP measure)	12,159	11,115
Less:		
Change in non-cash working capital	(4,014)	1,987
Change in long-term accounts receivable	(54)	(4,214)
Funds from operations (non-GAAP measure)	16,227	13,342

By examining net operating income, operating netback, funds from operations netback and earnings netback, the Company is able to evaluate past performance by segment and overall. Net operating income is calculated as oil, natural gas and pipeline revenues less royalties, profit petroleum expenses, operating expenses and pipeline expenses. Operating netback is calculated as net operating income per thousand cubic feet equivalent (Mcfe) and represents the before-tax cash margin for every Mcfe sold. Funds from operations netback is calculated as the funds from operations per Mcfe and represents the cash margin for every Mcfe sold. Earnings netback is calculated as net income per Mcfe and represents net income for every Mcfe sold. There are no comparable GAAP measures for net operating income, operating netback, funds from operations netback or earnings netback, and these measures are unlikely to be comparable with the calculation of similar measures in other companies.

Three months ended June 30 ($ thousands)	2008	2007
Oil and natural gas revenues	24,628	27,952
Pipeline revenue	99	176
Royalties	(1,167)	(1,497)
Profit petroleum	(5,533)	(9,406)
Operating and pipeline expense	(2,441)	(3,280)
Net operating income (non-GAAP measure)	15,586	13,945
Volume produced (Mcfe)	7,148,719	7,889,386
Operating netback ($/Mcfe) (non-GAAP measure)	2.18	1.77

Three months ended June 30 ($ thousands)	2008	2007
Net operating income (non-GAAP measure)	15,586	13,945
Interest income	4,290	2,106
General and administrative expense	(2,774)	(1,098)
Realized foreign exchange gain	693	590
Current income tax expense	(1,568)	(2,201)
Funds from operations (non-GAAP measure)	16,227	13,342
Volume produced (Mcfe)	7,148,719	7,889,386
Funds from operations netback ($/Mcfe) (non-GAAP measure)	2.27	1.69

Three months ended June 30 ($ thousands)	2008	2007
Funds from operations (non-GAAP measure)	16,227	13,342
Unrealized foreign exchange (loss)	(2,325)	(4,561)
Gain on short-term investment	6,990	–
Gain on risk management contracts	970	–
Discount of long-term account receivable	(101)	–
Stock-based compensation expense	(4,472)	(3,743)
Depletion, depreciation and accretion	(11,082)	(11,206)
Earnings [1]	6,207	(6,168)
Volume produced (Mcfe)	7,148,719	7,889,386
Earnings netback ($/Mcfe) (non-GAAP measure)	0.87	(0.78)

[1] Earnings is a GAAP measure defined as net income (loss) on the consolidated statement of operations and retained earnings.

OVERALL PERFORMANCE

Funds from Operations

Reported funds from operations increased to $16.2 million in the current quarter from $13.3 million in the prior year's quarter. Net operating income was $1.6 million higher in the quarter than in the prior year's quarter. Net revenues and operating expenses decreased in the current quarter primarily as a result of a decrease in production from the Hazira and Surat fields due to natural declines. The 2007 quarter's net operating income included a one-time negative adjustment of $4.0 million due to the adverse resolution of a previously disclosed dispute regarding profit petroleum.

In addition to the change in net operating income, interest income improved funds from operations by $2.2 million in the quarter, primarily due to higher average cash balances. An increase in general and administrative expense decreased funds from operations by $1.7 million and was primarily a result of increased activity, number of employees and the employee bonus plan.

Net Income (Loss)

The Company generated net income of $6.2 million in the quarter compared to a net loss of $6.2 million in the prior year's quarter resulting in a $12.4 million improvement in net income. In addition to the increase in funds from operations discussed above, there was an unrealized gain on the short-term investment, a decrease in the unrealized foreign exchange loss and an unrealized gain on risk management contracts, as discussed elsewhere, all of which improved net income.

The unrealized gain on the short-term investment of $7.0 million was recorded on recognition of the fair value of the investment.

The unrealized foreign exchange loss of $2.3 million in the quarter was primarily due to the translation of the rupee-denominated long-term income tax receivable to Canadian dollars.

There was an unrealized gain of $1.0 million on the recognition of the fair value of the Company's risk management contracts, which are comprised of a series of interest rate swaps, due to the increase in forecast LIBOR rates during the period.

UPDATE ON SIGNIFICANT PROJECTS

Capital Expenditures

The following table displays capital spending during the three months ended June 30, 2008 and forecast capital spending for all of fiscal 2009:

Exploration and Development Spending (Net to the Company)

($ millions)	Three months ended June 30, 2008	Forecast [1][2] Fisal 2009
India		
Cauvery	0.3	8 – 9
D4	0.9	7 – 8
D6	84.9	380 – 400
Hazira	0.2	4 – 5
NEC-25	6.5	12 – 13
Surat	0.1	1
Bangladesh		
Block 9	2.1	13 – 14
Chattak & Feni	0.3	1
Pakistan	0.6	56 – 58
Kurdistan Region	15.0	25 – 27
Madagascar	–	5 – 6
Other	0.2	0.2
Total	111.1	512 – 542

(1) Refer to "Forward-looking Information" in this MD&A for a description of how forecast capital expenditures are estimated.

(2) Forecast fiscal 2009 is the sum of the actual spending for the quarter and expected spending for the remainder of the fiscal year.

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 during the quarter were mainly for the carrying costs of the block. The remaining capital expenditures related to the minimum work program are estimated at US$7.5 million, which must be spent within three years of the issuance of the Production Exploration Licence. The seismic has been processed and drilling prospects will be identified to allow drilling of three new locations in early calendar 2009.

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. Analysis of a 2,365 kilometre 2D seismic acquisition program has been completed. Based on the analysis, a further 2,800 kilometre 2D seismic program and a 3,600 square kilometre 3D seismic program have been designed and acquisition is underway with completion expected in late calendar 2008. Once the new seismic data is processed and interpreted, initial drilling locations will be selected, possibly as early as mid-calendar 2009. Drilling is expected to follow shortly thereafter.

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. Capital expenditures during the quarter and forecast expenditures for fiscal 2009 are primarily for the seismic programs described above.

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 and the MA oil field is substantially complete and exploration is ongoing on this block.

Gas Development: The Dhirubhai 1 and 3 discoveries are expected to commence production during the third calendar quarter of 2008.

The development plan for the Dhirubhai 1 and 3 gas fields provides for natural gas production at a rate of 2.8 Bcf/d (280 Mmcf/d working interest to the Company) envisaged within the first year of production operations. The Phase I initial field development costs are estimated at US$5.2 billion (US$520 million net to the Company). The Company had spent US$328 million to June 30, 2008 of the US$520 million estimated for the project. Fourteen of the planned 18 Phase I wells will be tied in after start-up. The development provides flexibility in the critical components of the facilities to increase production to 4.2 Bcf/d (420 MMcf/d working interest to the Company).

The development plan for eight of the natural gas discoveries in the D6 Block has been submitted to the Government of India. The discoveries are adjacent to the Dhirubhai 1 and 3 gas fields that are currently under development. It is intended that these satellite discoveries be tied back to the Dhirubhai 1 and 3 facilities.

Oil Development: Production from the MA discovery is expected to commence in the third calendar quarter of 2008.

The field is estimated to have the capacity for a peak oil production rate of 40,000 bbls/d (4,000 bbls/d working interest to the Company). The initial field development costs, excluding the FPSO, are estimated at US$1.5 billion (US$150 million net to the Company) and the Company had spent US$52 million to June 30, 2008. A large portion of these costs will be spent subsequent to start-up to drill and tie in four of the planned six oil development wells and after a period of oil production, to convert some of the oil wells to gas producers.

Capital expenditures at D6 in the quarter were $84.9 million. Spending during the quarter related primarily to natural gas and oil developments, but also included one exploration well. Forecast activity for fiscal 2009 includes the continuation of the gas development for the Dhirubhai 1 and 3 natural gas fields, development of the MA 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. This field commenced gas production in 1996 and oil production in March 2006.

Capital expenditures in the quarter were primarily related to well recompletions for natural gas wells. Capital expenditures forecast for fiscal 2009 include a new transition 3D seismic program, various well recompletions and upgrading of facilities.

Surat – The Company was awarded rights to 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.

The remaining capital expenditures of putting the three new wells into service were incurred during the quarter. There is no capital activity planned for fiscal 2009.

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, and was awarded to the Company and its partner in the Government of India's first international bid round in 1999. Under the production sharing contract (PSC), the Company and its partner have capital commitments for Phase II exploration, which includes seismic and two exploration wells. To date, the Company and its partner have drilled sufficient wells to meet the commitment. Capital expenditures in the quarter were $6.5 million, primarily for the acquisition of 3D seismic and drilling the B3 well. Capital expenditures forecast for fiscal 2009 include environmental studies and additional exploratory drilling.

Development plans for the six discoveries that have been declared commercial by the Indian regulatory authorities have been approved by the Joint Venture's Operating Committee and submitted to the Government of India.

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 quarter were $2.1 million. Expenditures were to commence the tie-in of the Bangora-3 well, for well testing and for upgrading of the production facility. The remaining forecast capital spending for fiscal 2009 includes completing the tie-in of the Bangora-3 well, continued work upgrading the facility and continued well testing.

Feni and Chattak – 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. 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.

Capital expenditures during the quarter were made primarily on carrying costs of the blocks. Future drilling activities at Feni and Chattak have been postponed pending resolution of overdue payment for gas owed to the Company by the Government of Bangladesh.

Pakistan

Four production sharing agreements (PSAs) were signed in March 2008 and a contract has been awarded to conduct a 3,200 square kilometre 3D seismic program, which is expected to commence data acquisition in late calendar 2008. Capital expenditures of $0.6 million during the quarter were for annual fees required as per the PSAs. Remaining forecast capital expenditures for fiscal 2009 are primarily for seismic acquisition.

Kurdistan

In May of 2008, the Company obtained an interest in the onshore Qara Dagh block in the Sulaymaniyah Governorate of the Federal Region of Kurdistan in Iraq, which covers approximately 846 square kilometres. The Company currently has a 36 percent interest and carries the proportionate cost for the government's interest resulting in a 45 percent cost interest. Field scouting is underway and a tender for a 300 to 500 kilometre 2D seismic program will be issued shortly with acquisition expected to commence later in the third quarter of calendar 2008. Capital expenditures during the quarter were for various bonuses required as per the PSC. Remaining forecast capital expenditures for fiscal 2009 include various payments under the PSC, a 2D seismic program and drilling one exploration well.

Madagascar

In July of 2008, the Company signed a Heads of Agreement whereby it has farmed-in to a production sharing contract (PSC) off the west coast of Madagascar. The agreement is subject to the execution of definitive agreements and the approval of the Office of National Mines and Strategic Industries, which acts on behalf of the Republic of Madagascar and the Company is awaiting approval.

The PSC covers 16,845 square kilometres in water depths ranging from shallow water to 1,500 metres. The joint venture is currently reprocessing 7,600 kilometres of 2D seismic, which is to be followed by a 3,000 square kilometre 3D seismic program planned to commence in the first quarter of calendar 2009. Forecast capital expenditures for fiscal 2009 relate to the planned seismic.

RESULTS OF OPERATIONS

Revenue and Operating Income

Three months ended June 30, 2008 ($ thousands, except daily production)	India	Bangladesh	All Other	Total
Oil and natural gas revenue	13,092	11,192	344	24,628
Pipeline revenue	99	–	–	99
Royalties	(1,112)	–	(55)	(1,167)
Profit petroleum	(1,830)	(3,703)	–	(5,533)
Operating and pipeline expenses	(1,292)	(1,133)	(16)	(2,441)
Net operating income [1]	8,957	6,356	273	15,586
Daily production (Mcfe/d)	27,208	51,145	204	78,557

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

Three months ended June 30, 2007 ($ thousands, except daily production)	India	Bangladesh	All Other	Total
Oil and natural gas revenue	16,089	11,662	201	27,952
Pipeline revenue	176	–	–	176
Royalties	(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/d)	36,396	50,106	195	86,697

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

INDIA

Revenue, Royalties and Profit Petroleum

The Indian properties Hazira and Surat generated revenue of $13.1 million in the quarter, representing approximately 53 percent of the Company's oil and natural gas revenue, compared to $16.1 million or 58 percent in the prior year's quarter. Revenue from the sale of natural gas was $11.5 million in the quarter and $14.8 million in the prior year's quarter. Revenue from the sale of oil was $1.6 million in the quarter and $1.3 million in the prior year's quarter. The two factors affecting revenue are production volumes and realized price.

Average daily natural gas production in India during the quarter was 26 MMcf/d compared to 35 MMcf/d in the prior year's quarter. Production decreased due to expected natural declines at both the Hazira and Surat properties. Three additional wells were drilled in Surat during the previous fiscal year and are now on production to augment the production in the Surat field.

The average realized natural gas price net of royalties was $4.81/Mcf in the quarter compared to $4.67/Mcf in the prior year's quarter. The net increase resulted from an increased sales price charged for Hazira and Surat natural gas, which was partially offset by the changing Canada-U.S. dollar exchange rate.

Sales of oil in the quarter decreased to an average of 162 bbls/d from 271 bbls/d in the prior year's quarter. The average price received in the quarter was $114.11/bbl compared to $53.55/bbl in the prior year's quarter. The price increased due to the increasing market price for oil over the past year and a price revision from the previous year as a result of determining the quality of the oil and applicable market index.

Pursuant to the terms of the 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 current and prior year's quarters, the government was entitled to 25 percent 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 in the quarter decreased by $3.7 million from the prior year's quarter. The decrease was mainly due to the adverse resolution of a previously disclosed dispute regarding profit petroleum of US$3.7 million (Cdn$4.0 million) recorded in the prior year's quarter.

BANGLADESH

Revenue and Profit Petroleum

Revenue from the Bangladesh properties, Block 9 and Feni, was $11.2 million in the quarter compared to $11.7 million in the prior year's quarter. The two factors affecting revenue are production volumes and realized price.

The increase in Block 9 production was partially offset by natural declines in production from the Feni field, resulting in a 2 percent overall increase in production.

The average natural gas price received in the quarter decreased by 8 percent to $2.29/Mcf from $2.49/Mcf in the prior year's quarter. A proportionate increase in the higher-priced Block 9 production had the effect of improving revenues; however, this improvement was more than offset by a decrease in realized price due to the strengthening of the Canadian dollar versus the U.S. dollar, resulting in a net decrease in price.

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 was entitled to 25 percent of the revenue during the quarter and the prior year's quarter.

For Block 9, the government's share is based on production levels and whether or not the Company has recovered its investment. In the current and prior years, 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 decreased to $0.34/Mcfe in the quarter from $0.41/Mcfe in the prior year's quarter.

Operating expenses pertaining to India decreased to $0.51/Mcfe in the quarter from $0.57/Mcfe in the prior year's quarter. The reduction in absolute operating expenses exceeded the decrease in production resulting in a lower cost per Mcfe. With the reduced production, the Company has been able to eliminate some of the fixed costs previously incurred and included in operating costs. In Bangladesh, operating expenses decreased to $0.24/Mcfe in the quarter from $0.29/Mcfe in the prior year's quarter as a result of the increased proportion of production from Block 9, which has lower operating costs than the Feni field.

NETBACKS

The following table outlines the Company's operating, cashflow and earnings netbacks for the three months ended June 30, 2008 and 2007:

	Oil/ Condensate ($/bbl)	Natural Gas ($/Mcf)	2008 Combined Total (1:6) ($/Mcfe)	2007 Combined Total (1:6) ($/Mcfe)
Oil and natural gas revenue	**114.98**	**3.15**	**3.45**	3.54
Pipeline revenue	**–**	**0.01**	**0.01**	0.02
Royalties	**(5.37)**	**(0.15)**	**(0.16)**	(0.19)
Profit petroleum	**(23.68)**	**(0.71)**	**(0.78)**	(1.19)
Operating and pipeline expense	**(4.71)**	**(0.33)**	**(0.34)**	(0.41)
Operating netback	**81.22**	**1.97**	**2.18**	1.77
Interest and other income			**0.60**	0.27
General and administrative expense			**(0.39)**	(0.14)
Realized foreign exchange gain			**0.10**	0.07
Current tax expense			**(0.22)**	(0.28)
Funds from operations netback			**2.27**	1.69
Unrealized foreign exchange (loss)			**(0.33)**	(0.58)
Gain on short-term investment			**0.98**	–
Gain (loss) on risk management activities			**0.14**	–
Discount of long-term account receivable			**(0.01)**	–
Stock-based compensation expense			**(0.63)**	(0.47)
Depletion, depreciation and accretion expense			**(1.55)**	(1.42)
Earnings netback			**0.87**	(0.78)

Oil and condensate netbacks are non-GAAP measures calculated by dividing the revenue and costs related to oil and condensate production by the total oil and condensate production for the Company, measured in barrels. The natural gas netbacks are non-GAAP measures 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 a non-GAAP measure 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, 2008 and 2007:

Three months ended June 30, 2008	India	Bangladesh	Other
Average daily production			
Oil and condensate (bbls/d)	162	56	34
Natural gas (Mcf/d)	26,238	50,807	–
Total combined (Mcfe/d)	27,208	51,145	204
Revenue, royalties and operating expenses ($/Mcfe)			
Oil and natural gas revenue	5.29	2.40	18.08
Pipeline revenue	0.04	–	–
Royalties	(0.45)	–	(2.96)
Profit petroleum	(0.74)	(0.80)	–
Operating and pipeline expenses	(0.51)	(0.24)	(0.87)
Operating netback ($/Mcfe)	3.63	1.36	14.25

Three months ended June 30, 2007	India	Bangladesh	Other
Average daily production			
Oil and condensate (bbls/d)	276	57	33
Natural gas (Mcf/d)	34,737	49,762	–
Total combined (Mcfe/d)	36,396	50,106	195
Revenue, royalties and operating expenses ($/Mcfe)			
Oil and natural gas revenue	4.86	2.56	11.01
Pipeline revenue	0.05	–	–
Royalties	(0.45)	–	(1.29)
Profit petroleum	(1.68)	(0.84)	–
Operating and pipeline expenses	(0.57)	(0.29)	(0.68)
Operating netback ($/Mcfe)	2.21	1.43	9.04

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

CORPORATE

Gain on Short-term Investment

There was an unrealized gain of $7.0 million on the recognition of the short-term investment at its fair value of $39.7 million. The fair value was $39.7 million at June 30, 2008 and declined to $31.7 million at August 12, 2008.

Long-term Investment

The Company's long-term investment is an investment in the shares of a Company trading on the TSX Venture Exchange. The investment is accounted for using the equity method whereby the investment is initially recorded at cost and the carrying value is subsequently adjusted to include the Company's pro rata share of post-acquisition earnings of the investee. There was no income calculated by the equity method from the date of purchase on June 12, 2008 to the end of the quarter.

Gain on Risk Management Activities

As required by the credit facility, the Company has entered into a series of interest rate swaps to fix the floating rate on a portion of the long-term debt. There was a realized loss of $0.3 million on the settlement of a swap at June 30, 2008, which was included in the fair value of the interest rate swaps on the balance sheet at March 31, 2008, and therefore did not affect net income for the quarter. There was an unrealized gain of $1.0 million on the recognition of the fair value of the remaining interest rate swaps due to the increase in forecast LIBOR rates during the period, which decreased the differential compared to the fixed interest rate.

Interest and Other Income

The Company earned interest income of $4.3 million in the quarter compared to $2.1 million in the prior year's quarter. The increase is due to higher average cash balances in the quarter. Other income of $0.1 million in the quarter and $0.2 million in the prior year's quarter was for pipeline revenue.

General and Administrative (G&A) Expense

The Company incurred G&A costs of $2.8 million in the quarter compared to $1.1 million in the prior year's quarter. The increase is due to additional employees, the employee bonus plan, increased fees for outside services and decreased overhead recoveries after the disposal of the Thailand branch.

Foreign Exchange

The Company recorded a foreign exchange loss of $1.6 million in the quarter compared to a foreign exchange loss of $4.0 million in the prior year's quarter. The loss in the quarter is comprised of net unrealized losses of $2.3 million, which were primarily a result of the translation of the rupee-denominated long-term income tax receivable to Canadian dollars, partially offset by a net realized gain of $0.7 million on the settlement of rupee-denominated working capital. The loss in the prior year's quarter was primarily a result of the strengthening of the Canadian dollar against the U.S. dollar applied to working capital amounts.

Discount of Long-term Account Receivable

A discount of $0.1 million was recognized on the additional revenue recorded and included in the long-term account receivable during the quarter to reflect the potential delay in collection of the receivable as it may not be collected until resolution of various claims related to the Chattak property that have been raised against the Company.

Stock-based Compensation

Stock-based compensation expense increased to $4.5 million in the quarter from $3.7 million in the prior year's quarter. The increase is primarily attributable to options being expensed during the quarter having a higher fair value per option than the fair value per option in the prior year's quarter.

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense decreased by $0.1 million from the prior year's quarter to $11.1 million in the current quarter.

Depletion in India decreased to $6.0 million or $2.43/Mcfe of production from $6.5 million or $1.96/Mcfe of production. The increase per Mcfe is a result of the inclusion of two dry wells in Cauvery in the cost base for depletion since the prior year's quarter. Depletion in Bangladesh increased by $0.2 million to $1.01/Mcfe of production.

Accretion expense was comparable quarter-over-quarter at $0.2 million.

Income Taxes

The Company's current income tax expense was $1.6 million for the quarter compared to $2.2 million in the prior year's quarter.

In India, income taxes for the quarter were $1.1 million, a decrease of $1.1 million from the prior year's quarter. The decrease was a result of recognition of the Surat tax holiday in the current quarter, while it was not recognized in the prior year's quarter, combined with decreased operating income due to natural declines in production from Hazira and Surat.

Canadian income taxes increased to $0.4 million in the quarter, which was related to income tax on the interest earned from cash balances outstanding during the year.

Income taxes in Bangladesh, the fringe benefit tax in India and the special defense tax in Cyprus totaled $0.1 million.

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

The Company has a contingency related to income taxes as at June 30, 2008. Refer to the unaudited consolidated financial statements and notes for the quarter for a complete discussion of the contingency.

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, 2008:

Three months ended ($ thousands, except per share amounts)	Sept. 30, 2007	Dec. 31, 2007	March 31, 2008	**June 30, 2008**
Petroleum and natural gas revenue	28,763	23,183	24,327	**24,628**
Net income (loss)	(19,387)	557	1,584	**6,207**
Per share				
Basic ($)	(0.43)	0.01	0.03	**0.13**
Diluted ($)	(0.43)	0.01	0.03	**0.12**

Three months ended ($ thousands, except per share amounts)	Sept. 30, 2006	Dec. 31, 2006	March 31, 2007	June 30, 2007
Petroleum and natural gas revenue	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)

Net income has fluctuated over the quarters, due in part to changes in net revenue, profit petroleum, interest and other income, gains on the short-term investment, foreign exchange, asset impairment, discount on the long-term account receivable, risk management activities, depletion and income taxes.

There were forecast natural declines in production at the Hazira, Surat and Feni fields over the quarters, which were partially offset by increases in production from Block 9, both of which affected revenue. Revenue decreased 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 December 31, 2007, there was a planned pressure survey in Block 9 resulting in decreased volumes in addition to the natural declines in the Hazira, Surat and Feni fields.

In the quarter ended June 30, 2007, there was an adjustment to profit petroleum of US$3.7 million (Cdn$4.0 million) due to the adverse resolution of a previously disclosed dispute regarding profit petroleum, increasing the net loss during that quarter.

Interest income increased in the quarters ended September 30 and December 31, 2007 and again in the quarter ended March 31, 2008 due to higher average cash balances in the quarters. The quarter ended June 30, 2008 includes an unrealized gain of $7.0 million on the recognition of the fair value of the short-term investment.

In the quarter ended December 31, 2006, the net loss was positively impacted by a net foreign exchange gain of $4.3 million on the U.S. dollar-held cash due to the strong U.S. dollar compared to the Canadian dollar for most of that quarter. In the quarters ended June 30 and September 30, 2007, there were net foreign exchange losses of $4.0 million and $5.3 million, respectively, due to the strengthening Canadian dollar compared to the U.S. dollar applied to U.S.-denominated working capital amounts. There was a foreign exchange gain of $1.2 million in the quarter ended December 31, 2007 primarily due to the translation of the rupee-denominated long-term income tax receivable and the translation of U.S.-dollar held cash to Canadian dollars.

There was an asset impairment of $26.0 million recognized in the quarter ended September 30, 2007 as a result of unsuccessful wells, workovers and associated costs in Thailand.

In the quarter ended December 31, 2007, net income was reduced by $4.5 million for a discount of a long-term account receivable to reflect the potential delay in collection as the account receivable may not be collected until resolution of various claims raised against the Company in Bangladesh.

In the quarters ended March 31, 2008 and June 30, 2008, the Company recognized a loss of $2.1 million and a gain of $1.0 million, respectively, related to the change in fair value of the Company's interest rate swaps.

Depletion expense decreased in the quarter ended March 31, 2007 with the addition of reserves, primarily from Block 9 and the foreign currency translation adjustment recognized in the quarter.

In the quarter ended September 30, 2007, there was an income tax recovery of $4.2 million related to the recalculation of prior years' tax filings and the current year's estimate of Surat income taxes applying the tax holiday deduction, which had a positive effect on the net loss. In the quarter ended March 31, 2008, there was an income tax recovery of $2.0 million as a result of a ruling from the Income Tax Appellate Tribunal indicating the rates at which tax pools may be claimed in arriving at taxable income, which were different from the manner in which the Company had calculated and recorded income taxes.

Liquidity and Capital Resources

At June 30, 2008, the Company had working capital of $406.8 million, which included $344.0 million of unrestricted cash and cash equivalents.

The restricted cash balance at June 30, 2008 was comprised of US$112.2 million of cash restricted in accordance with the facility agreement, US$10.9 million of performance guarantees and US$2.1 million of cash restricted for future site restoration. At June 30, 2008, the Company had provided performance guarantees to the governments of India and Bangladesh totalling US$5.3 million and US$5.6 million, respectively.

In November 2007, the Company executed the facility agreement for its US$550 million credit facility. The facility was being used to fund 65 percent of the Company's share in D6 natural gas development and, upon completion of the D6 block development, may be used for other projects. The Company has drawn US$192.8 million on the loan and is currently prevented from drawing further amounts because the Company is unable to meet one of the conditions precedent to borrowing additional funds.

Repayment of the outstanding debt amounts is based on certain financial ratios as determined in accordance with the facility agreement, with the outstanding debt amount not to exceed a reduction schedule. The financial ratios are based on the future cash flows from producing properties determined in accordance with the facility agreement. Failure to meet these ratios will trigger early payment of a part or the entire long-term debt balance. There are a number of other items in the facility agreement that could trigger early payment of a part or the entire balance of long-term debt including, but not limited to: the inability of the Company to achieve project completion as defined in the facility agreement prior to

a specified date; the Company not having sufficient funds to complete the project; the Company not having gas sales contracts for a quantity sufficient to support future cash flows required to meet the financial ratios, and compliance with various informational and other requirements specified in the facility agreement.

The Company has planned capital expenditures of $512 million to $542 million for fiscal 2009, of which $111.1 million has been spent year to date. The Company plans to meet remaining planned capital expenditures with cash on hand, funds from operations, which are expected to increase in the third calendar quarter of 2008 with the commencement of production from the D6 gas and oil developments, and long-term debt.

Based on the cash requirements and cash sources described above, the Company expects its funds will be sufficient to meet its fiscal 2009 working capital requirements and planned capital expenditures.

The Company has a number of contingencies as at June 30, 2008. Refer to the unaudited consolidated financial statements and notes for the 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 work commitments under its various performance guarantees as at June 30, 2008. The Company and its partner have work 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 cost of the work commitment is estimated at US$97.6 million (US$14.6 million net to the Company). The Cauvery block has a PSC Phase I three year commitment for seismic and drilling five exploration wells. The Company has completed the seismic and drilled two exploration wells. The cost remaining to complete the work commitment is estimated at US$7.5 million. The Company and its partner have work 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. The Company and its partner have work 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 has minimum work commitments under Phase I of the initial term and other requirements for the Pakistan blocks of US$8.6 million, which must be spent within two years of signing the PSAs. The Company and its partners have minimum commitments of US$16.0 million (US$7.2 million net to the Company) related to seismic and drilling one exploratory well in Kurdistan Region, which must be spent within three years of signing the PSC and US$15.6 million (US$7.0 million net to the Company) for various payments under the agreement. The Company signed a Heads of Agreement whereby it farmed-in to a production sharing contract (PSC) offshore Madagascar in July of 2008. The Company has minimum work commitments for a 3,000 square kilometre 3D seismic program and drilling of up to two exploration wells.

The Company expects to meet these commitments from cash on hand and funds from operations, which are expected to increase in the third calendar quarter of 2008 with the commencement of production from the D6 gas and oil developments. Although not committed, the Company has planned capital spending of $192 million (net to the Company) and $98 million (net to the Company) required to complete Phase I development of the Dhirubhai 1 and 3 gas fields and the MA Oil field, respectively, and these costs are included in the capital forecast for fiscal 2009.

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 or the consolidated financial statements of the Company, are measured at the exchange amount, which is also considered to be the fair value, and are in the normal course of business.

FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of the short-term investment, accounts receivable, accounts payable and accrued liabilities, long-term accounts receivable, long-term debt and interest rate swaps. As at June 30, 2008 and March 31, 2008, there were no significant differences between the carrying amounts of these instruments and the fair values.

The Company is exposed to fluctuations in the value of accounts receivable, long-term account receivable, accounts payable and accrued liabilities, interest rate swaps and long-term debt due to changes in foreign exchange rates as these financial instruments are primarily U.S.-dollar-denominated. This risk is reduced because a portion of the Company's revenues and expenses is denominated in U.S. dollars. The Company further manages the risk by converting Canadian-held cash to U.S. dollars as required to fund forecast expenditures.

The Company is exposed to changes in the market value of the short-term investment. The Company monitors the market value of marketable securities on a regular basis. An unrealized gain on the recognition of the short-term investment at fair value of $7.0 million was recognized in income to bring the carrying value of the investment to its' fair value of $39.7 million. The fair value was $39.7 million at June 30, 2008 and declined to $31.7 million at August 12, 2008.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of accounts receivable and long-term accounts receivable. The Company has accounts receivable from clients engaged in various industries that are concentrated in a specific geographical area in India and with a specific customer in Bangladesh. The Company takes measures in order to mitigate any risk of loss which may include obtaining guarantees. The specific industries or government may be affected by economic factors that may impact accounts receivable.

The long-term account receivable for gas sales charged to Petrobangla for production from the Feni field is carried at the discounted value of $21.7 million as at June 30, 2008 and reflects the potential delay in collection of the amount. A loss of $0.1 million was recognized in income during the quarter to recognize the additional revenue recorded and included in the long-term account receivable at fair value. The recorded amount of the long-term account receivable has been calculated using a discount rate of 6.5 percent and assumes collection in three years. The Company has and continues to attempt to collect the receivable through the agreed upon processes as per the JVA and the gas purchase and sale agreement (GPSA) and any other available legal and political processes.

The book value of the accounts receivable and long-term account receivable reflects management's assessment of the credit risk.

The Company was required to enter into interest rate swaps as per the terms of the facility agreement in order to fix the interest rate on a portion of the outstanding long-term debt. The Company is exposed to changes in the LIBOR rate on the remaining portion of the outstanding long-term debt. There was a realized loss of $0.3 million on the settlement of a swap at June 30, 2008, which was included in the fair value of the interest rate swaps on the balance sheet at March 31, 2008, therefore did not affect net income in the quarter. The interest rate swaps are recorded at fair value, which is estimated to be a liability of $1.3 million, and are included in accounts payable. A gain of $1.0 million on the recognition of the fair value was recorded in income during the quarter. The fair value calculation is provided by a third party using a forward LIBOR curve applied to future settlements.

The Company is exposed to the risk of changes in market prices of commodities. The Company enters into physical commodity contracts for the sale of natural gas, which manages this risk. The Company does so in the normal course of business including contracts with fixed terms. The contracts are not classified as financial instruments because the

Company expects to deliver all required volumes under the contracts. No amounts are recognized in the consolidated financial statements related to the contracts until such time as the associated volumes are delivered.

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 fiscal year ended March 31, 2008, available at www.sedar.com.

ACCOUNTING CHANGES IN FISCAL 2009

Effective April 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments – Disclosures", Section 3863 "Financial Instruments – Presentation" and Section 3031 "Inventories". For a discussion of the effects of adopting these new accounting standards, please refer to the interim consolidated financial statements for the Company's quarter ended June 30, 2008, available at www.sedar.com.

FUTURE ACCOUNTING CHANGES

Effective April 1, 2009, the Company will adopt another new accounting standard issued by the CICA, Section 3064 "Goodwill and Intangible Assets", replacing Sections 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". Effective April 1, 2011, the Company will replace current Canadian accounting standards and interpretations, or GAAP, with International Financial Reporting Standards (IFRS) as required by the Canadian Accounting Standards Board. Prior to March 31, 2009, the company plans to educate relevant employees, inventory the existing IFRS policies used by the Company's foreign subsidiaries and develop a plan for convergence.

For a discussion of these new accounting standards, please refer to the MD&A for the Company's fiscal year ended March 31, 2008, available at www.sedar.com.

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 quarterly 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 controls over financial reporting and have concluded that the internal controls over financial reporting are 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 control system are met.

There were no changes in the internal controls over financial reporting during the quarter ended June 30, 2008 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 actual and potential events, uncertainties, trends and risks. In addition to the risks associated with critical accounting estimates and financial instruments, the Company's commitments and actual and expected operating events, all of which are discussed above, the Company has identified the following events, uncertainties, trends and risks that could have a material adverse impact on the Company:

- The Company may not be able to find reserves at a reasonable cost, develop reserves within required time-frames or at a reasonable cost, or sell these reserves for a reasonable profit;
- Reserves may be revised due to economic and technical factors;
- The Company may not be able to obtain approval, or obtain approval on a timely basis for exploration and development activities;
- Changing governmental policies, social instability and other political, economic or diplomatic developments in the countries in which the Company operates;
- Changing taxation policies, taxation laws and interpretations thereof;
- Changes in the timing of future debt repayments based on provisions in the Company's loan agreement;
- Adverse factors including climate and geographical conditions, weather conditions and labour disputes;
- Changes in foreign exchange rates that in turn change the Company's future recorded revenues as the majority of sales are based on the U.S. dollar; and
- Changes in future oil and natural gas prices.

For a comprehensive discussion of all identified risks, refer to the Company's Annual Information Form, which can be found at www.sedar.com.

The Company has a number of contingencies as at June 30, 2008. Refer to the unaudited consolidated financial statements for a complete list of the contingencies and any potential effects on the Company.

OUTSTANDING SHARE DATA

At August 12, 2008, the Company had the following outstanding shares:

	Number	Amount
Common shares	49,178,533	$ 1,171,846,000
Preferred shares	nil	nil
Stock options	3,386,600	–

OUTLOOK

Whereas Niko once counted in years or months to the startup of the D6 oil and natural gas production, it is now counting in days. D6 oil and natural gas production is expected to start-up before the end of this quarter. Volumes are expected to ramp up to a targeted rate of 2.8 Bcf/d of natural gas (280 MMcf/d working interest to the Company) and 40,000 bbls/d of oil (4,000 bbls/d working interest to the Company). These events would culminate in a multi-fold increase in Niko's current production and earnings.

With the addition of properties in Pakistan, the Kurdistan Region and Madagascar to Niko's portfolio of exploration plays, Niko has secured promising investments in which to employ the current cash balance and the future cashflow from the D6 fields.

As always, Niko has coordinated its resources to fulfill exploration and development commitments and to seek and execute growth opportunities.

On behalf of the Board of Directors,

(signed) "Edward S. Sampson"

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

August 12, 2008

CONSOLIDATED BALANCE SHEETS

(THOUSANDS OF DOLLARS) (UNAUDITED)

	As at June 30, 2008	As at March 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	**$ 344,008**	$ 456,271
Short-term investment (note 13)	**39,669**	17,721
Accounts receivable (note 13)	**41,105**	38,982
Prepaid expenses	**1,399**	2,172
	$ 426,181	$ 515,146
Restricted cash (note 3)	**$ 127,480**	$ 133,548
Long-term investment (note 5)	**11,567**	–
Long-term accounts receivable (note 4a, 13)	**21,718**	21,432
Income tax receivable (note 4b)	**34,006**	37,532
Property and equipment	**742,290**	646,265
	$ 1,363,242	$ 1,353,923
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	**$ 15,616**	$ 16,905
Current tax payable	**3,739**	3,151
	$ 19,355	$ 20,056
Asset retirement obligation	**9,739**	9,358
Long-term debt (note 6, 13)	**196,401**	198,194
	$ 225,495	$ 227,608
Shareholders' equity		
Share capital (note 7)	**$ 1,140,706**	$ 1,130,052
Contributed surplus (note 8)	**40,571**	38,557
Accumulated other comprehensive income (loss) (note 9)	**(91,726)**	(85,758)
Retained earnings	**48,196**	43,464
	(43,530)	(42,294)
	$ 1,137,747	$ 1,126,315
	$ 1,363,242	$ 1,353,923

Guarantees (note 14)

Contractual obligations (note 15)

Contingencies (note 16)

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)

	2008	2007
Revenue		
Oil and natural gas	$ 24,628	$ 27,952
Royalties	(1,167)	(1,497)
Profit petroleum	(5,533)	(9,406)
Gain on short-term investments (note 13)	6,990	–
Gain on risk management contracts (note 13)	970	–
Interest and other	4,389	2,282
	$ 30,277	$ 19,331
Expenses		
Operating and pipeline	2,441	3,280
General and administrative	2,774	1,098
Foreign exchange loss	1,632	3,971
Discount of long-term account receivable (note 4a, 13)	101	–
Stock-based compensation (note 7)	4,472	3,743
Depletion, depreciation and accretion	11,082	11,206
	$ 22,502	$ 23,298
Income (loss) before income taxes	$ 7,775	$ (3,967)
Current income tax expense	1,568	2,201
Net income (loss)	$ 6,207	$ (6,168)
Retained earnings, beginning of period	$ 43,464	$ 72,556
Dividends paid	(1,475)	(1,298)
Retained earnings, end of period	$ 48,196	$ 65,090
Net income (loss) per share (note 11)		
Basic	$ 0.13	$ (0.14)
Diluted	$ 0.12	$ (0.14)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS *of* COMPREHENSIVE INCOME (LOSS)

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

	2008	2007
Net income (loss)	$ 6,207	$ (6,168)
Other comprehensive income (loss):		
Change in fair value of derivative (loss)	(95)	–
Foreign currency translation (loss)	(5,873)	(7,850)
Comprehensive income (loss) (note 9)	$ 239	$ (14,018)

See accompanying Notes to Consolidated Financial Statements.

FINANCIALS

CONSOLIDATED STATEMENTS *of* CASH FLOWS

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

	2008	2007
Cash provided by (used in):		
Operating activities		
Net income (loss)	**$ 6,207**	$ (6,168)
Add items not involving cash from operations:		
Depletion, depreciation and accretion	**11,082**	11,206
Stock-based compensation	**4,472**	3,743
Unrealized foreign exchange loss	**2,325**	4,561
Discount of long-term account receivable	**101**	–
Unrealized (gain) on short-term investments	**(6,990)**	–
Unrealized (gain) on risk management contracts	**(970)**	–
Change in non-cash working capital	**(4,014)**	1,987
Change in long-term accounts receivable	**(54)**	(4,214)
	$ 12,159	$ 11,115
Financing activities		
Proceeds from issuance of shares, net of issuance costs (note 7)	**$ 7,752**	$ 9,623
Dividends paid	**(1,475)**	(1,298)
	$ 6,277	$ 8,325
Investing activities		
Addition of property and equipment	**$ (111,129)**	$ (62,798)
Restricted cash contributions	**(2,653)**	–
Restricted cash returned	**8,233**	–
Addition to short-term investment	**(14,958)**	–
Addition to long-term investment	**(11,567)**	–
Change in non-cash working capital	**2,734**	(10,666)
	$ (129,340)	$ (73,464)
(Decrease) in cash	**$ (110,904)**	$ (54,024)
Effect of translation on foreign currency cash and cash equivalents	**(1,359)**	(5,840)
Cash and cash equivalents, beginning of period	**$ 456,271**	$ 209,370
Cash and cash equivalents, end of period	**$ 344,008**	$ 149,506
Supplemental information:		
Interest paid	**$ 2,226**	$ –
Taxes paid	**$ 428**	$ 3,417

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, 2008, except as discussed in note 2. 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, 2008. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended March 31, 2008.

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

2. CHANGES IN ACCOUNTING POLICIES

Effective April 1, 2008 the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments – Disclosures", Section 3863 "Financial Instruments – Presentation" and Section 3031 "Inventories". These new standards were adopted prospectively. Adoption of these standards did not impact April 1, 2008 opening balances.

Section 1535 specifies the disclosure of information about an entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether the entity has complied with any externally imposed capital requirements; and if it has not complied, the consequences of non-compliance.

Sections 3862 and 3863 specify the standards of presentation and enhanced disclosures on financial instruments, particularly with respect to the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3031 replaces the existing inventories standard. The new standard provides additional guidance with respect to the measurement and disclosure requirements for inventories and requires inventories to be valued at the lower of cost and net realizable value.

3. RESTRICTED CASH

The restricted cash balance at June 30, 2008 includes guarantees of US$10.9 million (Cdn$11.1 million) (see note 14), US$2.1 million (Cdn$2.1 million) of cash that is restricted for future site restoration in India and US$112.2 million (Cdn$114.3 million) of cash that is restricted as per the provisions of the facility agreement (see note 6).

4. LONG-TERM ACCOUNTS RECEIVABLE

(a) Long-term account receivable: 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 year ended March 31, 2007 at a price of US$1.75 per Mcf.

Payment of the receivable is being delayed as a result of various claims raised against the Company, which are described in note 16 (a) and (b). Though the Company expects to collect the full amount of the receivable, the timing of collection is uncertain as the Company may not collect the receivable until resolution of the various claims raised against the Company. As a result, the receivable has been classified as long-term and discounted to reflect the potential delay in collection of these amounts.

(b) Income tax receivable: The income tax receivable balance results from advances made to the tax authority in India as a result of assessments and re-filings for the taxation years 2001 through 2004. While no assurance can be given, the Company believes it will be successful on appeal and the tax authority will refund these advances. See further discussion in note 16 (e).

5. LONG-TERM INVESTMENT

The Company's long-term investment is an investment in the shares of a Company trading on the TSX Venture Exchange, Vast Exploration Inc. The investment is accounted for using the equity method whereby the investment is initially recorded at cost, which was $11.6 million, and the carrying value is subsequently adjusted to include the Company's pro rata share of post-acquisition earnings of the investee. There was no income calculated by the equity method from the date of purchase on June 12, 2008 to the end of the quarter, June 30, 2008. The Company estimates that the cost of its investment exceeded its share of the book value of the investee's net assets by $5.3 million at the date of purchase. The Company intends to recognize this excess in income over the life of the investee's assets. The market value of the long-term investment at June 30, 2008, is $22.5 million.

6. LONG-TERM DEBT

The balance of long-term debt outstanding is US$192.8 million and the Company is currently prevented from drawing further amounts because the Company is unable to meet one of the conditions precedent to borrowing additional funds.

Interest is at LIBOR plus 1.7 percent, falling to LIBOR plus 1.5 percent upon project completion, falling to LIBOR plus 1.2 percent once production reaches an average of 2.8 Bcf/d (280 MMcf/d working interest to the Company).

The Company is required to make U.S. dollar repayments of the outstanding balance if the loan exceeds the amount specified in a reduction schedule or in order to bring financial coverage ratios within specified limits. The facility will expire on September 30, 2011 and, under certain circumstances, may be extended, at the Company's option, to September 30, 2012.

The loan is secured by an interest in the D6, Hazira, Surat and Block 9 Production Sharing Contracts (PSCs).

7. SHARE CAPITAL

(a) Authorized

Unlimited number of Common shares

Unlimited number of Preferred shares

(b) Issued

	Three months ended June 30, 2008		Year ended March 31, 2008	
	Number	**Amount**	Number	Amount
Common shares				
Balance, beginning of period	**49,054,408**	**$ 1,130,052**	42,994,820	$ 603,112
Equity offering	**–**	**–**	4,762,000	479,585
Stock options exercised	**124,125**	**7,752**	1,297,588	39,723
Contributed surplus	**–**	**2,902**	–	7,632
Balance, end of period	**49,178,533**	**$ 1,140,706**	49,054,408	$ 1,130,052

(c) Stock Options

The Company has reserved for issue 4,917,853 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:

	Three months ended June 30, 2008		Year ended March 31, 2008	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	**3,219,725**	**$ 65.02**	3,753,250	$ 47.06
Granted	**276,250**	**$ 95.43**	838,563	$ 92.09
Forfeited	**(4,000)**	**$ 84.63**	(74,500)	$ 64.07
Exercised	**(124,125)**	**$ 62.45**	(1,297,588)	$ 30.61
Outstanding, end of period	**3,367,850**	**$ 67.58**	3,219,725	$ 65.02
Exercisable, end of period	**963,163**	**$ 49.61**	929,538	$ 49.79

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2008:

	Outstanding Options			Exercisable Options	
Exercise Price	Options	Remaining Life (Years)	Weighted Average Price	Options	Weighted Average Price
$ 22.20 – $ 26.47	30,000	0.2	$ 25.20	30,000	$ 25.20
$ 27.85 – $ 39.30	148,350	0.8	$ 35.51	144,600	$ 35.41
$ 41.00 – $ 49.30	517,500	1.9	$ 43.44	320,000	$ 43.79
$ 53.70 – $ 63.00	1,243,187	1.7	$ 56.29	412,813	$ 56.28
$ 79.69 – $ 91.81	737,563	3.6	$ 86.29	50,250	$ 82.08
$ 92.17 – $ 105.47	691,250	3.4	$ 94.73	5,500	$ 97.00
	3,367,850	2.4	$ 67.58	963,163	$ 49.61

Stock-based Compensation

The fair value of each option granted during the period was estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average grant-date fair value of options granted during the three months ended June 30, 2008 was $33.50 (June 30, 2007 – $30.70). The weighted average assumptions used in the Black-Scholes model to determine fair value for the current and prior years were as follows:

Modified Black-Scholes Assumptions

Three months ended (weighted average)	**June 30, 2008**	June 30, 2007
Risk-free interest rate	**3.3%**	4.6%
Volatility	**34%**	27%
Expected life (years)	**3.2**	3.4
Expected annual dividend per share	**$ 0.12**	$ 0.12

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather, the Company accounts for actual forfeitures as they occur.

8. CONTRIBUTED SURPLUS

	Three months ended June 30, 2008	Year ended March 31, 2008
Contributed surplus, beginning of period	**$ 38,557**	$ 26,723
Stock-based compensation	**4,916**	19,466
Stock options exercised	**(2,902)**	(7,632)
Contributed surplus, end of period	**$ 40,571**	$ 38,557

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Three months ended June 30, 2008	Year ended March 31, 2008
Accumulated other comprehensive income (loss), beginning of period	**$ (85,758)**	$ (67,410)
Other comprehensive income (loss):		
Change in fair value of derivative (loss)	**(95)**	(540)
Foreign currency translation (loss)	**(5,873)**	(17,808)
Accumulated other comprehensive income (loss), end of period	**$ (91,726)**	$ (85,758)

10. SEGMENTED INFORMATION

The Company's operations are conducted in one business sector, the oil and natural gas industry. Geographical areas are used to identify the Company's reportable segments. A geographic segment is considered a reportable segment once its' activities are regularly reviewed by the Company's management. The accounting policies of the information of the reportable segments are the same as those described in the summary of significant accounting policies in the March 31, 2008 notes to the financial statements. Revenues, operating profits and net identifiable assets by reportable segments are as follows:

Three Months Ended June 30, 2008	**India**	**Bangladesh**	**All Other** [1][2]	**Total**
Revenue	**$ 13,093**	**$ 11,192**	**$ 343**	**$ 24,628**
Segment profit (loss)	**$ 1,615**	**$ 1,645**	**$ (324)**	**$ 2,936**
Capital additions	**$ 92,854**	**$ 2,363**	**$ 15,912**	**$ 111,129**

Three Months ended June 30, 2007	India	Bangladesh	All Other [1][2]	Total
Revenue	$ 16,089	$ 11,662	$ 201	$ 27,952
Segment profit (loss)	$ (1,485)	$ 2,029	$ (6)	$ 538
Capital additions	$ 56,260	$ 3,435	$ 3,103	$ 62,798

As at June 30, 2008	**India**	**Bangladesh**	**All Other** [1][2]	**Total**
Property and equipment	**$ 575,964**	**$ 145,846**	**$ 20,480**	**$ 742,290**
Total assets	**$ 778,686**	**$ 179,776**	**$ 404,780**	**$ 1,363,242**

As at March 31, 2008	India	Bangladesh	All Other [1][2]	Total
Property and equipment	$ 492,313	$ 149,519	$ 4,433	$ 646,265
Total assets	$ 691,287	$ 178,888	$ 483,748	$ 1,353,923

[1] All Other for the three months ended and as at June 30, 2008 includes the Canadian oil and gas operations, capital spending of $0.6 million in Pakistan and $15.0 million in the Kurdistan Region, new ventures and corporate activities. All Other for the three months ended June 30, 2007 and as at March 31, 2008 included Thailand operations and no spending for Pakistan or the Kurdistan Region.

[2] Revenues included in All Other are from Canadian oil sales and royalties.

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

Three Months Ended June 30,	**2008**	2007
Segment profit	**$ 2,936**	$ 538
Gain on short-term investment	**6,990**	–
Interest and other income	**4,290**	2,106
Gain on risk management contracts	**970**	–
Stock-based compensation expense	**(4,472)**	(3,743)
General and administrative expenses	**(2,774)**	(1,098)
Foreign exchange loss	**(1,632)**	(3,971)
Discount of long-term account receivable	**(101)**	–
Net income (loss)	**$ 6,207**	$ (6,168)

11. EARNINGS PER SHARE

The following table summarizes the weighted average number of common shares used in calculating basic and diluted earnings per share.

Three months ended June 30,	**2008**	2007
Weighted average number of common shares outstanding		
– Basic	**49,096,616**	43,157,320
– Diluted	**49,756,618**	43,157,320

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

12. CAPITAL MANAGEMENT

Policy

The Company's policy is to maintain a strong capital base and related capital structure. The objectives of this policy are:

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

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

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

Capital Base

The Company's capital base includes shareholders' equity, outstanding long-term debt and undrawn and available long-term debt:

	June 30, 2008	March 31, 2008
Long-term debt [1]	$ 196,401	$ 198,194
Shareholders' equity	$ 1,137,747	$ 1,126,315

[1] The undrawn portion of the US$550 million credit facility is not currently available. See note 6.

The Company has certain obligations in accordance with its facility agreement. The Company has cash that is restricted as per the provisions of the facility agreement. In addition, the facility agreement defines levels within which the Company must maintain the debt to equity ratio and the debt to earnings before interest, taxes depletion and any extraordinary items. The Company monitors these ratios on a semi-annual basis and complied with the ratios as at March 31, 2008.

Capital Management

The Company's objective in capital management is to have the flexibility to alter the capital structure to take advantage of capital raising opportunities in the capital markets, whether they are equity or debt related. However, the Company would generally use long-term debt either to fund portions of the development of proven properties or to finance portions of possible acquisitions. Exploration is generally funded by cash flow from operations and equity.

To manage capital, the Company uses a rolling five year projection. The projection provides details for the major components of sources and uses of cash for operations, financing and development and exploration expenditure commitments. Management and the Board of Directors review the projection annually and when contemplating interim financing or expenditure alternatives. The periodic reviews ensure that the Company has the short-term and long-term ability to fulfill its obligations, to fund ongoing operations, to pay dividends, to fund opportunities that might arise, to have sufficient funds to withstand financial difficulties or to bridge unexpected delays or satisfy contingencies and to grow the Company's producing assets.

13. FINANCIAL INSTRUMENTS

The following financial instruments are included on the Consolidated Balance Sheet. The carrying values and fair values of the financial instruments are as follow:

	As at June 30, 2008 Carrying Amount	**As at June 30, 2008 Fair Value**	As at March 31, 2008 Carrying Amount	As at March 31, 2008 Fair Value
Held for trading financial assets (designated upon initial recognition):				
Short-term investment	**$ 39,669**	**$ 39,669**	$ 17,721	$ 17,721
Loans and receivables:				
Accounts receivable	**$ 41,105**	**$ 41,105**	$ 38,982	$ 38,982
Long-term accounts receivable	**$ 21,718**	**$ 21,718**	$ 21,432	$ 21,432
Other financial liabilities (not held for trading):				
Accounts payable and accrued liabilities[1]	**$ 14,285**	**$ 14,285**	$ 14,224	$ 14,224
Interest rate swaps[1]	**$ 1,331**	**$ 1,331**	$ 2,681	$ 2,681
Long-term debt	**$ 196,401**	**$ 196,401**	$ 198,194	$ 198,194

[1] The fair values of the interest rate swaps are included in accounts payable and accrued liabilities on the balance sheet.

Basis for Determining Fair Values

The fair values of the accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short periods to maturity. The fair value of held-for-trading assets is based on publicly quoted market values. The Company has short-term investments that were designated as held-for-trading upon initial recognition. A gain of $7.0 million on recognizing the fair value of these assets at June 30, 2008 (June 30, 2007 – nil) is recognized in income. A discount on the long-term account receivable of $0.1 million has been recognized in income at June 30, 2008 (June 30, 2007 – nil) resulting in the long-term account receivable being carried at fair value. The fair value of the interest rate swaps is provided by a third party using a forward LIBOR curve applied to future settlement amounts. The forward LIBOR rates used were 2.80 percent, 2.98 percent and 3.19 percent for the quarters ending September 30, 2008, December 31, 2008, and March 31, 2009, respectively. A gain of $1.0 million at June 30, 2008 (June 30, 2007 – nil) on recognition of the fair value of the interest rate swaps has been recognized in income. The Company's long-term debt bears interest based on a floating market rate and, accordingly, the fair market value approximates the carrying value. A foreign currency translation gain of $1.8 million on the translation of the U.S. dollar-denominated long-term debt has been included in other comprehensive income.

Market Risk

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

The Company is exposed to the risk of changes in market prices of commodities. The Company enters into natural gas contracts, which manages this risk. Because the Company has short-term gas contracts, a change in natural gas prices would not have impacted net income for the period ended June 30, 2008. The Company is exposed to changes in the market price of oil and condensate. A 6 percent change in the market price of oil and condensate would have increased or decreased net income by $0.2 million.

(a) Currency Risk

The majority of the Company's revenues and expenses are denominated in U.S. dollars. In addition, the Company converts Canadian-held cash to U.S. dollars as required to fund forecast U.S. dollar expenditures. As a result, the Company has limited its cash exposure to fluctuations in the value of the U.S. dollar versus other currencies. However, the Company is exposed to changes in value of the rupee and Taka versus the U.S. dollar as they are applied to the Company's working capital of its foreign subsidiaries. A 5 percent strengthening of the Indian rupee against the Canadian dollar at June 30, 2008 would have decreased net income by $1.7 million. This analysis assumes that all other variables, particularly interest rates, remained constant.

The financial instruments are exposed to fluctuations in foreign exchange rates, which are used in the translation of the financial statements of foreign subsidiaries to Canadian dollars. The reported Canadian dollar value of the accounts receivable, long-term account receivable, accounts payable and accrued liabilities, interest rate swaps and long-term debt of the foreign subsidiaries is exposed to fluctuations in the value of the Canadian dollar versus the U.S. dollar. The change in the balances of these accounts as a result of fluctuations in foreign exchange is recorded in accumulated other comprehensive income (loss) on the balance sheet. A 4 percent strengthening of the Canadian dollar against the U.S. dollar at June 30, 2008 would have decreased net income by $0.3 million and decreased other comprehensive income by $30.5 million. This analysis assumes that all other variables, particularly interest rates, remained constant.

(b) Interest Rate Risk

The Company is exposed to interest rate risk on its money market funds, short-term deposits and interest rate swaps. The Company manages the interest rate risk on these investments by monitoring the interest rates on an ongoing basis. The Company is exposed to interest rate risk on its long-term debt. The Company has entered into interest rate swaps, as required by the terms of the facility agreement, on a portion of its long-term debt to mitigate this risk.

The interest rate swap contracts require the periodic exchange of payments without the exchange of the notional principal amounts on which the payments are based. At June 30, 2008, the Company had the following interest rate swap contracts outstanding:

Fixed for floating interest rate swaps Term (US$ millions)	Amount	Fixed Rate	Floating Rate
June 30, 2008 – September 30, 2008	134.8	4.12%	3 month US$-LIBOR [1]
September 30, 2008 – December 31, 2008	157.0	4.12%	3 month US$-LIBOR [1]
December 31, 2008 – March 31, 2009	175.6	4.12%	3 month US$-LIBOR [1]

(1) Three-month, U.S. dollar-denominated, LIBOR determined on the last day of the preceding period.

A change of 50 basis points in interest rates at the reporting date would have increased or decreased capitalized interest by $0.3 million and net income by $0.7 million. This analysis assumes that all other variables, in particular foreign currency rates, remained constant.

(c) Other Price Risk

The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company is exposed to the risk of fluctuations in the market prices of its short-term investments. The Company limits its exposure to this risk by investing only in liquid securities listed on public stock exchanges and by monitoring the market prices on an ongoing basis. A 5 percent change in the publicly quoted market values would have increased or decreased the carrying amount of the short-term investments at June 30, 2008. The increase or decrease in publicly quoted market value would have increased or decreased, respectively, net income by $2.0 million. The fair value was $39.7 million at June 30, 2008 and declined to $31.7 million at August 12, 2008.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The carrying amounts of the cash and cash equivalents, accounts receivable, long-term account receivable and interest rate swaps reflects management's assessment of the maximum credit exposure. There were no changes in the Company's exposure to credit risks or the Company's processes for managing the risks from the previous period.

Account and Long-term Receivables

The Company has accounts receivable from clients engaged in various industries that are concentrated in a specific geographic area in India and with a specific customer in Bangladesh. Management determines concentrations of risks based on the proportion of revenue from each customer compared to total sales as well as the physical location of the customers. The accounts receivable and long-term account receivable balance include US$32.7 million receivable from one customer in Bangladesh and US$2.5 million from six gas customers in India, all of which are in one geographic area. The Company takes measures in order to mitigate any risk of loss, which may include obtaining guarantees. The specific industries or government may be affected by economic factors that may impact accounts receivable.

The aging of accounts receivables as at June 30, 2008 was:

	As at June 30, 2008
0 – 30 days	$ 30,468
30 – 90 days	4,650
Greater than 90 days	5,987
Total accounts receivable	$ 41,105

The accounts receivable, included in the table, that are not past due and that are past due, are not considered impaired. The accounts receivable that are not past due are receivable from counterparties from whom the Company has a history of timely collection and the Company considers the accounts receivable collectible.

The long-term account receivable balance consists of gas sales charged to Petrobangla for the production from the Feni field in Bangladesh. Payment of the receivable is being delayed as a result of various claims raised against the Company as described in note 16 (a) and (b). The long-term account receivable is comprised of US$0.6 million that was recorded in fiscal 2009, US$2.6 million that was recorded in fiscal 2008, US$7.9 million that was recorded in fiscal 2007 and US$14.9 million that was recorded previously and has been adjusted to its fair value of US$21.3 million (Cdn$21.7 million), and is not considered impaired. The Company considered the delay in payment, the writ and the lawsuit raised against the Company and progress towards resolving these issues in reaching the conclusion that the delay in payment is temporary. Despite the temporary delay in receipt of payment, the Company expects to collect the full amount of the receivable. The timing of collection is uncertain as the Company may not collect the receivable until resolution of the various claims raised against the Company described in note 16 (a) and (b).

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company expects to meet its obligations described below using cash on hand and funds from operations. The Company manages liquidity risk by monitoring expected future cash flows. There were no changes in the Company's exposure to liquidity risks or the Company's processes for managing the risks from the previous period.

The Company has the following financial liabilities and due dates as at June 30, 2008:

	Carrying Value	< 1 year	1 – 3 years
Non-derivative financial liabilities			
Accounts payable [1]	$ 14,285	$ 13,126	$ 1,159
Principal repayments on long-term debt	$ 196,401	$ –	$ 196,401
Derivative financial liabilities			
Interest rate swaps [1]	$ 1,331	$ 1,331	$ –

[1] The fair value of the interest rate swaps are included in accounts payable and accrued liabilities on the balance sheet.

14. GUARANTEES

As at June 30, 2008, the Company had the following performance security guarantees: US$5.3 million for Block 9, US$3.0 million for the Cauvery block and US$2.6 million for the D4 block. As at March 31, 2008, the Company had performance security guarantees of US$7.7 million for Block 9, US$7.0 million for the Cauvery block and US$1.7 million for the D4 block.

15. CONTRACTUAL OBLIGATIONS

During the quarter ended June 30, 2008, the Company signed a PSC for an interest in a block in the Kurdistan Region of Iraq including minimum work commitments of US$7.2 million related to seismic and drilling one exploratory within three years of signing the PSC and US$7.0 million for various payments under the agreement. In July 2008, the Company signed a Heads of Agreement whereby it will farm-in to a PSC offshore Madagascar the Company has minimum work commitment for 3,000 square kilometre 3D seismic program and drilling up to two exploration wells.

16. CONTINGENCIES

(a) 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 (US$25.9 million as at June 30, 2008); 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. With respect to the third issue, Petrobangla is currently withholding payments to the Company relating to production from the Feni field.

With respect to the fourth issue, 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.

(b) During the year ended March 31, 2006, Niko Resources (Bangladesh) Ltd. received a letter from Petrobangla demanding compensation related to the uncontrolled flow problems that occurred in the Chattak field in January and June 2005. Subsequent to March 31, 2008, Niko Resources (Bangladesh) Ltd. was named as a defendant in a lawsuit that was filed in Bangladesh by Petrobangla and the Republic of Bangladesh demanding compensation as follows:

(i) Taka 368,500,000 (Cdn$5.3 million) for 3 Bcf of free natural gas delivered from the Feni field as compensation for the burnt natural gas;

(ii) Taka 723,500,000 (Cdn$10.6 million) for 5.89 Bcf of free natural gas delivered from the Feni field as compensation for the subsurface loss;

(iii) Taka 845,560,000 (Cdn$12.3 million) for environmental damages, an amount subject to be increased upon further assessment;

(iv) Taka 5,527,500,000 (Cdn$80.7 million) for 45 Bcf of natural gas as compensation for further subsurface loss; and

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

The Company and the Government of Bangladesh had previously agreed to settle the government's claims through arbitration conducted in Bangladesh based upon international rules. The Company will actively defend itself against the lawsuit. This process could take in excess of three years.

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

(c) 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. Should the Company fail to supply the minimum quantity of natural gas in any month as specified in the contract, the Company may be liable to pay the vendor an approximately equivalent amount. The Company was unable to deliver the minimum quantities up to December 31, 2007. The Company intends to use D6 volumes to fulfill these past obligations and has signed an agreement to this effect. In the event the Company is unable to deliver the volumes, the Company will have a potential liability, which is currently estimated at US$18.0 million.

(d) 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.

(e) 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 third tax assessment level for the 1999 through 2004 taxation years. The Income Tax Department has filed an appeal against one of the orders and the matter is currently pending with the Indian courts. 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 legal process to receive a favourable ruling with respect to the taxation years 1999 through 2004, the Company would record a tax expense of US$37.7 million, pay additional taxes of US$10.9 million and write off US$26.8 million of the income tax receivable.

(f) A vendor employed by the Company in conjunction with the construction of the Hazira offshore development has claimed US$1.8 million from the Hazira joint venture (US$0.6 million net to the Company) with respect to service tax liability on the contract. The Company believes that service tax is not applicable to the contract and that the outcome of this dispute is not determinable.

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, Director

C. J. (Jim) Cummings, LLB
Director

Walter DeBoni, B.SC., MBA, P.ENG.
Director

Conrad P. Kathol, B.SC., P.ENG.
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BANKING INSTITUTIONS

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Nicosia, Cyprus

ABN Amro Bank
Citibank
ICICI Limited
Baroda, India

Societe Generale Bank
Mumbai, India
London, United Kingdom

EVALUATION ENGINEERS

Ryder Scott Company
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

LISTING AND TRADING SYMBOL

Toronto Stock Exchange
Symbol: NKO

ABBREVIATIONS

Bcf	billion cubic feet
bbl	barrel
CICA	Canadian Institute of Chartered Accountants
GAAP	generally accepted accounting principles
GPSA	gas purchase and sale agreement
JVA	joint venture agreement
LIBOR	London interbank offered rate
Mcf	thousand cubic feet
Mcfe	thousand cubic feet equivalent
MD&A	management's discussion and analysis
MMBtu	million British thermal units
NELP	New Exploration Licensing policy
PSA	production sharing agreement
PSC	production sharing contract
/d	per day

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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