STALKING THE PRIZE CAPTURING THE REWARD

NIKO RESOURCES LTD

Q3 INTERIM REPORT FOR THE THREE AND NINE MONTH PERIOD ENDED December 31, 2008

PRESIDENT'S REPORT *to* SHAREHOLDERS

OPERATIONAL HIGHLIGHTS

Development

- Production from Block 9 increased by 28 percent in the quarter over the prior quarter with the completion of facility upgrades. Current production is 100 MMcf/d (67 MMcf/d working interest to the Company) compared to 88 MMcf/d (59 MMcf/d working interest to the Company) in the quarter.
- The first cargo sale of oil production from the D6 block occurred in November. On December 9, production was interrupted by a rupture in a short pipe spool connected to the flare header in the Floating Production, Storage and Offloading vessel (FPSO) and is expected to recommence in March 2009.
- D6 gas development start-up is expected in the next few weeks. Volumes are expected to ramp-up to 2.8 Bcf/d (280 MMcf/d working interest to the Company) envisaged within the first year of operations.

Exploration

- At Cauvery, site construction is underway and drilling is expected to commence in April.
- Seismic activity in:
  - Pakistan;
  - Kurdistan; and
  - Hazira.

New Ventures

- In Madagascar, Niko has been confirmed as operator of the 16,845 square-kilometre-block.
- In Indonesia, the Company signed production sharing contracts and acquired rights in five offshore blocks covering almost 25,000 square kilometres.

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	**2008**	2007
Operations				
Average daily sales volumes				
Oil and condensate (bbls/d)	**778**	293	**402**	318
Natural gas (Mcf/d)	**85,316**	75,325	**79,093**	81,806
Total combined (Mcfe/d)	**89,986**	77,082	**81,507**	83,715
Revenues, royalties and operating costs ($/Mcfe)				
Oil and natural gas revenue	**4.13**	3.27	**3.74**	3.47
Pipeline revenue	**0.01**	0.03	**0.01**	0.01
Royalties	**(0.17)**	(0.17)	**(0.17)**	(0.18)
Profit petroleum	**(0.90)**	(0.65)	**(0.82)**	(0.86)
Operating costs	**(0.60)**	(0.40)	**(0.43)**	(0.38)
Operating netback ($/Mcfe)	**2.47**	2.08	**2.33**	2.06
Drilling activity				
Gross wells	**–**	3	**4**	12
Net wells	**–**	1.2	**0.4**	3
Financial Highlights				
(thousands of dollars)				
Petroleum and natural gas sales	**34,175**	23,183	**83,856**	79,898
Funds from operations	**22,859**	18,317	**54,118**	57,696
Net income (loss)	**(4,774)**	557	**(22,578)**	(24,998)
Capital expenditures	**117,531**	97,828	**333,430**	234,772

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, operating and pipeline 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 UPDATE

India

D6 Block:

Oil Development: Production from the MA discovery commenced in September 2008 and the field produced over 790,000 Bbls (79,000 Bbls working interest to the Company) up to December 9, 2008. The first cargo sale of over 430,000 Bbls (43,000 Bbls working interest to the Company) was made in November. Remaining volumes were inventoried. On December 9, 2008, production ceased as there was a rupture in a short pipe spool connected to the flare header in the FPSO. Production is expected to recommence in March 2009 after completion of necessary repairs and modifications as well as the tie-in of the recently drilled MA5H horizontal well. This will result in three producing oil wells. In addition, there is a scheduled shutdown in late March or early April to allow tie-in modifications for the next set of horizontal wells.

The initial field development costs, excluding the capital cost of the FPSO as it is currently being leased, are budgeted at US$1.5 billion (US$150 million net to the Company) and the Company had spent US$109 million of this amount at December 31, 2008. The remainder of the budgeted costs will be spent to drill and tie in three additional wells and, after a period of oil production, to convert some of the oil wells to gas producers and complete tie-ins to allow the gas produced to be delivered to the onshore gas processing plant and sold.

Gas Development: Commencement of production from the Dhirubhai 1 and 3 discoveries is targeted in the next few weeks. Delays have occurred due to adverse weather conditions, complex logistics, tight supply chain market and a global shortage of manpower.

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 budgeted at US$5.2billion (US$520 million net to the Company). The Company had spent US$408 million of this amount to December 31, 2008. The Company expects Phase I costs to be over the budgeted amount due to the causes of delay in start-up as described above. Costs will be spent after start-up to tie-in the remaining wells.

Nine natural gas discoveries in addition to the Dhirubhai 1 and 3 gas discoveries have been made and a development plan for these discoveries 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. If the development plan is approved, it is intended that these satellite discoveries be tied back to the Dhirubhai 1 and 3 facilities. The design of the critical components of the Dhirubhai 1 and 3 facilities would allow an increase in production to 4.2 Bcf/d (420 MMcf/d working interest to the Company).

NEC-25 Block: In the previous quarter, the B3 well was drilled in 64 metres of water to a total true vertical depth of 3,928 metres. A gas zone was encountered at 1,900 metres.

Development plans have been submitted for the six gas discoveries that have been declared commercial by the Indian regulatory authorities.

Approximately 1,000 square kilometres of 3D seismic have been acquired along the central portion of the northwest boundary of the previous 3D surveys. Processing and interpretation of the seismic is underway.

Cauvery: Site construction is underway in preparation for the drilling of the first of three possible onshore wells in calendar 2009. The first well, CY-MK-01, is due to spud in April 2009 with a planned true vertical depth of 4,100 metres. The primary target of the well is the Cretaceous-Jurassic interval.

D4 Block: Acquisition of a 3,600 square kilometre 3D seismic survey is expected to be complete in February 2009. Initial interpretation of the data within this survey that has already been acquired has identified several areas of interest, which will be fully analysed as part of the ongoing evaluation. Processing and interpretation of the data is in progress and is expected to be completed in time to allow for first well selection by mid-calendar 2010.

Hazira and Surat: The Hazira field is currently producing 43 MMcf/d (14 MMcf/d working interest to the Company). A 30 square kilometre transition zone 3D seismic survey commenced in January 2009 and is expected to be completed in February 2009. This 3D survey is designed to explore for deeper oil and gas targets in the eastern half of the Hazira block. The survey will merge with the offshore seismic previously acquired and provide 3D coverage for almost the entire Hazira block. Dependent on result of processing and interpretation of the 3D program, a multi-well drilling program will be initiated in late calendar 2009 or early 2010.

Current production from the Surat field is approximately 10 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 rate of 100 MMcf/d (67 MMcf/d working interest to the Company). Facilities upgrades were completed and have increased capacity to in excess of 120 MMcf/d (80 MMcf/d working interest to the Company). Production is expected to increase to nearly 120 MMcf/d (80 MMcf/d working interest to the Company) when the Bangora-3 well is put on-stream in March. A condensate plant module is scheduled to be installed and operational by mid-calendar 2009, which will increase condensate yields. Further drilling of prospects identified in the block has been postponed pending the availability of a drilling rig.

Feni and Chattak: Production from the Feni field is 3 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 3D seismic program of 2,000 square kilometres commenced in November 2008 and was completed in January 2009. Historical seismic over the blocks was limited to 2D only. The 3D program is expected to identify stratigraphic potential, resolve structural complexity and possibly indicate the presence of hydrocarbons, all of which is not possible with 2D seismic. Processing of the 3D data should be completed in the third calendar quarter of 2009 with interpretation and possible selection of drilling locations to follow.

Kurdistan Region

In May 2008 the Company signed a production sharing contract (PSC) for the Qara Dagh block. Data acquisition of a 350 to 400-kilometre 2D seismic program commenced in February and is expected to be complete in July 2009. The seismic program will be acquired over the very large surface structure that totally dominates the Qara Dagh block. Interpretation of the data is expected to resolve the sub-surface structural picture and identify possible reservoir targets to provide multiple drilling locations. Processing and interpretation will follow with possible selection of drilling locations in the third calendar quarter of 2009.

Madagascar

In October 2008 the Company farmed-in to a PSC for a property located off the west coast of Madagascar. The farm-in agreement and appointment of the Company as operator have been approved by the Office of National Mines and Strategic Industries, which acts on behalf of the Republic of Madagascar. In January 2009 the Company agreed to assign 10 percent of its interest in Madagascar to a third party. The Company will earn a 65 percent interest in the block.

The joint venture is nearing completion of reprocessing 7,600 kilometres of 2D seismic. Interpretation of the reprocessed 2D seismic will follow and further evaluation of the block is planned including a high resolution multi-beam survey and sea floor coring program. Future work as prescribed in Phase II includes the acquisition of a 3D seismic program.

Indonesia

In November 2008, the Company signed four PSCs for interests in four deep-water offshore blocks covering almost 20,000 square kilometres. The Company will operate two of the blocks and earn a 51 percent working interest. In the other two blocks, which will not be operated by the Company, the Company will earn a 25 percent working interest. The two blocks operated by Niko are in the deep waters of the prolific Kutei Basin, where over seven billion barrels of oil equivalent have been proved to date on land and in shallow water. The two non-operated blocks are also associated with areas containing in excess of two billion barrels of oil equivalent.

Also in November 2008, the Company acquired the right to earn a 25 percent interest in another deep-water offshore exploration block covering almost 5,000 square kilometres.

Sales Volumes

The following table displays working interest sales volume in the quarters ended June 30, 2008 (Q1), September 30, 2008 (Q2) and December 31, 2008 (Q3) and forecast production for the quarter ending March 31, 2009 (Q4):

Working Interest (Daily average)	Q1 Actual	Q2 Actual	Q3 Actual	Q4 Estimate [1]
Natural Gas (MMcf/d)				
India				
D6	–	–	–	Not Estimated
Hazira	18	16	15	13
Surat	9	8	9	9
Bangladesh				
Block 9	46	46	59	64
Feni	5	4	3	2
Oil (Bbls/d)				
India				
D6	–	–	468	100
Hazira	162	96	219	161
Other [2]	90	79	92	–
Total (MMcfe/d)	79	76	90	90

[1] Refer to "Forward-looking Information" in the Company's MD&A for the period ended December 31, 2008 for a description of how forecast production is estimated. Actual production is expected to be within +/- 10% of the estimated production disclosed above.

[2] 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.

Natural Gas

D6 gas development start-up is expected in the next few weeks. Production has not been estimated for the quarter ending March 31, 2009 as it is dependent on the start-up date and ramp-up rate. Volumes are expected to ramp-up to 2.8 Bcf/d (280 MMcf/d working interest to the Company) envisaged within the first year of operations.

Production from Block 9 increased significantly in the quarter with completion of facilities upgrades, which increased plant capacity. Production was less than previously forecast due to lower demand from the customer during Bangladesh holidays and lower production immediately after the completion of facilities upgrades and during pressure surveys.

Oil

Actual oil sales volume from the D6 block in the third quarter of fiscal 2009 was 468 Bbls/d compared to 1,250 Bbls/d previously estimated. On December 9, 2008, production ceased as there was a rupture in a short pipe spool connected to the flare header in the FPSO. In addition, the Company had expected additional wells to be on production by the end of the period. Production is expected to recommence in March 2009, which will allow the startup of the recently drilled MA5H horizontal well in addition to the two existing horizontal wells. In addition, there is a scheduled shutdown in late March or early April to allow tie-in modifications for the next set of horizontal wells. As a result, the fourth quarter fiscal 2009 estimate has been revised to 100 Bbls/d.

Actual oil sales volume from the Hazira block in the third quarter of fiscal 2009 was 219 Bbls/d compared to 163 Bbls/d previously estimated. There was a successful acid stimulation of the oil well resulting in increased production during the quarter. The full effect of the acid stimulation is not expected to continue and therefore forecast production for the fourth quarter remains at 161 Bbls/d.

OPERATING EXPENSE

During the three and nine months ended December 31, 2008, operating expenses averaged $0.60/Mcfe and $0.43/Mcfe, respectively. Operating expenses increased in the quarter due to the start-up costs related to the commencement of D6 oil production and are anticipated to fall significantly when D6 gas goes on-stream.

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 and nine months ended December 31, 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 February 12, 2009. 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 Indonesia, Kurdistan, Madagascar, Pakistan, and 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 its 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", "segment profit", "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 periods reported on in this MD&A and accompanying financial statements and notes are the three-month and nine-month periods ended December 31, 2008. The terms "current quarter" and "the quarter" are used throughout the MD&A and in all cases refer to the period from October 1, 2008 through December 31, 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 October 1, 2007 through December 31, 2007. The term "year-to-date" is used throughout the MD&A and in all cases refers to the period from April 1, 2008 through December 31, 2008. The terms "prior year's period" and "2007 period" are used throughout this MD&A and in all cases refer to the period from April 1, 2007 through December 31, 2007. The term "prior year's periods" and "2007 periods" are used throughout this MD&A and in all cases refer to the three and nine-month periods ended December 31, 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 3 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. Canadian oil revenue and royalty income was $159,000 and $830,000 in the quarter and year-to-date, respectively (2007 periods - $202,000 and $638,000, respectively). Canadian

royalty expense was $42,000 and $158,000 in the quarter and year-to-date, respectively (2007 periods - $27,000 and $88,000, respectively). Canadian operating expenses were $43,000 and $102,000 in the quarter and year-to-date, respectively (2007 periods - $48,000 and $130,000, respectively). Canadian and head office depletion, depreciation and accretion expense was $271,000 and $777,000 in the quarter and year-to-date, respectively (2007 periods - $167,000 and $474,000, respectively).

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

Forward-Looking Information and Material Assumptions

This MD&A contains forward-looking information including forward-looking information about Niko's operations, reserves estimates, production and capital spending. Statements about forward-looking information contain words such as "forecast", "projected", "expect", "anticipate", believe", "will" and similar expressions. This forward-looking information is based on assumptions that the Company believes were reasonable at the time such information was prepared, but assurance cannot be given that these assumptions will prove to be correct, and the forward-looking information in this MD&A should not be unduly relied upon. The forward-looking information and the Company's assumptions are subject to uncertainties and risks and are based on a number of assumptions, which may prove to be incorrect. Examples of forward-looking information in this MD&A include, but are not limited to, the following:

Forecast production rates: 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.

Forecast capital spending and commitments: 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.

Forecast operating expenses: 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.

Timing of production increases, timing of commencement of production and timing of capital spending: 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. The nature and timing of expected future events for non-operated properties are based on budgets and other communications received from the Company's joint venture partners, when available.

The Company updates forward-looking information related to operations, production and capital spending on a quarterly basis and updates reserves on an annual basis. Refer to "Risk Factors" contained in this MD&A for discussion of uncertainties and risks that may cause actual events to differ from forward-looking information provided in this MD&A.

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.

By examining operating netback, funds from operations netback, earnings netback and segment profit, the Company is able to evaluate past performance by segment and overall. Operating netback is calculated as oil, natural gas and pipeline revenues less royalties, profit petroleum expenses, operating expenses and pipeline expenses, 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. Segment profit is defined as oil, natural gas and pipeline revenues less royalties, profit petroleum expenses, operating and pipeline expenses, depletion, depreciation and accretion expense and current income taxes related to each business segment. There are no comparable GAAP measures for operating netback, funds from operations netback, earnings netback or segment profit, and these measures are unlikely to be comparable with the calculation of similar measures in other companies. See "Segment Profit" and "Netbacks" in this MD&A.

OVERALL PERFORMANCE

Funds from Operations

	Three months ended December 31,		Nine months ended December 31,	
($ thousands)	**2008**	2007	**2008**	2007
Oil and natural gas revenues	**34,175**	23,183	**83,856**	79,898
Pipeline revenue	**98**	183	**254**	564
Royalties	**(1,390)**	(1,178)	**(3,775)**	(4,070)
Profit petroleum	**(7,439)**	(4,635)	**(18,479)**	(19,789)
Operating and pipeline expense	**(5,003)**	(2,821)	**(9,623)**	(8,812)
Interest income	**4,486**	7,401	**11,690**	14,773
Interest and financing on capital lease	**(920)**	–	**(920)**	–
General and administrative expense	**(1,302)**	(1,380)	**(6,132)**	(3,885)
Realized foreign exchange (loss) gain	**2,723**	(26)	**1,364**	752
Current income tax expense	**(2,569)**	(2,410)	**(4,117)**	(1,735)
Funds from operations (non-GAAP measure)[1]	**22,859**	18,317	**54,118**	57,696

[1] Funds from operations is a non-GAAP measure as calculated above.

Net revenues increased primarily as a result of the sale of first oil production from the D6 block, increased production from Block 9 and increased sales prices as a result of the weakening of the Canadian dollar against the U.S. dollar. The 2007 period's profit petroleum included a one-time negative adjustment of $4.0 million due to the adverse resolution of a previously disclosed dispute regarding profit petroleum. Excluding the effect of this adjustment, profit petroleum increased primarily due to increased revenues from Block 9. The increase in operating expense is due to bonuses with respect to the Block 9 production sharing contract (PSC) and the inclusion of D6 oil operating expenses partially offset by decreased operating expenses in the other producing properties. Interest income includes $2.6 million of interest on a tax refund received in India, which was more than offset by lower interest rates and lower cash balances in the periods. The interest expense relates to the lease of the Floating Production, Storage and Offloading vessel (FPSO). Year-to date, general and administrative expense increased primarily as a result of increased activity, additional employees and the employee bonus plan. There was a realized foreign exchange gain on the settlement of Indian rupee-denominated net payables. Finally, there was an income tax recovery in the 2007 period's amount.

Net Income (Loss)

($ thousands)	Three months ended December 31, 2008	2007	Nine months ended December 31, 2008	2007
Funds from operations (non-GAAP measure)	**22,859**	18,317	**54,118**	57,696
Unrealized foreign exchange gain (loss)	**8,907**	1,191	**5,545**	(8,894)
(Loss) on short-term investment	**(10,997)**	–	**(27,303)**	–
Equity gain (loss) on long-term investment	**50**	–	**(772)**	–
Impairment of long-term investment	**(5,174)**	–	**(5,174)**	–
(Loss) gain on risk management contracts	**(1,017)**	–	**342**	–
Discount of long-term account receivable	**(73)**	(4,502)	**(256)**	(4,502)
Asset impairment	**–**	(677)	**–**	(26,709)
Stock-based compensation expense	**(5,469)**	(4,574)	**(14,931)**	(11,567)
Depletion, depreciation and accretion	**(13,860)**	(9,198)	**(34,147)**	(31,022)
Net income (loss)	**(4,774)**	557	**(22,578)**	(24,998)

The unrealized foreign exchange gain was on the translation of U.S. dollar-held cash to Canadian dollars, partially offset by a loss on translating the Indian rupee-denominated income tax receivable to Canadian dollars. The Company occasionally purchases securities in entities that represent strategic opportunities. The loss on the short-term investment is consistent with the overall market decline. The equity gain in the quarter, the equity loss year-to-date and the impairment of long-term investment is related to the Company's investment in Vast Exploration Inc. The loss in the quarter and gain year-to-date on risk management contracts relate to the Company's interest rate swaps. During the 2007 period, the Company discounted the long-term account receivable to fair value and wrote-off Thailand assets of $26.0 million. The increase in stock-based compensation expense was primarily due to an increased number of options being expensed than in the prior year's periods. Depletion expense increased primarily due to an increase in the depletion rates per Mcfe as a result of an increase in the cost base and the effect of the weakening Canadian dollar against the U.S. dollar.

BACKGROUND ON PROPERTIES

Niko Resources Ltd. is engaged in the exploration for, and where successful, the development and production of natural gas and oil in India, Bangladesh, Pakistan, Kurdistan, Madagascar and Indonesia. The Company has agreements with the governments of these countries or with other companies operating in these countries and regions for rights to explore for natural gas and oil. The Company is generally granted an exploration licence to commence work. The agreements generally involve a number of exploration phases with specified minimum work commitments and the maximum number of years to complete the work. At the end of any exploration phase, the Company has the option of continuing to the next exploration phase and may be required to relinquish a portion of the non-development acreage to the respective government. If a commercial discovery is not made by the end of all the exploration phases, the Company's rights to explore the block generally terminate. In the event of a discovery that is determined to be commercial, the Company prepares a development plan and applies to the government for a petroleum mining licence. The petroleum mining licences are for a specified number of years and may be extended under certain circumstances. During the production phase, the Company is required to pay any royalties specified in the agreements and taxes applicable in the country. The Company pays to the government an increasing share of the profits based on an Investment Multiple (IM) or on production levels plus an IM, or a fixed share of profits, depending on the agreement. The IM is the number of times the Company has recovered it's investment in the property from its share of profits from the property. At the end of the life of the field or the mining licence, the field and the assets revert to the government; however, the Company is responsible for the costs of abandonment and restoration.

India

Cauvery – The Company was awarded the Cauvery Block, which is located onshore in southern Tamil Nadu, in the NELP-V bidding round in 2005. The block covers 957 square kilometres and has mainly oil potential. The production exploration licence was granted for a period of 20 years, however, the exploration phases in the agreement cover seven years. The Company has performed the seismic work and drilled two of the five wells required under the first exploration phase, which will expire in July 2009 and is automatically extended by 6 months if drilling is ongoing. Depending on exploration results, the Company will apply to the government for a 1-year extension to the first exploration period in order to have sufficient time to complete the work commitment and assess the potential of the block. The Indian government has historically granted extensions, when required; however, there is a risk that the extension may not be granted to the Company and the rights to continue exploration on the block would cease.

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. The commitment for Phase I exploration includes seismic work and drilling three exploration wells by September 2009 and the seismic work is expected to be complete in February 2009 and ready for processing thereafter. The Company plans to apply to the government for a three-year extension beyond the September 2009 deadline. The Indian government has historically granted extensions, when required; however, there is a risk that the extension may not be granted to the Company and the rights to continue exploration on the block would cease.

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. In addition to continued exploration on the block there are two development projects: the MA oil discovery and the Dhirubhai 1 and 3 natural gas discoveries. Production from the MA discovery began in September 2008. The Company has been granted a petroleum mining lease for a period of 20 years. Oil production is sold on the spot market at a price based on Bonny Light and adjusted for quality. First production from the gas discoveries is expected to commence in the next few weeks. The development plan for nine additional 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. If the development plan is approved, it is intended that these satellite discoveries be tied back to the Dhirubhai 1 and 3 facilities.

Under the terms of the production sharing contract with the Government of India for the D6 block, the Company is required to pay the government a royalty of 5 percent of the well-head value of crude oil and natural gas for the first seven years from the commencement of commercial production in the field and thereafter pays 10 percent. In addition, the Company pays a percentage of the profits from the block to the government, which varies with the IM. The Company pays 10 percent of profits when the IM is less than 1.5; 16 percent between 1.5 and 2; 28 percent between 2 and 2.5; and 85 percent thereafter.

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. The Company has a petroleum mining licence that expires in September 2014. The Company has four contracts for the sale of gas production from the field expiring between June 2009 and April 2016 at current prices up to US$5.00/Mcf and sells any production in excess of contracted amounts to one of the contracted customers at a price of US$4.87/Mcf. In addition to the price indicated, the Company collects the 10 percent royalty, that is payable to the government, from the customer. The Company pays a percentage of the profits from the block to the government, which varies with the IM. The Company does not share profits when the IM is less than one; shares 10 percent of profits between one and 1.5; 20 percent between 1.5 and 2; 25 percent between 2 and 2.5; 35 percent between 2.5 and 3; and 40 percent thereafter.

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 Company has a petroleum mining licence that expires in September 2024. The Company has one contract for the sale of gas production from the field expiring on March 31, 2011 at a price of US$5.00/Mcf until March 31, 2009 and increasing to US$5.50/Mcf and US$6.00/Mcf in each subsequent year. In addition to the price indicated, the Company collects the 9 percent royalty, that is payable to the government, from the customer. The Company will pay a percentage of the profits from the block to the government, which varies with the IM. The Company shares 20 percent of profits when the IM is between one and 1.5; 30 percent between 1.5 and 2; 40 percent between 2 and 2.5; 50 percent between 2.5 and 3; and 60 percent thereafter.

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 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. Development plans have been submitted for the six gas discoveries that have been declared commercial by the Indian regulatory authorities.

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. The initial three-year exploration period under the Block 9 PSC was to expire on April 11, 2004. A series of extensions were granted extending the exploration period. The Company and its partner have capital commitments including seismic and drilling three wells and, in certain circumstances, up to 10 wells. The Company and its partner have completed the seismic and have drilled six wells. Natural gas and condensate production from this field began in May 2006 and commerciality was declared in December 2006. As per the PSC, the Company has rights to produce for a period of 25 years and is extendable if production continues beyond this period. The Company sells gas under a gas purchase and sales agreement (GPSA) at a current price of US$2.34 per MMbtu for a period up to 25 years. The Company shares a percent of the profits from the block with the government, which varies with production and whether or not the Company has recovered its investment or not. The Company pays to the government 61 percent and 66 percent of profits, respectively, before and after costs are recovered on natural gas production up to 150 MMcf/d; 66 percent and 72.5 percent on natural gas production between 150 MMcf/d and 300 MMcf/d; 72.5 percent and 78 percent on production between 300 MMcf/d and 450 MMcf/d; 75 percent and 82.5 percent on production between 450 MMcf/d and 600 MMcf/d and 82 percent and 85 percent on production in excess of 600 MMcf/d. Profits on natural gas are calculated as the minimum of (i) 55 percent of revenue for the period and (ii) revenue less operating and capital costs incurred to date.

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 Chattak structure covers 376 square kilometres and rights to this block were obtained in October 2003. The Company has been producing natural gas from the Feni field since November 2004. As per the JVA, the Company has rights to produce until October 2023 and can be extended if production continues beyond this period. The Company sells gas under a GPSA including a price of US$1.75 per Mcf, which expires in November 2009 and can be extended with mutual consent. Receipt of payment for the gas is being delayed as a result of various claims raised against the Company as described in note 18 to the consolidated financial statements for the period ended December 31, 2008. The Company pays a percentage of the profits from the field to the government, which varies with the IM. The Company shares 20 percent of profits from the Feni field when the IM is less than one; 25 percent between 1 and 1.5; 32 percent between 1.5 and 2; 38 percent between 2 and 3; and 42 percent thereafter. 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. The blocks are located in the Arabian Sea offshore to the city of Karachi and cover an area of almost 10,000 square kilometres. Each agreement is for an initial exploration term of five years with two exploration renewal periods of two years each and further renewal in the event of commercial production. The blocks are currently in the first exploration phase, which expires in March 2010, and have work commitments for a minimum of 200 square kilometres of 3D seismic in each block. A 2,000-square-kilometre 3D seismic program has been completed and, once processed, will fulfill the commitment. Additional costs applicable to the current phase are specified minimum amounts payable to the government for the purposes of marine research.

Kurdistan Region

In May 2008 the Company signed a PSC for the onshore Qara Dagh block, which covers approximately 846 square kilometres, in the Sulaymaniyah Governorate of the Federal Region of Kurdistan in Iraq. The Company currently has a 36 percent interest and carries the proportionate cost for the regional government's interest, resulting in a 45 percent cost interest. The exploration period is for a term of five years and is extendable by two one-year terms. The first exploration phase is for three years expiring in May 2011 and the Company has commitments under this phase for seismic and drilling one exploratory well.

Madagascar

In October 2008 the Company farmed-in to a PSC for a property off the west coast of Madagascar. The farm-in agreement and appointment of the Company as operator have been approved by the Office of National Mines and Strategic Industries, which acts on behalf of the Republic of Madagascar. The PSC covers 16,845 square kilometres in water depths ranging from shallow water to 1,500 metres. The Company completed a 31,944 line kilometre aero-magnetic survey applicable to the Phase I work commitment. The Company has remaining work commitments under the first exploration phase for 2,000 line-kilometres of 2D seismic, which must be completed by June 2010. A high resolution multi-beam survey and sea floor coring program is being reviewed with the government as a substitution for the 2D seismic commitment.

In January 2009 the Company farmed out a portion of its interest and currently has a 65 percent interest in the block.

Indonesia

In November 2008 the Company signed four PSCs for interests in four deep-water offshore blocks covering almost 20,000 square kilometres. The Company will operate two of the blocks and earn a 51 percent working interest. In the other two blocks, which will not be operated by the Company, the Company will earn a 25 percent working interest.

Also in November 2008, the Company acquired the right to earn a 25 percent interest in another deep-water offshore exploration block covering almost 5,000 square kilometres.

Each of the five Indonesian blocks is in the first exploration period, which expires in November 2011. In total, the Company has minimum work commitments in this period to acquire and process 16,550 kilometres of 2D seismic and drill one well in each of the blocks.

Capital Expenditures

The following table displays capital spending during the nine months ended December 31, 2008 and forecast capital spending for the remainder of fiscal 2009:

Exploration and Development Spending (Net to the Company)

($ millions)	Actual spending for the nine months ended December 31, 2008	Forecast spending for the three months ending March 31, 2009 [1]
India		
Cauvery	1.7	2 - 3
D4	2.0	4 - 5
D6	236.0	125 - 130
Hazira	1.3	1 - 2
NEC-25	11.7	1
Surat	–	–
Bangladesh		
Block 9	14.6	1 - 2
Chattak & Feni	0.6	1
Pakistan	22.7	7 - 8
Kurdistan Region	20.4	7 - 8
Madagascar	5.1	1
Indonesia	16.3	1
Other	1.0	1
Total	333.4	152 – 163

[1] Refer to "Forward-Looking Information and Material Assumptions" in this MD&A for a description of how forecast capital expenditures are estimated.

India

Cauvery – Capital expenditures of $0.6 million during the quarter were mainly for preparation of the drilling site and construction of an access road for the first of three locations to be drilled in calendar 2009. Year-to-date costs also include the carrying costs of the block.

D4 – A 3,600-square-kilometre 3D seismic program is currently in progress. Capital expenditures during the quarter of $0.2 million, of $2.0 million year-to-date and forecast for the remainder of fiscal 2009 are primarily for this seismic program.

D6 – Oil Development: The initial field development costs are budgeted at US$1.5 billion (US$150 million net to the Company) and the Company had spent US$109 million of that amount to December 31, 2008. The remainder of the budgeted costs will be spent to drill and tie in three additional wells and, after a period of oil production, to convert some of the oil wells to gas producers and complete tie-ins to allow gas produced to be delivered to the onshore gas processing plant and sold.

Gas Development: Phase I initial field development costs are budgeted at US$5.2 billion (US$520 million net to the Company). The Company had spent US$408 million of that amount to December 31, 2008. The remainder of the budgeted costs will be spent to tie-in wells subsequent to start-up. The Company expects Phase I costs to be over budget due to the causes of delay in start-up.

Capital expenditures at D6 in the quarter and year-to-date were $75.5 million and $236.0 million, respectively. Spending related primarily to natural gas and oil developments but also included ongoing exploration. Forecast activity for the remainder of 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 exploration drilling activities.

Hazira – Capital expenditures in the quarter of $1.1 million and $1.3 million year-to-date were for a transitional 3D seismic program and well recompletions for natural gas wells. The remaining costs forecast for fiscal 2009 are for the completion of the 3D program.

Surat – There is currently no significant capital activity in Surat.

NEC-25 – Capital expenditures in the quarter and year-to-date were $1.3 million and $11.7 million, respectively, primarily for the acquisition of 3D seismic and drilling the most recent exploration well, the B3 well.

Bangladesh

Block 9 – Capital expenditures during the quarter and year-to-date were $4.0 million and $14.6 million, respectively. Expenditures were for 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 continued well testing.

Feni and Chattak – Capital expenditures during the quarter of $0.1 million and year-to-date of $0.6 million were primarily for 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

Capital expenditures of $21.8 million during the quarter and $22.7 million year-to-date were primarily for the acquisition of 2,000 square kilometres of 3D seismic. Remaining forecast capital expenditures for fiscal 2009 are for the completion of the seismic data acquisition.

Kurdistan Region

Capital expenditures during the quarter of $2.2 million and year-to-date of $20.4 million were primarily for various bonuses required as per the PSC. Remaining forecast capital expenditures for fiscal 2009 include various payments under the PSC and acquisition of 350 to 400 kilometres of 2D seismic data.

Madagascar

Capital expenditures during the quarter and year-to-date were $5.1 million and were related to the acquisition and reprocessing of existing 2D seismic data.

Indonesia

Capital spending during the quarter of $5.7 million was for bonuses payable upon signing the PSCs. Year-to-date expenditures of $16.3 million also include the purchase of a seismic data package.

SEGMENT PROFIT

INDIA

($ thousands)	Three months ended December 31, 2008	2007	Nine months ended December 31, 2008	2007
Natural gas revenue	**13,610**	11,627	**37,275**	40,274
Oil revenue [2]	**4,129**	1,605	**6,766**	5,766
Pipeline revenue	**98**	183	**254**	564
Royalties	**(1,348)**	(1,151)	**(3,617)**	(3,982)
Profit petroleum	**(2,015)**	(1,429)	**(5,534)**	(8,849)
Operating and pipeline expenses	**(2,947)**	(1,616)	**(5,508)**	(5,290)
Depletion, depreciation and accretion	**(6,774)**	(5,304)	**(16,798)**	(17,848)
Current income tax expense	**(2,479)**	(896)	**(4,315)**	(152)
Segment profit [1]	**2,274**	3,019	**8,523**	10,483
Daily natural gas sales (Mcf/d)	**23,741**	29,688	**24,892**	32,583
Average realized natural gas price ($/Mcf)	**$ 5.66**	$ 3.87	**$ 4.95**	$ 4.09
Daily oil sales (Bbls/d) [2]	**687**	207	**315**	228
Average realized oil price ($/Bbl)	**$ 64.33**	$ 76.27	**$ 78.88**	$ 62.88
Operating and pipeline expense ($/Mcfe)	**$ 1.13**	$ 0.57	**$ 0.73**	$ 0.57
Depletion rate ($/Mcfe)	**$ 2.55**	$ 1.83	**$ 2.20**	$ 1.88

[1] Segment profit is a non-GAAP measure as calculated above.

[2] Production that is in inventory has not been included in the sales or cost amounts indicated.

Revenue and Royalties

Natural gas revenue was positively impacted by increased sales prices charged for Hazira and Surat natural gas and the effect of the Canadian/U.S. dollar exchange rate on sales prices. The prices negotiated under the Company's gas contracts are revised periodically as per contract terms. Year-to-date, the Company had various gas contracts with prices between US$4.05/Mcf and US$5.00/Mcf (2007 period – US$3.50/Mcf to US$4.50/Mcf).

The effect of prices was partially offset in the quarter and more than offset year-to-date by a decrease in the average daily natural gas production from the Hazira field due to ongoing natural declines. Natural gas production from the Surat block was stable year-over-year as natural declines were offset by production from three additional wells.

There was a net increase in oil revenues due to the first sale (November 2008) of oil from the D6 block of 43,063 bbls for proceeds of $2.7 million. Oil production from the Hazira block in the quarter was 219 Bbls/d and 159 Bbls/d year-to-date.

The average oil sales price moved in accordance with world market prices.

Profit Petroleum

Pursuant to the terms of the PSCs 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 periods, the government was entitled to 25 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.

The decrease in profit petroleum year-to-date 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 period.

Operating Expenses

Operating expenses in the quarter and year-to-date increased with the start-up costs associated with D6 oil. Operating expenses per barrel are expected to decrease as production is ramped up and when D6 gas goes on-stream.

There was a decrease in the dollar amount of operating expenses for Hazira and Surat in the quarter and year-to-date compared to the prior year's periods.

Depletion, Depreciation and Accretion

The depletion rate per Mcfe increased in the quarter and year-to-date primarily due to the inclusion of the D6 oil capital costs, including the costs of the FPSO, and reserves in the calculation for the Indian cost base and the effect of the weakening of the Canadian dollar against the U.S. dollar. The changing foreign exchange rates increased the depletion rate per Mcfe by $0.44 quarter-over-quarter and $0.09 period-over-period.

Income Taxes

	Three months ended December 31,		Nine months ended December 31,	
($ thousands)	**2008**	2007	**2008**	2007
Indian income tax expense	**2,479**	896	**4,315**	4,326
Indian income tax (recovery) related to prior periods	**–**	–	**–**	(4,174)
Indian current income tax expense	**2,479**	896	**4,315**	152

The increase in income tax expense in the quarter primarily relates to the effect of the interest received on the income tax refund, which was recognized in the period. Income tax was comparable year-over-year as the effect of the increase in the quarter was partially offset by the effect of a change in taxation policy. A tax ruling received by the Company indicated the rates at which tax pools may be claimed in arriving at taxable income, which was different than the manner in which the Company had calculated and recorded income taxes in the prior year periods. There were income tax recoveries in the prior year's periods related to re-estimating previously recorded income taxes applying the tax holiday deduction for eligible undertakings in Surat.

The Company has a contingency related to income taxes as at December 31, 2008. Refer to the unaudited consolidated financial statements and notes for the quarter for a complete discussion of the contingency.

BANGLADESH

($ thousands)	Three months ended December 31, 2008	2007	Nine months ended December 31, 2008	2007
Natural gas revenue	**15,831**	9,331	**37,335**	32,006
Condensate revenue	**446**	418	**1,650**	1,214
Profit petroleum	**(5,423)**	(3,206)	**(12,944)**	(10,940)
Operating expenses	**(2,013)**	(1,158)	**(4,014)**	(3,392)
Depletion, depreciation and accretion	**(6,816)**	(3,729)	**(16,572)**	(12,701)
Current income tax expense	**(19)**	(16)	**(48)**	(78)
Segment profit [1]	**2,006**	1,640	**5,407**	6,109
Daily natural gas production (Mcf/d)	**61,576**	45,637	**54,201**	49,223
Average realized natural gas price ($/Mcf)	**$ 2.79**	$ 2.22	**$ 2.50**	$ 2.36
Operating expenses ($/Mcfe)	**$ 0.35**	$ 0.27	**$ 0.27**	$ 0.25
Depletion rate ($/Mcfe)	**$ 1.19**	$ 0.88	**$ 1.10**	$ 0.93

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

Revenue

Overall, Bangladesh revenue increased as a result of facility upgrades at Block 9. The U.S. dollar prices for Feni and Block 9 natural gas are fixed by agreements. The increase in price during the periods is a result of the change in the U.S./Canadian dollar exchange rate.

Profit Petroleum

Pursuant to the terms of the PSC for Block 9, the Government of Bangladesh was entitled to 61 percent of profit gas in the current and prior year's periods. Profit petroleum expense increased due to increased revenues from Block 9.

Operating Expenses

Block 9 operating costs have increased due to the production bonus of US$0.6 million when production was sustained above 75 MMcf/d (50 MMcf/d working interest to the Company) and a research and development contribution of US$0.3 million, both payable to the Government of Bangladesh as per the terms of the PSC.

Depletion, Depreciation and Accretion

Depletion expense in Bangladesh has increased due to increased production and an increased depletion rate per Mcfe.

The depletion rate per Mcfe of production increased in the quarter and year-to-date primarily due to the effect of the weakening of the Canadian dollar against the U.S. dollar and an increase in the estimate of future costs to produce the reserves in Block 9. The changing foreign exchange rates increased the depletion rate per Mcfe by $0.21 quarter-over-quarter and $0.05 period-over-period.

Income Taxes

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.

NETBACKS

The following table outlines the Company's operating, funds from operations and earnings netbacks for the three and nine months ended December 31, 2008 and 2007:

	Three months ended December 31,				Nine months ended December 31,			
	2008			2007	2008			2007
	Oil/ Condensate ($/bbl)	Natural Gas ($/Mcf)	Combined (1:6) ($/Mcfe)	Combined (1:6) ($/Mcfe)	Oil/ Condensate ($/bbl)	Natural Gas ($/Mcf)	Combined (1:6) ($/Mcfe)	Combined (1:6) ($/Mcfe)
Oil and natural gas revenue	**64.60**	**3.75**	**4.13**	3.27	**83.59**	**3.43**	**3.74**	3.47
Pipeline revenue	**–**	**0.01**	**0.01**	0.03	**–**	**0.01**	**0.01**	0.01
Royalties	**(2.58)**	**(0.15)**	**(0.17)**	(0.17)	**(3.49)**	**(0.16)**	**(0.17)**	(0.18)
Profit petroleum	**(6.62)**	**(0.89)**	**(0.90)**	(0.65)	**(12.75)**	**(0.78)**	**(0.82)**	(0.86)
Operating and pipeline expense	**(19.49)**	**(0.46)**	**(0.60)**	(0.40)	**(14.50)**	**(0.37)**	**(0.43)**	(0.38)
Operating netback	**35.91**	**2.26**	**2.47**	2.08	**52.85**	**2.13**	**2.33**	2.06
Interest and other income			**0.54**	1.04			**0.52**	0.66
Interest and financing expense on capital lease			**(0.11)**	–			**(0.04)**	–
General and administrative expense			**(0.16)**	(0.19)			**(0.27)**	(0.17)
Realized foreign exchange gain (loss)			**0.33**	(0.01)			**0.06**	0.03
Current tax expense			**(0.31)**	(0.34)			**(0.19)**	(0.08)
Funds from operations netback			**2.76**	2.58			**2.41**	2.50
Unrealized foreign exchange gain (loss)			**1.08**	0.17			**0.25**	(0.38)
Discount of long-term account receivable			**(0.01)**	(0.63)			**(0.01)**	(0.20)
Stock-based compensation expense			**(0.67)**	(0.65)			**(0.67)**	(0.50)
Loss on short-term investment			**(1.33)**	–			**(1.23)**	–
Equity gain (loss) on long-term investment			**0.01**	–			**(0.03)**	–
Impairment of long-term investment			**(0.63)**	–			**(0.23)**	–
(Loss) gain on risk management contracts			**(0.12)**	–			**0.02**	–
Asset impairment			**–**	(0.10)			**–**	(1.16)
Depletion, depreciation and accretion expense			**(1.67)**	(1.30)			**(1.52)**	(1.35)
Earnings netback			**(0.58)**	0.07			**(1.01)**	(1.09)

MD&A

Oil and condensate netbacks are non-GAAP measures calculated by dividing the revenue and costs related to oil and condensate sales by the total oil and condensate sales volumes 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 for the Company by the volume of natural gas production for the Company, 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 sales volume of the Company measured in Mcfe.

CORPORATE

	Three months ended December 31,		Nine months ended December 31,	
($ thousands)	**2008**	2007	**2008**	2007
Revenues				
Interest and other income	**4,584**	7,584	**11,944**	15,337
Expenses				
Interest and financing on capital lease	**920**	–	**920**	–
General and administrative expenses	**1,302**	1,380	**6,132**	3,885
Foreign exchange (gain) loss	**(11,630)**	(1,165)	**(6,909)**	8,142
Stock based-compensation expense	**5,469**	4,574	**14,931**	11,567
Loss on short-term investment	**10,997**	–	**27,303**	–
Equity (gain) loss on long-term investment	**(50)**	–	**772**	–
Impairment of long-term investment	**5,174**	–	**5,174**	–
Loss (gain) on risk management contracts	**1,017**	–	**(342)**	–
Asset impairment	**–**	677	**–**	26,709
Current income tax (recovery) expense	**71**	1,497	**(246)**	1,505

Interest and Other Income

	Three months ended December 31,		Nine months ended December 31,	
($ thousands)	**2008**	2007	**2008**	2007
Interest income	**4,486**	7,401	**11,690**	14,773
Pipeline revenue	**98**	183	**254**	564
Interest and other income	**4,584**	7,584	**11,944**	15,337

The decrease in interest income was primarily due to lower average cash balances and lower rates of interest earned during the periods. These decreases were partially offset by interest of $2.6 million received with respect to the tax refund.

Interest and financing on capital lease

The Company entered into a lease for the FPSO, which has been classified as a capital lease. As a result, the Company recognizes a portion of lease payments as an interest cost.

General and Administrative Expense

Year-to-date, general and administrative expense increased primarily as a result of increased activity resulting in higher use of outside services, additional employees and payment of the employee bonus plan related to the prior year. The increases were partially offset by overhead recoveries as a result of increased capital activities in Pakistan and Kurdistan. During the quarter, the increases were approximately offset by the additional overhead recoveries.

Foreign Exchange

	Three months ended December 31,		Nine months ended December 31,	
($ thousands)	**2008**	2007	**2008**	2007
Realized foreign exchange (gain) loss	**(2,723)**	26	**(1,364)**	(752)
Unrealized foreign exchange (gain) loss	**(8,907)**	(1,191)	**(5,545)**	8,894
Total foreign exchange (gain) loss	**(11,630)**	(1,165)	**(6,909)**	8,142

There was a realized foreign exchange gain primarily on the settlement of Indian rupee-denominated cash call payable created by the weakening of the Indian-rupee against the U.S. dollar.

The unrealized foreign exchange gain was primarily on the translation of U.S. dollar held cash to Canadian dollars, partially offset by a loss on translating the Indian rupee-denominated income tax receivable to Canadian dollars.

Stock-based Compensation

The increase in stock-based compensation was primarily attributable to an increased number of options being expensed during the quarter and year-to-date.

Short-term Investment

The Company occasionally purchases securities in entities that represent strategic opportunities and made such purchases in the quarter and year-to-date. The unrealized loss in the quarter and year-to-date is consistent with the overall market decline.

Equity Loss on Long-term Investment

The Company accounts for its investment in Vast Exploration Inc. 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. The Company recorded a gain of $0.1 million and a loss of $0.8 million calculated by the equity method during the quarter and year-to-date, respectively. There was a significant decline in the value of the shares compared to the carrying value of the investment, which had been continuing for two quarters. As a result, the Company determined that the investment was impaired at December 31, 2008 and wrote the value of the investment down to the Company's share of the book value of the investee's net assets. This resulted in a carrying value for the investment of $5.6 million.

Gain on Risk Management Contracts

As required by the credit facility, the Company entered into a series of interest rate swaps to fix the floating interest rate on a portion of the long-term debt. There were realized losses of $0.2 million and $1.0 million on the settlement of swaps during the quarter and year-to-date, respectively. These losses were 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 periods. There was an unrealized loss of $1.0 million included in income in the quarter on the recognition of the fair value of the remaining interest rate swap due to the decrease in the forecast LIBOR rate during the period, which increased the differential compared to the fixed interest rate. Year-to-date, there was an unrealized gain of $0.3 million on the recognition of the fair value of the remaining interest rate swaps due to the increase in forecast LIBOR rates during the periods, which decreased the differential compared to the fixed interest rate.

Asset Impairment

During the prior year's periods, the Company wrote-off Thailand assets of $26.0 million.

Income Taxes

In Canada, there was an income tax recovery related to an adjustment to taxes estimated for the prior year and income tax expense on interest income from cash balances outstanding.

SUMMARY OF QUARTERLY RESULTS

The following tables set forth selected financial information of the Company for the eight most recently completed quarters to December 31, 2008:

Three months ended ($ thousands, except per share amounts)	March 31, 2008	June 30, 2008	Sept. 30, 2008	**Dec. 31, 2008**
Petroleum and natural gas revenue	24,327	24,628	25,053	**34,175**
Net income (loss)	1,584	6,207	(24,011)	**(4,774)**
Per share				
Basic ($)	0.03	0.13	(0.49)	**(0.10)**
Diluted ($)	0.03	0.12	(0.49)	**(0.10)**

Three months ended ($ thousands, except per share amounts)	March 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007
Petroleum and natural gas revenue	29,093	27,952	28,763	23,183
Net income (loss)	(3,128)	(6,168)	(19,387)	557
Per share				
Basic ($)	(0.08)	(0.14)	(0.43)	0.01
Diluted ($)	(0.08)	(0.14)	(0.43)	0.01

Net income has fluctuated over the quarters, due in part to changes in net revenue, profit petroleum, interest and other income, operating expenses, foreign exchange, discount on the long-term account receivable, the value of the short-term investment, risk management activities, asset impairment, 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. 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 December 31, 2008, revenues increased due to an increase in production from Block 9 as a result of completion of a plant upgrade as well as the first sale of oil from the D6 block.

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. In the quarter ended December 31, 2008, profit petroleum expense increased with the increase in revenues from Block 9.

Interest income increased in the quarter ended September 30, 2007 due to higher average cash balances and decreased thereafter as cash balances were utilized. In the quarter ended December 31, 2008, the Company received $2.6 million of interest on a tax refund from the Government of India.

Operating expenses generally decreased over the seven quarters ended September 30, 2008 due to the decrease in production volumes from operated properties, which allowed the Company to reduce fixed costs. In the quarter ended December 31, 2008, operating expenses increased due to additional payments made in Block 9 in accordance with the PSC and due to the addition of operating expenses associated with oil sales from the D6 block.

The Company is exposed to fluctuations in the Canadian dollar compared to: the U.S. dollar on the translation of U.S. dollar-held cash; and the Indian rupee on the translation of the rupee-denominated working capital and long-term income tax receivable.

In the quarter ended December 31, 2007, net income was reduced by $4.5 million for a discount of the 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.

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 and unrealized losses of $23.3 million and $11.0 million were recognized in the two subsequent quarters.

The Company recognizes its interest rate swaps at fair value and losses were recognized in the quarters ended March 31 and December 31, 2008 due to the decreasing interest rates, and gains were recognized in the quarters ended June 30 and September 30, 2008 due to increasing interest rates.

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.

Depletion expense in the quarter ended December 31, 2008 increased due to the inclusion of the D6 oil capital costs and reserves in the calculation for the Indian cost base and the effect of the weakening of the Canadian dollar against the U.S. dollar on the calculation.

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 December 31, 2008, the Company had cash of $380.9 million and a working capital deficit excluding cash of $20.3 million calculated as current assets less current liabilities less cash and cash equivalents. The restricted portion of the cash balance was comprised of US$172.9 million of cash restricted in accordance with the credit facility agreement, US$7.3 million of performance guarantees and US$2.1 million of cash restricted for future site restoration. The Company has drawn US$192.8 million (Cdn $236.1 million) on its credit facility. No portion of the debt is due within the next twelve months.

The Company is currently unable to make further draws on its credit facility. This inability to make further draws and the large restricted cash balance are the result of: a) the delay in start-up of the D6 gas project; and b) the absence of signed gas sales contracts. The Company expects start-up in the next few weeks and also expects to sign gas contracts in the same time-frame. There is a risk that the start-up of the D6 gas project or signing of gas sales contracts will be delayed. As a result of the financial conditions discussed above and the Company's planned capital spending of between $152 million and $163 million for the quarter ending March 31, 2009, the Company is currently in discussions with its bank syndicate such that a portion of restricted cash can be released to the Company and additional loan draws permitted.

The Company plans to meet its commitments with cash on hand, funds from operation and a restructured credit facility. However, there can be no assurance that the facility can be restructured. The Company's exposure to liquidity risks has increased from the previous period primarily as a result of the delay in start-up of the D6 gas project.

The Company has a number of contingencies as at December 31, 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 had the following work commitments under various agreements as at December 31, 2008:

- D4 Block: The commitment for Phase I exploration includes seismic work and drilling three exploration wells by September 2009. The seismic work is partially complete and the cost of the remaining work commitment is estimated at US$65.2 million (US$9.8 million net to the Company).
- Cauvery Block: The Phase I exploration period, which ends in 2009, includes commitments for seismic work and drilling five exploration wells. The Company has completed the seismic and drilled two exploration wells. The estimated cost of drilling the remaining three wells under the work commitment is US$19.5 million.
- Block 9: 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.
- Pakistan: The Company has remaining minimum work commitments under Phase I of the initial term and other payments under the terms of the PSAs of US$2.2 million for each of the four blocks. Phase I of the initial term expires in March 2010.
- Kurdistan: The Company has minimum work commitments under Phase I of the exploration period for seismic and drilling an exploratory well, which must be complete by May 2011. The remaining capital expenditures related to the minimum work program are estimated at US$36 million (US$16.2 million net to the Company) and US$9.1 million (US$4.1 million net to the Company) for various payments under the agreement.
- Madagascar: The Company has minimum work commitments for 2,000 line kilometres of 2D seismic under Phase I of the exploration period, which expires in June 2010.

- Indonesia: For the five Indonesian blocks, the total remaining minimum work commitments during the first exploration period are US $107.8 million (US$62.4 million net to the Company). This exploration period ends in November 2011.

Although not committed, the Company has planned capital spending of US$112 million (net to the Company) and US$41 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 US$102 million of these costs are included in the capital forecast for the remainder of fiscal 2009.

The Company has recognized the capital lease of the FPSO at the fair value of US$70.7 million (Cdn $86.5 million). The lease is for 10 years and has lease payments of US$10.8 million per year.

Related Parties

The Company has a 45 percent interest in a Canadian property that is operated by a related party, a Company owned by the President and CEO of Niko Resources Ltd. This joint interest originated as a result of the related party buying the interest of the third-party operator of the property in 2002. The transactions with the related party are not significant to the operations 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 cash, restricted cash, the short-term investment, accounts receivable, cash call advances, long-term accounts receivable, accounts payable and accrued liabilities, long-term debt and the interest rate swap. As at December 31, 2008 and March 31, 2008, there were no significant differences between the carrying amounts of these instruments and the fair values.

The fair values of cash, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short periods to maturity. The fair value of the cash call advances to joint venture partners is the amount of the funds advanced.

The Company is exposed to fluctuations in the value of its cash, restricted cash, accounts receivable, long-term accounts receivable, accounts payable and accrued liabilities, interest rate swap 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.

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 customers engaged in various industries that are concentrated in a specific geographical area in India and from one 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 Company is exposed to changes in the market value of the short-term investment. The fair value of the investment is based on publicly quoted market values. An unrealized loss on the recognition of the short-term investment at fair value of $11.0 million in the quarter and $27.3 million year-to-date was recognized in income to bring the carrying value of the investment to its fair value of $11.8 million at December 31, 2008.

The long-term account receivable for gas sales charged to Petrobangla for production from the Feni field is carried at the discounted value of $26.9 million as at December 31, 2008 and reflects the potential delay in collection of the amount. Losses of $0.1 million in the quarter and $0.3 million year-to-date were recognized in income to discount the additional revenue recorded and included in the long-term account receivable to its 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 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. There is one swap remaining that fixes the interest rate at 4.12 percent on US$175.6 million of the outstanding long-term debt for the three month period ending March 31, 2009. The Company is exposed to changes in the LIBOR rate on the remaining portion of the outstanding long-term debt. There were realized losses of US$0.3 million, US$0.5 million and US$0.2 million on the settlement of swaps at June 30, September 30, and December 31, 2008, respectively, which were 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 in the periods. The interest rate swaps are recorded at fair value, which is estimated to be a liability of $1.4 million, and are included in accounts payable. A loss of $1.0 million in the quarter and a gain of $0.3 million year-to-date were recorded in income on recognition of the fair value of the remaining interest rate swaps. The fair value of the interest rate swap at December 31, 2008 was calculated based on the fixed rate of 4.12 percent and the known future settlement amount of 1.46 percent. Previously, the fair value of the interest rate swaps was provided by the counterparty using forward LIBOR rates.

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 notes to the Company's interim unaudited consolidated financial statements for the period ended December 31, 2008, available at www.sedar.com.

FUTURE ACCOUNTING CHANGES

Effective April 1, 2009, the Company will adopt the 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". The Company is currently evaluating the impact of the adoption of this new section; however, it does not expect a material impact on its consolidated financial statements.

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 adoption. The exemptions available to first-time adopters of IFRS under the IFRS1 standard will not be available to the Company's foreign subsidiaries that already prepare IFRS-compliant financial statements.

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 December 31, 2008 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

RISK FACTORS

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

- The 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 and expenses as the majority of sales and expenses 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 December 31, 2008. Refer to the notes to the Company's unaudited interim consolidated financial statements for a complete list of the contingencies and any potential effects on the Company.

OUTSTANDING SHARE DATA

At February 12, 2009, the Company had the following outstanding shares:

	Number	$ Amount [1]
Common shares	49,295,633	$ 1,177,951,264
Preferred shares	nil	nil
Stock options	4,289,438	–

[1] This is the dollar amount received for common shares issued excluding share issue costs.

OUTLOOK

Niko is on the verge of an historic event with the start-up of the D6 natural gas project. This event will fundamentally change the Company, adding production volumes generating large-scale cash flows that are expected to provide ample financial capacity to aggressively pursue our extensive exploration acreage including the D6, D4, NEC-25 and Cauvery blocks in India and the other exploration blocks in Pakistan, Kurdistan, Madagascar and Indonesia.

At Niko, we are proud of our achievements and confident in our future.

On behalf of the Board of Directors,

(signed) "Edward S. Sampson"

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

February 12, 2009

CONSOLIDATED BALANCE SHEETS

(THOUSANDS OF CANADIAN DOLLARS) (UNAUDITED)

	As at Dec. 31, 2008	As at March 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents (note 15)	$ 157,734	$ 456,271
Short-term investment (note 15)	11,820	17,721
Accounts receivable (note 15)	20,946	14,803
Inventory (note 2, 3)	1,717	–
Prepaid expenses	1,175	2,172
	$ 193,392	$ 490,967
Restricted cash (note 4, 15)	$ 223,138	$ 133,548
Cash call advances (note 5, 15)	10,010	24,179
Long-term investment (note 6)	5,621	–
Long-term accounts receivable (note 7a, 15)	26,888	21,432
Income tax receivable (note 7b, 18)	20,591	37,532
Property and equipment	1,199,552	646,265
	$ 1,679,192	$ 1,353,923
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (note 15)	$ 39,449	$ 16,905
Current portion of capital lease obligation (note 17)	13,167	–
Current tax payable	3,341	3,151
	$ 55,957	$ 20,056
Asset retirement obligation	14,439	9,358
Capital lease obligation (note 17)	73,364	–
Long-term debt (note 8, 15)	236,120	198,194
	$ 379,880	$ 227,608
Shareholders' equity		
Share capital (note 9)	$ 1,146,811	$ 1,130,052
Contributed surplus (note 10)	50,751	38,557
Accumulated other comprehensive income (loss) (note 11)	85,295	(85,758)
Retained earnings	16,455	43,464
	101,750	(42,294)
	$ 1,299,312	$ 1,126,315
	$ 1,679,192	$ 1,353,923

Segmented information (note 12)
Capital management (note 14)
Guarantees (note 16)
Commitments and contractual obligations (note 17)
Contingencies (note 18)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS *of* OPERATIONS *and* RETAINED EARNINGS

THREE AND NINE MONTHS ENDED DECEMBER 31, 2008 AND 2007 (UNAUDITED)
(THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER SHARE AMOUNTS)

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	**2008**	2007
Revenue				
Oil and natural gas	**$ 34,175**	$ 23,183	**$ 83,856**	$ 79,898
Royalties	**(1,390)**	(1,178)	**(3,775)**	(4,070)
Profit petroleum	**(7,439)**	(4,635)	**(18,479)**	(19,789)
Interest and other	**4,584**	7,584	**11,944**	15,337
	$ 29,930	$ 24,954	**$ 73,546**	$ 71,376
Expenses				
Operating and pipeline	**$ 5,003**	$ 2,821	**$ 9,623**	$ 8,812
Interest and financing on capital lease (note 17)	**920**	–	**920**	–
General and administrative	**1,302**	1,380	**6,132**	3,885
Foreign exchange (gain) loss	**(11,630)**	(1,165)	**(6,909)**	8,142
Discount of long-term account receivable (note 7a, 15)	**73**	4,502	**256**	4,502
Stock-based compensation (note 9)	**5,469**	4,574	**14,931**	11,567
Loss on short-term investment (note 15)	**10,997**	–	**27,303**	–
Equity (gain) loss on long-term investment (note 6)	**(50)**	–	**772**	–
Impairment of long-term investment (note 6)	**5,174**	–	**5,174**	–
Loss (gain) on risk management contracts (note 15)	**1,017**	–	**(342)**	–
Asset impairment	**–**	677	**–**	26,709
Depletion, depreciation and accretion	**13,860**	9,198	**34,147**	31,022
	$ 32,135	$ 21,987	**$ 92,007**	$ 94,639
Income (loss) before income taxes	**$ (2,205)**	$ 2,967	**$ (18,461)**	$ (23,263)
Current income tax expense	**2,569**	2,410	**4,117**	1,735
Net income (loss)	**$ (4,774)**	$ 557	**$ (22,578)**	$ (24,998)
Retained earnings, beginning of period	**$ 22,708**	$ 44,260	**$ 43,464**	$ 72,556
Dividends paid	**(1,479)**	(1,465)	**(4,431)**	(4,206)
Retained earnings, end of period	**$ 16,455**	$ 43,352	**$ 16,455**	$ 43,352
Net income (loss) per share (note 13)				
Basic and diluted	**$ (0.10)**	$ (0.01)	**$ (0.46)**	$ (0.55)

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS *of* COMPREHENSIVE INCOME (LOSS)

THREE AND NINE MONTHS ENDED DECEMBER 31, 2008 AND 2007 (UNAUDITED)
(THOUSANDS OF CANADIAN DOLLARS)

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	**2008**	2007
Net income (loss)	**$ (4,774)**	$ 557	**$ (22,578)**	$ (24,998)
Other comprehensive income (loss):				
Recognition of fair value of derivative (loss)	**–**	(413)	**–**	(413)
Foreign currency translation gain (loss)	**144,317**	(4,951)	**171,053**	(43,748)
Comprehensive income (loss) (note 11)	**$ 139,543**	$ (4,807)	**$ 148,475**	$ (69,159)

See accompanying Notes to Consolidated Financial Statements.

FINANCIALS

CONSOLIDATED STATEMENTS *of* CASH FLOWS

THREE AND NINE MONTHS ENDED DECEMBER 31, 2008 AND 2007 (UNAUDITED)
(THOUSANDS OF CANADIAN DOLLARS)

	Three months ended December 31,		Nine months ended December 31,	
	2008	2007	**2008**	2007
Cash provided by (used in):				
Operating activities				
Net income (loss)	**$ (4,774)**	$ 557	**$ (22,578)**	$ (24,998)
Add items not involving cash from operations:				
Unrealized foreign exchange (gain) loss	**(8,907)**	(1,191)	**(5,545)**	8,894
Discount of long-term account receivable	**73**	4,502	**256**	4,502
Stock-based compensation	**5,469**	4,574	**14,931**	11,567
Unrealized loss on short-term investment	**10,997**	–	**27,303**	–
Equity (gain) loss on long-term investment	**(50)**	–	**772**	–
Impairment loss on long-term investment	**5,174**	–	**5,174**	–
Unrealized loss (gain) on risk management contracts	**1,017**	–	**(342)**	–
Asset impairment	**–**	677	**–**	26,709
Depletion, depreciation and accretion	**13,860**	9,198	**34,147**	31,022
Change in non-cash working capital	**(1,736)**	2,611	**(5,825)**	985
Change in long-term accounts receivable	**13,877**	(4,020)	**12,600**	(14,618)
	$ 35,000	$ 16,908	**$ 60,893**	$ 44,063
Financing activities				
Proceeds from issuance of shares, net of issuance costs (note 9)	**$ 3,716**	$ 17,593	**$ 12,298**	$ 508,176
Long-term debt	**–**	124,959	**–**	124,959
Dividends paid	**(1,479)**	(1,465)	**(4,431)**	(4,206)
	$ 2,237	$ 141,087	**$ 7,867**	$ 628,929
Investing activities				
Addition of property and equipment	**$ (117,531)**	$ (97,828)	**$ (333,430)**	$ (234,772)
Reduction in capital lease obligations	**(784)**	–	**(784)**	–
Restricted cash contributions	**(80,226)**	(152,864)	**(91,441)**	(160,721)
Restricted cash returned	**14,207**	–	**28,337**	1,166
Addition to short-term investment	**(6,444)**	–	**(21,402)**	–
Addition to long-term investment	**–**	–	**(11,567)**	–
Change in non-cash working capital	**21,137**	(11,796)	**23,400**	(13,475)
Change in cash call advances	**47,874**	(596)	**22,820**	(6,624)
	$ (121,767)	$ (263,084)	**$ (384,067)**	$ (414,426)
(Decrease) Increase in cash	**$ (84,530)**	$ (105,089)	**$ (315,307)**	$ 258,566
Effect of translation on foreign currency cash and cash equivalents	**15,141**	848	**16,770**	(10,383)
Cash and cash equivalents, beginning of period	**$ 227,123**	$ 561,794	**$ 456,271**	$ 209,370
Cash and cash equivalents, end of period	**$ 157,734**	$ 457,553	**$ 157,734**	$ 457,553
Supplemental information:				
Interest paid	**$ 2,851**	$ –	**$ 7,377**	$ –
Taxes paid	**$ 2,318**	$ 473	**$ 4,239**	$ 4,751

See accompanying Notes to Consolidated Financial Statements.

NOTES *to* CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended December 31, 2008 (unaudited).
All tabular amounts are in thousands of dollars except per share amounts, numbers of shares/stock options, stock option and share prices, and certain other figures as indicated.

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. This section became applicable during the current reporting period with the commencement of production from the MA field in the D6 Block. Inventories consist of oil and condensate, which are recorded at the lower of weighted average cost and net realizable value. Cost is comprised of operating expenses that have been incurred in bringing the inventories to their present location and condition and the portion of depletion expense associated with the oil and condensate production. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

3. INVENTORY

The cost of the inventory sold during the quarter ended December 31, 2008 was $2.4 million.

The Company wrote-down the oil inventory from the D6 property to net realizable value at December 31, 2008 resulting in a carrying value of $1.5 million. The $0.4 million write-down has been recognized in income as an operating expense.

4. RESTRICTED CASH

The restricted cash balance at December 31, 2008 includes guarantees of US$7.3 million (Cdn$8.9 million) (see note 16), US$2.1 million (Cdn$2.5 million) of cash that is restricted for future site restoration in India and US$172.9 million (Cdn$211.7 million) of cash that is restricted as per the provisions of the credit facility (see note 8). The cash that is restricted due to the credit facility includes the cash that became restricted at inception of the loan plus funds from the operation of the Hazira, Surat and Block 9 fields.

5. CASH CALL ADVANCES

Cash call advances are funds that have been advanced to joint venture partners, where the joint venture partner is operator of the property, as per cash call requests for capital and/or operating expenses that have not been spent by the operator as at the balance sheet date. Although the Company has the right to request the return of funds that have been advanced and not spent on capital and/or operating expenses, the Company generally leaves the funds with the operator when there are forecast expenditures to which they will be applied subsequent to the end of the period. The cash call advances will be transferred to property and equipment and/or operating expenses as these costs are incurred by the operator.

6. LONG-TERM INVESTMENT

The long-term investment is in 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 and the carrying value is subsequently adjusted to include the Company's pro rata share of post-acquisition earnings of the investee. The initial cost recorded was $11.6 million. An equity gain of $50,000 and an equity loss of $0.8 million were recognized during the quarter and year-to-date, respectively. The Company determined that the investment was impaired at December 31, 2008 and wrote the value of the investment down to the book value of the investee's net assets. This resulted in a carrying value for the investment of $5.6 million. The market value of the long-term investment at December 31, 2008 was $2.7 million.

7. 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 18 (a) and (b). Although 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 using a risk-adjusted rate 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 18 (e).

8. 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 the conditions precedent to borrowing additional funds. See note 15.

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). During the three and nine months ended December 31, 2008, the Company capitalized interest expense of US$2.3 million and US$6.7 million, respectively, (three and nine months ended December 31, 2007 – US$0.3 million and $0.3 million, respectively). During the three and nine months ended December 31, 2008, the Company capitalized commitment fees of US$0.5 million and US$1.6 million, respectively, (three and nine months ended December 31, 2007– US$0.4 million and $0.4 million, respectively).

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. See further discussion of repayment in note 15. The loan is secured by restricted cash and an interest in the D6, Hazira, Surat and Block 9 Production Sharing Contracts (PSCs).

9. SHARE CAPITAL

(a) Authorized

Unlimited number of Common shares
Unlimited number of Preferred shares

(b) Issued

	Nine months ended December 31, 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	241,225	12,298	1,297,588	39,723
Contributed surplus	–	4,461	–	7,632
Balance, end of period	49,295,633	$ 1,146,811	49,054,408	$ 1,130,052

NOTES

(c) Stock Options

The Company has reserved for issue 4,929,563 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:

	Nine months ended December 31, 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	**1,012,500**	**$ 64.05**	838,563	$ 92.09
Forfeited	**(15,750)**	**$ 84.41**	(74,500)	$ 64.07
Exercised	**(241,225)**	**$ 50.98**	(1,297,588)	$ 30.61
Outstanding, end of period	**3,975,250**	**$ 65.54**	3,219,725	$ 65.02
Exercisable, end of period	**1,076,563**	**$ 53.96**	929,538	$ 49.79

The following table summarizes stock options outstanding and exercisable under the plan at December 31 2008:

	Outstanding Options			Exercisable Options	
Exercise Price	Options	Remaining Life (Years)	Weighted Average Price	Options	Weighted Average Price
$ 27.85 – $ 39.30	113,750	0.4	$ 37.84	113,750	$ 37.84
$ 41.00 – $ 49.62	1,169,500	0.6	$ 46.86	447,500	$ 43.65
$ 50.15 – $ 60.00	848,687	1.1	$ 53.74	247,813	$ 53.73
$ 61.50 – $ 69.82	397,000	1.3	$ 63.84	114,500	$ 62.99
$ 76.38 – $ 79.69	53,750	2.0	$ 79.37	11,250	$ 79.69
$ 80.90 – $ 89.99	628,313	3.2	$ 86.14	38,000	$ 82.75
$ 90.40 – $ 99.68	762,500	3.0	$ 94.32	103,500	$ 93.28
$ 105.00 – $ 105.47	1,750	2.9	$ 105.27	250	$ 105.47
	3,975,250	2.3	$ 65.54	1,076,563	$ 53.96

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 values of options granted during the three and nine months ended December 31, 2008 were $24.56 and $27.03, respectively (three and nine months ended December 31, 2007 – $31.20 and $31.17, respectively). The weighted average assumptions used in the Modified Black-Scholes model to determine fair value for the current and prior periods were as follows:

Modified Black-Scholes Assumptions

	Three months ended December 31,		Nine months ended December 31,	
(weighted average)	**2008**	2007	**2008**	2007
Risk-free interest rate	**1.6%**	3.9%	**2.2%**	4.0%
Volatility	**58%**	30%	**49%**	29%
Expected life (years)	**2.5**	2.5	**2.7**	2.7
Expected annual dividend per share	**$ 0.12**	$ 0.12	**$ 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.

10. CONTRIBUTED SURPLUS

	Nine months ended December 31, 2008	Year ended March 31, 2008
Contributed surplus, beginning of period	**$ 38,557**	$ 26,723
Stock-based compensation	**16,655**	19,466
Stock options exercised	**(4,461)**	(7,632)
Contributed surplus, end of period	**$ 50,751**	$ 38,557

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Nine months ended December 31, 2008	Year ended March 31, 2008
Accumulated other comprehensive (loss),		
beginning of period	**$ (85,758)**	$ (67,410)
Other comprehensive income (loss):		
Recogition of fair value of derivative (loss)	**–**	(540)
Foreign currency translation gain (loss)	**171,053**	(17,808)
Accumulated other comprehensive income (loss), end of period	**$ 85,295**	$ (85,758)

12. 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 December 31, 2008	India	Bangladesh	All Other (1)(2)	Total
Revenue	**$ 17,739**	**$ 16,277**	**$ 159**	**$ 34,175**
Segment profit (loss)	**$ 2,274**	**$ 2,006**	**$ (268)**	**$ 4,012**
Capital additions	**$ 78,719**	**$ 4,068**	**$ 34,744**	**$ 117,531**

Three Months ended December 31, 2007	India	Bangladesh	All Other (1)(2)	Total
Revenue	$ 13,232	$ 9,749	$ 202	$ 23,183
Segment profit (loss)	$ 3,019	$ 1,640	$ (1,535)	$ 3,124
Capital additions	$ 95,772	$ 1,133	$ 923	$ 97,828

Nine Months Ended December 31, 2008	**India**	**Bangladesh**	**All Other [1][2]**	**Total**
Revenue	**$ 44,041**	**$ 38,985**	**$ 830**	**$ 83,856**
Segment profit (loss)	**$ 8,523**	**$ 5,407**	**$ 39**	**$ 13,969**
Capital additions	**$ 252,634**	**$ 15,228**	**$ 65,568**	**$ 333,430**

Nine Months ended December 31, 2007	India	Bangladesh	All Other [1][2]	Total
Revenue	$ 46,040	$ 33,220	$ 638	$ 79,898
Segment profit (loss)	$ 10,483	$ 6,109	$ (1,558)	$ 15,034
Capital additions	$ 222,089	$ 7,297	$ 5,386	$ 234,772

As at December 31, 2008	**India**	**Bangladesh**	**All Other [1][2]**	**Total**
Property and equipment	**$ 946,083**	**$ 175,504**	**$ 77,965**	**$ 1,199,552**
Total assets	**$ 1,175,264**	**$ 242,974**	**$ 260,954**	**$ 1,679,192**

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 and nine months ended and as at December 31, 2008 includes the Canadian oil and gas operations: capital spending of $21.8 million and $22.7 million, respectively, in Pakistan, $2.2 million and $20.4 million, respectively, in the Kurdistan Region, $5.7 million and $16.3 million, respectively, in Indonesia and $5.1 million and $5.1 million, respectively, in Madagascar; and $0.1 million and $1.1 million, respectively, of new ventures, Canadian and corporate activities. All Other for the three and nine months ended December 31, 2007 and as at March 31, 2008 included Thailand operations and no spending for Pakistan, the Kurdistan Region, Indonesia or Madagascar.

[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 December 31,		Nine Months Ended December 31,	
	2008	2007	**2008**	2007
Segment profit	**$ 4,012**	$ 3,124	**$ 13,969**	$ 15,034
Interest and other income	**4,486**	7,401	**11,690**	14,773
Interest and financing on capital lease	**(920)**	-	**(920)**	-
General and administrative expenses	**(1,302)**	(1,380)	**(6,132)**	(3,885)
Foreign exchange gain (loss)	**11,630**	1,165	**6,909**	(8,142)
Discount of long-term account receivable	**(73)**	(4,502)	**(256)**	(4,502)
Stock-based compensation expense	**(5,469)**	(4,574)	**(14,931)**	(11,567)
Loss on short-term investment	**(10,997)**	–	**(27,303)**	–
Equity gain (loss) on long-term investment	**50**	–	**(772)**	–
Impairment of long-term investment	**(5,174)**	–	**(5,174)**	–
(Loss) gain on risk management contracts	**(1,017)**	–	**342**	–
Asset impairment	**–**	(677)	**–**	(26,709)
Net income (loss)	**$ (4,774)**	$ 557	**$ (22,578)**	$ (24,998)

13. 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 December 31,		Nine Months Ended December 31,	
	2008	2007	**2008**	2007
Weighted average number of common shares outstanding				
– basic	**49,238,400**	48,359,612	**49,171,322**	45,470,362
– diluted	**49,238,400**	49,141,816	**49,171,322**	45,470,362

As the Company incurred net losses for the nine-month period ended December 31, 2007 and the three and nine-month periods ended December 31, 2008, all outstanding stock options (December 31, 2008 – 3,975,250; December 31, 2007 – 3,074,937) were considered anti-dilutive and were therefore excluded from the calculation of diluted per share amounts for the specified periods.

14. 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:

	December 31, 2008	March 31, 2008
Long-term debt [(1)]	**$ 236,120**	$ 198,194
Shareholders' equity	**$ 1,299,312**	$ 1,126,315

[(1)] The undrawn portion of the US$550 million credit facility is not currently available and is therefore not included in the table above. See note 8.

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 ratio of debt to earnings before interest, taxes depletion and any extraordinary items. The Company monitors these ratios on a semi-annual basis in accordance with the facility agreement and complied with the ratios as at September 30, 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.

15. FINANCIAL INSTRUMENTS

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

	As at December 31, 2008 Carrying Amount	2008 Fair Value	As at March 31, 2008 Carrying Amount	2008 Fair Value
Held for trading financial assets (designated upon initial recognition):				
Cash	$ 157,734	$ 157,734	$ 456,271	$ 456,271
Restricted cash	$ 223,138	$ 223,138	$ 133,548	$ 133,548
Short-term investment	$ 11,820	$ 11,820	$ 17,721	$ 17,721
Loans and receivables:				
Accounts receivable	$ 20,946	$ 20,946	$ 14,803	$ 14,803
Cash call advances	$ 10,010	$ 10,010	$ 24,179	$ 24,179
Long-term accounts receivable	$ 26,888	$ 26,888	$ 21,432	$ 21,432
Other financial liabilities (not held for trading):				
Accounts payable and accrued liabilities [1]	$ 38,025	$ 38,025	$ 14,224	$ 14,224
Interest rate swap [1]	$ 1,424	$ 1,424	$ 2,681	$ 2,681
Long-term debt	$ 236,120	$ 236,120	$ 198,194	$ 198,194

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

Basis for Determining Fair Values

The fair values of the cash, restricted cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to their short periods to maturity. The fair value of the short-term investment was based on publicly quoted market values. The Company has a short-term investment that was designated as held-for-trading upon initial recognition. A loss of $11.0 million in the quarter and $27.3 million year-to-date on recognizing the fair value of the investment at December 31, 2008 (three and nine months ended December 31, 2007 – nil) was recognized in income. The fair value of the cash calls advanced to joint venture partners is the amount of funds advanced. A discount on the long-term account receivable of $0.1 million in the quarter and $0.3 million year-to-date was recognized in income at December 31, 2008 (three and nine months ended December 31, 2007 – $4.5 million) resulting in the long-term account receivable being carried at fair value. The fair value of the interest rate swap at December 31, 2008 was calculated based on the known future settlement amount of 1.46 percent. At March 31, 2008, the fair value of the interest rate swaps was provided by the counterparty using forward LIBOR rates. A loss of $1.0 million and a gain of $0.3 million on recognition of the fair value of the interest rate swap for the three and nine months ended December 31, 2008, respectively (three and nine months ended December 31, 2007 – nil), were 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 loss of $31.8 million for the quarter and $37.9 million year-to-date on the translation of the U.S. dollar-denominated long-term debt has been included in other comprehensive income as the debt is held in the Company's foreign operations.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its financial instruments. There were no changes in the Company's exposure to market risks or the Company's processes for managing the risks from the previous period. 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 December 31, 2008. The Company is exposed to changes in the market price of oil and condensate. A 33 percent change in the market price of oil and condensate, which is based on fluctuations in market prices over the past two fiscal periods, would have increased or decreased net income by $3.1 million year-to-date.

(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 the 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. An 8 percent strengthening of the Indian rupee against the Canadian dollar at December 31, 2008, which is based on historical movements in the foreign exchange rates, would have decreased net income by $1.5 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 cash and cash equivalents, accounts receivable, oil inventory, long-term account receivable, accounts payable and accrued liabilities, interest rate swaps, the capital lease 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 rates is recorded in income (loss) for the translation of cash and cash equivalents and in accumulated other comprehensive income (loss) on the balance sheet for the remaining items. A 6 percent weakening of the Canadian dollar against the U.S. dollar at December 31, 2008, which is based on historical movement in foreign exchange rates, would have increased net income by $1.9 million and increased other comprehensive income by $66.1 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 December 31, 2008, the Company had the following interest rate swap contract outstanding:

Fixed for floating interest rate swaps Term (US$ millions)	Amount	Fixed Rate	Floating Rate
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, which is based on historical fluctuations in the three month U.S. dollar LIBOR rate, would have increased or decreased capitalized interest by $0.8 million and net income by $0.5 million year-to-date. This analysis assumes that all other variables, in particular foreign currency exchange 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. A 25 percent change in the publicly quoted market values, which is based on historical changes in market values, would have increased or decreased the carrying amount of the short-term investments at December 31, 2008. The increase or decrease in publicly quoted market value would have increased or decreased, respectively, net income year-to-date by $3.0 million. The fair value was $11.8 million at December 31, 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 the interest rate swap reflect 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.

Accounts Receivable, Cash Call Advances and Long-term Receivable

The Company has accounts receivable from customers engaged in various industries that are concentrated in a specific geographical area in India and with a specific customer in Bangladesh. Management determines concentrations of risks based on the proportion of revenue from each customer out of total sales as well as the physical location of the customers. The accounts receivable and long-term account receivable balance include US$32.8 million receivable from one customer in Bangladesh and US$4.2 million from six gas customers in India, all of which are in one geographic area. The cash call advances of $10.0 million at December 31, 2008 have been forwarded to the joint venture partners of various properties in order to fund exploration, development and/or operating expenses.

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 receivable as at December 31, 2008 was:

	As at December 31, 2008
0 – 30 days	$ 9,282
30 – 90 days	7,615
Greater than 90 days	4,049
Total accounts receivable	$ 20,946

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 with 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 18 (a) and (b). The long-term account receivable is comprised of US$1.3 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$22.0 million (Cdn$26.9 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 18 (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. As at December 31, 2008, the Company had cash of $380.9 million and long-term debt of $236.1 million resulting in cash exceeding long-term debt by $144.8 million. However, as per the terms of the Company's credit facility, $211.7 million of the cash is currently restricted to the ultimate repayment of the long-term debt. The credit facility restriction is a result of: a) the delay in start-up of the D6 gas project; and b) the absence of signed gas sales contracts. The same two factors currently prevent the Company from drawing additional amounts against its credit facility. The D6 project is expected to start-up in the next few weeks, thereby removing construction risk for the Company's lenders. There is a risk that the start-up of the D6 gas project or signing of gas sales contracts will be delayed. As a result of the financial conditions discussed above and the Company's planned capital spending of between $152 million and $163 million for the quarter ending March 31, 2009, the Company is currently in negotiations with its bank syndicate to modify the facility agreement such that restricted cash can be made available to the Company and additional loan draws permitted.

The Company plans to meet its commitments with cash on hand, funds from operation and a restructured credit facility. However, there can be no assurance that the facility can be restructured.

The Company's exposure to liquidity risks has increased from the previous period primarily as a result of the delay in start-up of the D6 gas project.

The Company has the following financial liabilities and due dates as at December 31, 2008:

	Carrying Value	< 1 year	1 – 3 years
Non-derivative financial liabilities [1]			
Accounts payable [2]	$ 38,025	$ 36,631	$ 1,394
Principal repayments on long-term debt	$ 236,120	$ –	$ 236,120
Derivative financial liabilities			
Interest rate swap [2]	$ 1,424	$ 1,424	$ –

[1] The Company also has capital lease commitments as outlined in note 17.

[2] The fair value of the interest rate swap is included in accounts payable and accrued liabilities on the balance sheet.

16. GUARANTEES

As at December 31, 2008, the Company had a performance security guarantee of US$7.3 million for Indonesia, which is included in the restricted cash balance. Additionally, the Company provided performance security guarantees of US$3.0 million for Cauvery, US$2.6 million for the D4 block and US$5.3 million for Block 9. The value of these guarantees is not reflected on the balance sheet as they are supported by Export Development Canada.

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.

17. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company has commitments for approved budgets and development plans under various joint venture agreements. Outstanding development plan commitments for the D6 block total approximately US$153 million.

In May 2008 the Company signed a PSC for an interest in a block in the Kurdistan Region of Iraq that includes remaining minimum work commitments for the first exploratory period estimated at US$16.2 million related to seismic and drilling one exploratory well by May 2011 and US$4.1 million for various payments under the agreement. In October 2008 the Company farmed-in to a PSC for a property located off the west coast of Madagascar and the Company has minimum work commitments under the first exploratory period, which expires in June 2010, for 2,000 line kilometres of 2D seismic. In November 2008 the Company acquired interests in five blocks in Indonesia. The Company has minimum work commitments under the first exploratory period, which expires in November 2011, of US$62.4 million related to acquisition of 16,550 kilometres of 2D seismic and drilling one well per block.

The Company has recognized the capital lease of the floating production, storage and off-loading vessel (FPSO) at the fair value of US$70.7 million (Cdn$86.5 million). The lease is for 10 years and has lease payments of US$10.8 million per year. The discount rate used in determining the present value of minimum lease payments is 9 percent.

	(US$ thousands)	(Cdn$ thousands)[1]
Fiscal 2009	2,652	3,248
Fiscal 2010	10,757	13,173
Fiscal 2011	10,757	13,173
Fiscal 2012	10,757	13,173
Fiscal 2013	10,757	13,173
Thereafter (net of salvage value)	59,530	72,900
Total minimum payments	105,210	128,840
Less amount representing imputed interest	34,545	42,309
Present value of obligation under capital leases	70,665	86,531

(1) The CAD$ amounts are calculated using the December 31, 2008 USD/CAD exchange rate.

18. 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$26.6 million as at December 31, 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$6.6 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$13.0 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$15.2 million) for environmental damages, an amount subject to be increased upon further assessment;

(iv) taka 5,527,500,000 (Cdn$99.2 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 taxation years 1998 through 2008 in India under provisions that provide for a tax holiday deduction for production from the Hazira and Surat fields for eligible undertakings.

The Company received a favourable ruling with respect to the tax holiday at the third tax assessment level for the taxation years 1999 through 2004. The Company has received US$12.8 million during the quarter with respect to the tribunal ruling on these years, excluding taxation year 2002, and US$2.4 million for interest on the balance received. The Income Tax Department has filed an appeal against the orders and the matter is currently pending with the Indian court. The 2005 taxation year has been assessed at the first level with unfavourable treatment with respect to the tax holiday and other deductions. The Company has filed an appeal against the order. The taxation years 2006 through 2008 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 2005, the Company would record a tax expense of US$32.8 million, pay additional taxes of US$22.0 million and write off US$10.8 million of the income tax receivable. In addition, any failure could result in interest and penalties.

(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. An external expert has determined that the service tax is applicable and US$0.6 million has been recognized in these financial statements.

(g) In January 2009, the Company received confirmation from Canadian authorities that they are engaged in a formal investigation into allegations of improper payments in Bangladesh by either the Company or its subsidiary in Bangladesh. No charges have been laid against either the Company or its subsidiary in Bangladesh. The Company believes that the outcome of the investigation and associated costs to the Company are not determinable and no amounts have been recorded in these consolidated financial statements.

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

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Chief Operating Officer, Director

C. J. (Jim) Cummings, LLB
Director

Walter DeBoni, B.SC., MBA, P.ENG.
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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
FPSO	floating production, storage and off-loading vessel
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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