



STALKING THE PRIZE CAPTURING THE REWARD

NIKO RESOURCES LTD

2012

ANNUAL REPORT FOR
THE YEAR ENDED
MARCH 31, 2012

NIKO REPORTS RESULTS FOR THE YEAR ENDED MARCH 31, 2012

Niko Resources Ltd. ("Niko" or the "Company") is pleased to report its financial and operating results, including consolidated financial statements and notes thereto, as well as its managements' discussion and analysis, for the year ended March 31, 2012. The operating results are effective June 27, 2012. All amounts are in U.S. dollars unless otherwise indicated and all amounts are reported using International Financial Reporting Standards unless otherwise indicated.

PRESIDENT'S MESSAGE TO THE SHAREHOLDERS

Production targets and operating cash flow were very close or slightly higher than last year's forecast guidance. However, reservoir performance at our two producing gas fields in the D6 Block has given the Company a significant write down and this is reflected in our financial statements. On the positive side, at D6 alone, reserves are expected to more than double later this year when development plans are approved for existing discoveries.

Company-wide, reserve additions from 19 discovered fields where development plans have already been, or are about to be, submitted, are expected to increase reserves by approximately 260%.

Niko's business plan has continued to focus on Indonesia and Trinidad where massive land positions have been accumulated and major seismic programs completed. To date, Niko has invested approximately \$750 million in these two countries. High quality impact prospects have been identified and drilling has commenced. World-wide, Niko has now accumulated 45 million gross acres of exploration holdings and ranks as one of the largest landholders when compared to other Canadian companies. The Company has contracted an ultra-deep water rig that will begin a four year continuous deep water exploration program, with a 5th year option, commencing in September. This will be the largest deep water drilling campaign ever undertaken in Indonesia.

Niko has now farmed out and will be largely carried on a total of 11 deep water wells. The Company will continue with its business plan to accumulate and farm out additional acreage during the year. The current carried prospects will keep our rig drilling for close to two years.

In addition, during the current fiscal year the Company expects to fund its \$210 million capital program using opening unrestricted cash of \$64 million plus projected funds from operations of \$150 million. Approval of increased gas prices in India would allow for incremental cash flow to these numbers.

I want to take this opportunity to congratulate our Indian staff for achieving the high water mark of crossing the 8 million man hours without a single lost time accident in Hazira and Surat. This is truly an amazing event for India operations.

Although with a current disappointing share price, I believe this will be the most exciting year in corporate history.

Edward S. Sampson – President and Chief Executive Officer, Niko Resources Ltd.

REVIEW OF OPERATIONS AND GUIDANCE

Sales Volumes and Operating Cashflow

	Year ended March 31,		
	2011	2012	2013
	Actual	Actual	Forecast
Oil and condensate (bbls/d)	2,784	1,908	1,220
Gas production (Mcf/d)	278,060	216,098	168,000
Total production (Mcfe/d)	294,764	227,539	175,000

The primary reason for the decline in production during fiscal 2012 was reduced production from the D6 block. Actual production in fiscal 2012 was approximately 3.6 percent lower than the guidance provided a year ago while actual operating cashflow of \$283 million was slightly higher than guidance. Guidance for the fiscal 2013 is 175,000 Mcfe/d and is lower than last year due largely to D6 where production is expected to decline in fiscal 2013 and is expected continue to decline thereafter unless volumes are added from the development of contingent resources.

Funds from Operations

	Year ended March 31,		
	2011	2012	2013
(millions of U.S. dollars)	Actual	Actual	Forecast
Funds from operations	284	234	150

As with sales volumes, the primary reason for the variances relates to production from the D6 block.

Capital additions and expensed exploration

(millions of U.S. dollars)	Year ended March 31, 2012
India	26
Indonesia	69
Kurdistan	28
Trinidad	210
All other	10
Total	343

Costs in India in the year included drilling two wells and other field and plant related costs.

Spending in Indonesia included \$13 million related to preparing for the upcoming deep-water drilling campaign and approximately \$53 million was spent on geological and geophysical activity, multi-beam and new venture activity. The Company accumulated an additional 1.1 million acres of 3D seismic during the year and has now accumulated 3D seismic on over 4.2 million acres.

Kurdistan spending related to a well in the Company's Qara Dagh block. Spending on this well had commenced in the previous year.

In Trinidad the company spent approximately \$96 million for signature bonuses on acquired blocks and the acquisition of the Block 5c. Approximately \$78 million was spent on geological and geophysical costs and approximately \$10 million related to annual payments specified in the Company's blocks. The company accumulated 3D seismic over 1.0 million acres during the year and now has 3D seismic over 1.1 million acres.

Guidance on F2013 Spending

The Company expects to spend approximately \$160 million on exploration and approximately \$50 million on development. The development spending relates to the D6 block in India where \$16 million is planned for two recompletions at MA. A further \$12 million is projected to tie-in an additional well at MA. The remaining development capital relates to water handling and compression.

Unlike last year when exploration spending focused on land acquisitions (including the Block 5c that held contingent resources at acquisition) and geological and geophysical spending the current year will focus on exploration drilling.

In Trinidad the Rowan Gorilla III rig has drilled the Stalin-1 prospect and is currently drilling at the offshore Shadow 1 prospect in Block 2AB and will drill a third well later in 2012. The well is currently drilling at a vertical depth of 1,275 metres. The current drilling plans are to set 13 3/8 inch casing at 1,480 metres. The planned total depth for the well is 2,893 metres. The primary targets are Oligocene age Angostura sands and Eocene as well as Cretaceous sands. During the current fiscal year a land rig will commence drilling at the Guayaguayare Area.

In Indonesia, the Hercules 208 jack-up rig has drilled the Candalila well and is currently drilling the Ratnadewi-1 prospect at Lhokseumawe. The well is currently at 801 metres and 13 3/8 inch casing is being set. The total planned depth of the well is 1,800 metres and the primary target is in the 850 to 1,200 metre range. In August, the Discover Seven Seas rig is expected to begin drilling the Lebah #1 prospect in North Ganal and will potentially drill a second well. In September the Ocean Monarch ultra-deepwater rig will commence operations under a four year (option for a 5th year) contract. The wells planned to be drilled by the Ocean Monarch in the current fiscal year include Jayarani-1 at Lhokseumawe; Ajek-1 at Kofiau; and Cikal-1 at West Papua IV. In summary, seven to eight wells are expected to be drilled in Indonesia during the current fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This 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 year ended March 31, 2012 should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2012. This MD&A is effective June 27, 2012. Additional information relating to the Company, including the Company's Annual Information Form (AIF), is available on SEDAR at www.sedar.com.

All financial information is presented in thousands of U.S. dollars unless otherwise indicated.

The term "the quarter" is used throughout the MD&A and in all cases refers to the period from January 1, 2012 through March 31, 2012. The term "prior year's quarter" is used throughout the MD&A for comparative purposes and refers to the period from January 1, 2011 through March 31, 2011.

The fiscal year for the Company is the 12-month period ended March 31. The terms "Fiscal 2011" and "prior year" is used throughout this MD&A and in all cases refers to the period from April 1, 2010 through March 31, 2011. The terms "Fiscal 2012", "current year" and "the year" are used throughout the MD&A and in all cases refer to the period from April 1, 2011 through March 31, 2012.

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. MMBtu (million British thermal units) is a measure used in the MD&A. It refers to the energy content of natural gas (as well as other fuels) and is used for pricing purposes. One MMBtu is equivalent to 1 Mcfe plus or minus up to 20 percent, depending on the composition and heating value of the natural gas in question.

Less than 2 percent of total corporate production volumes and total corporate revenue are from Canadian oil and Bangladesh condensate. Therefore, the results from Canadian oil and Bangladesh condensate production are not discussed separately.

Forward-Looking Information and Material Assumptions

This MD&A contains forward-looking information including forward-looking information about Niko's operations, reserve estimates, production and capital spending. Forward-looking information is generally signified by words such as "forecast", "projected", "expect", "anticipate", "believe", "will", "should" 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 made by the Company, any of which may prove to be incorrect.

Forward-looking information in this MD&A includes, but is not necessarily limited to, the following:

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

The Company updates forward-looking information related to operations, production and capital spending on a quarterly basis when the change is material and updates reserve estimates 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-IFRS Measures

The selected financial information presented throughout the MD&A is prepared in accordance with International Financial Reporting Standards (IFRS), except for "funds from operations", "operating netback", "funds from operations netback", "earnings netback" and "segment profit", 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 help 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, the change in long-term accounts receivable and exploration and evaluation costs expensed to the statement of comprehensive income.

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 and natural gas revenues less royalties, profit petroleum expenses and operating expenses for a given reporting period, per thousand cubic feet equivalent (Mcf) of production for the same period, and represents the before-tax cash margin for every Mcf sold.

Funds from operations netback is calculated as the funds from operations per Mcf and represents the cash margin for every Mcf sold. Earnings netback is calculated as net income per Mcf and represents net income for every Mcf sold.

Segment profit is defined as oil and natural gas revenues less royalties, profit petroleum expenses, production and operating expenses, depletion expense, exploration and evaluation expense and current and deferred income taxes related to each business segment.

The Company defines working capital as current assets less current liabilities and uses working capital as a measure of the Company's ability to fulfill obligations with current assets.

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

OVERALL PERFORMANCE

International Financial Reporting Standards

For fiscal periods beginning on or after January 1, 2011, all Canadian publicly accountable enterprises are required to prepare their financial statements using International Financial Reporting Standards (IFRS). Accordingly, the Company has prepared its audited consolidated financial statements for the year ended March 31, 2012, under IFRS and has presented its audited consolidated financial statements for the comparative periods, the year ended March 31, 2011 to comply with IFRS. The financial information presented in this MD&A is derived directly from the Company's financial statements and as such certain comparative information may differ from what was originally prepared by the Company using previous Canadian generally accepted accounting principles. For further information on the Company's transition to IFRS and a reconciliation of the affected financial information for the year ended March 31, 2011, please refer to the Company's audited consolidated financial statements for the years ended March 31, 2012 and 2011 filed on SEDAR at www.sedar.com and available on the Company's website at www.nikoresources.com.

Funds from Operations

(thousands of U.S. dollars)	Year ended March 31,	
	2012	2011
Oil and natural gas revenue	321,311	403,856
Other income	6,453	-
Production and operating expenses	(38,641)	(36,659)
General and administrative expenses	(8,774)	(10,809)
Net finance expense	(22,836)	(24,950)
Other expense	(17)	(9,726)
Realized foreign exchange loss	(8,271)	(747)
Current income expense	(5,920)	(1,493)
Minimum alternate tax expense	(9,105)	(35,407)
Funds from operations ⁽¹⁾	234,200	284,065

(1) Funds from operations is a non-IFRS measure as defined under "Non-IFRS measures" in this MD&A.

Oil and natural gas revenue has decreased in the year, primarily as a result of a decrease in gas production at the D6 Block. Declines are expected to continue unless volumes are added from new fields.

The Company farms-out a portion of its interest in various properties in Indonesia. Other income in the current year includes the proceeds from the farm-outs in excess of the recorded asset.

Production and operating expenses for the year increased primarily as a result of the write-down of inventory at the Company's Hazira and Surat blocks.

General and administrative expense decreased primarily due to overhead recoveries from the branch offices as a result of increased exploration activity in the branches.

Net finance expense for the year decreased as higher finance income and the absence of interest on long-term debt more than offset debt set-up costs associated with the Company's credit facility.

Other expense in the prior year is a fine related to the Company's guilty plea under the Corruption of Foreign Public Officials Act. Refer to the "Corporate" section in this MD&A for full details.

There were realized foreign exchange losses in the year as a result of the weakening of the Indian-Rupee against the U.S. dollar.

The current income tax expense is for Hazira increased as a result of adjustments related to prior year tax provisions.

The Company currently pays minimum alternate tax based on Indian-GAAP accounting profits for the D6 block. In the year, accounting income decreased due to decreased revenues and an increase in the depletion charge as a result of the change in the estimate of reserves in the fourth quarter. Minimum alternate tax expense decreased accordingly in the year.

Net Income (Loss)

(thousands of U.S. dollars)	Year ended March 31,	
	2012	2011
Funds from operations (non-IFRS measure)	234,200	284,065
Production and operating expenses	(1,555)	(1,776)
Depletion expense	(141,266)	(109,184)
Exploration and evaluation expense	(232,965)	(97,081)
Loss on short-term investments	(5,823)	(12,720)
Asset Impairment	(133,415)	-
Other expenses	(3,327)	(2,931)
Share-based compensation expense	(21,603)	(22,031)
Impairment of long-term receivable	(22,996)	-
Finance expense	(7,612)	(5,827)
Unrealized foreign exchange (loss) / gain	(6,095)	1,712
Deferred income tax reduction	91,607	35,670
	(250,850)	69,897
Change in accounting estimate—deferred taxes	(57,865)	-
Other expenses—impact of option cancellation	(13,913)	-
Net income (loss)	(322,628)	69,897

The decrease in funds from operations is described above. Other items affecting the net income (loss) are described below.

Production and operating expenses: The non-cash portion of production and operating expense and other expense included above are for share-based compensation (refer to the corporate section of this MD&A for further details).

Depletion expense: Although production volumes are lower in the current year, depletion expense increased as a result of the revision to the reserve volumes included in the March 31, 2012 reserve report.

Exploration and evaluation expense: The Company expenses geological and geophysical costs, unsuccessful exploration costs and the costs of operating branch offices to exploration and evaluation expense. The expense in the year consists of \$115 million related to: seismic programs in Indonesia on the Sunda Strait I, South Matindok and Obi blocks; seismic programs in Trinidad on the Guayaguayare area, both NCMA blocks and Block 2ab. Exploration and evaluation expense also includes \$67 million related to unsuccessful wells in Kurdistan, Trinidad and India. The remainder of the costs in the year are comprised of branch office costs for all exploration properties, \$11 million for annual payments that are specified in the various PSCs and a \$4.5 million provision for exiting the D4 block in India. The prior year cost includes seismic in Indonesia, Madagascar and Trinidad as well as branch operating costs and annual payments that are specified in the various PSCs.

Loss on short-term investments: The mark-to-market loss on short-term investments also contributed to year-over-year variances.

Share-based compensation expense: Other expenses consist primarily of stock based compensation expense. Stock options were cancelled during the year and accounting rules require immediate expense recognition as if the cancelled options had vested immediately resulting in a \$14 million charge to other expenses in the period.

Asset Impairment: As a result of reduced reserves volumes assigned to the D6 Block, the Company recognized a \$133 million impairment related to the Company's producing assets in the D6 Block in India for the year ended March 31, 2012. The producing assets were written down to management's estimate of value in use and determined using proved reserves and forecast cash flows using escalated prices and estimates of future production, capital and operating expenses, discounted at 10 percent, obtained from the reserve report. The prices used are those forecast by management and included in the independent reserve report as described in note 4 to the consolidated financial statements. Due to the unique nature of the asset, lack of comparable fair value transactions, as well as the recent uncertainty surrounding the reserves for the D6 Block, the Company used its estimate of value in use to assess the recoverable amount, resulting in an impairment of \$133 million.

Impairment of long-term receivable: The Company impaired a long-term gas revenue receivable (refer to Segment profit –

Bangladesh of this MD&A for further details).

Finance expense: The non-cash portion of finance expense included above is for the accretion of the decommissioning obligations and accretion of the convertible debentures (refer to the finance expense section in this MD&A for further details).

Unrealized foreign exchange (loss) / gain: The Indian Rupee weakened against the U.S. dollar during the year. As a result, there was an unrealized foreign exchange loss in the year on revaluing the Indian-rupee based income tax receivable and site restoration deposit to U.S. dollars.

Deferred income tax reduction: A deferred tax asset or liability is calculated as the difference between the carrying amount and the remaining tax value of an item multiplied by the effective tax rate expected to be in effect when the differences between the carrying amount and the remaining tax value (temporary difference) reverse. For the Company, the effective tax rates used in the calculations vary by country and with the amount of temporary differences reversing during the tax holiday period in India as described below.

The Company does not make payments to the Government of Bangladesh for Block 9 or Government of the region of Kurdistan for Qara Dagh with respect to income tax.

In Madagascar and Pakistan, the tax values exceed the carrying amounts. The properties are unproved and there is no assurance of realizing the resulting deferred tax asset so the Company does not recognize the asset.

For both Indonesia and Trinidad, a deferred tax liability was recorded coincident with the Company's acquisition of certain entities. Because a deferred tax liability was recognized for these entities, expenditures for these unproved properties result in a deferred tax recovery. In the year, the Company recognized a deferred tax recovery of \$9.3 million for Indonesia and \$22.9 million for Trinidad assets. Expenditures related to unproved properties held in entities that were not purchased do not result in a deferred tax recovery because there is no assurance of realizing the deferred tax asset.

Two significant factors affecting the deferred taxes for the D6 Block in India are: minimum alternate tax paid is eligible for offset against future income tax payable resulting in a deferred tax recovery; and the effective tax rate fluctuates based on the amount of temporary differences reversing during the tax holiday period. The Company has four years remaining in the tax holiday period. The amount of temporary differences reversing during the tax holiday period changes depending on capital spending and the accounting depletion rate. Temporary differences reverse at a tax rate of nil during the tax holiday period rather than the 42% statutory rate. In the prior year, the Company recognized the full amount of the deferred tax asset for minimum alternate tax credits available for offset against future income taxes payable. The fourth quarter reduction in the estimate of proved reserves resulted in a significant increase in depletion rates, which significantly increases the portion of the temporary differences that reverse during the tax holiday period at an effective tax rate of nil. Primarily as a result of these two factors, the Company recognized a deferred tax recovery of \$59 million.

The change in accounting estimate is related to deferred income taxes as a result of estimating the amount of taxable temporary differences reversing during the tax holiday period. Although the Company does not expect a change of this magnitude to occur in the future, there may be future changes in this estimate as the circumstances and facts surrounding this estimate change.

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, Indonesia, the Kurdistan region of Iraq, Trinidad, Pakistan and Madagascar. The Company has agreements with the governments of these countries for rights to explore for and, if successful, produce natural gas and oil. The Company generally is 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 or as specified in the production sharing contract (PSC). Where the Company is currently producing, 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 its 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

D6 – The Company has a 10 percent working interest in the 7,645-square-kilometre D6 Block. The D6 Block comprised 78 percent of the Company's oil and gas revenue during the year. Production of oil from the MA discovery began in September 2008 and production of gas from the Dhirubhai 1 and 3 discoveries in April 2009. The Company has been granted petroleum mining licences for the discoveries expiring in 2028 and 2025, respectively. Oil production is sold on the spot market at a price based on Bonny Light and adjusted for quality. Gas production is sold under long-term gas contracts using a pricing formula approved by the Government of India, which currently results in a price of \$4.20/MMBtu net and there is a marketing margin of \$0.135/MMBtu earned in addition to the price formula. This equates to a sales price of approximately \$3.95/Mcf.

Under the terms of the production sharing contract (PSC) 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 to pay 10 percent.

In addition, the Company pays a percentage of the profits from the block to the government, which varies with the Investment Multiple (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. As at March 31, 2012, the profit share was 10 percent.

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. The Hazira Block comprised 4 percent of the Company's oil and gas revenues in the year.

The Company has a petroleum mining licence that expires in September 2014, which can be extended. The Company has one significant contract for the sale of gas production from the field expiring in April 2016 at a current price of \$4.86/Mcf.

Surat – The Company holds a development area of 24 square kilometres containing the Bheema and NSA shallow natural gas fields. The block comprised 2 percent of the Company's oil and gas revenue in the year. The Company has one contract for the sale of gas production at a price of \$6.00/ Mcf until March 31, 2013.

NEC-25 – The Company has a 10 percent working interest in the NEC-25 Block, which covers 9,461 square kilometres in the Mahanadi Basin off the east coast of India. The Company has fulfilled the exploration minimum work commitment for the block.

D4 – The Company has a 15 percent interest in the D4 Block, located in the Mahanadi Basin offshore from the east coast of India. The Company has performed the seismic work and has a remaining commitment to drill three wells under the first exploration phase. As a result of the most current geological assessment related to the size and risk of the trapping mechanism and the current

commercial environment in India, the Company intends to relinquish the block. Subsequent to March 31, 2012, the Company has paid the estimated exit costs of \$4.5 million.

Cauvery – The Company has a 100 percent working interest and operates the block, which covers 957 square kilometres. The Company has performed the seismic work and drilled four of the five wells required under the first exploration phase. The estimated cost of the remaining work commitment is up to \$2 million. Wells drilled to date have been unsuccessful. The Company intends to relinquish the block.

Bangladesh

Block 9 – The Company holds a 60 percent interest in this 6,880-square-kilometre onshore block that encompasses the capital city of Dhaka. Natural gas and condensate production from this field began in May 2006 and comprised 16 percent of the Company's oil and gas revenues for the year. As per the PSC, the Company has rights to produce for a period of 25 years and this arrangement 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 \$2.34/MMBtu (approximately \$2.33/Mcf) for a period up to 25 years.

The Company shares a percentage of the profits from the block with the government, which varies with production and whether or not the Company has recovered its investment. 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. 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. As at March 31, 2012, the profit share was 61 percent.

Indonesia

The Company holds interests in PSCs for 21 offshore exploration blocks covering 108,876 square kilometres. The chart below indicates the location, award date, the Company's working interest and the size of the block.

Block Name	Offshore Area	Award Date	Working Interest	Area (Square Kilometres)
Bone Bay	Sulawesi SW	Nov. 2008	45%	4,969
South East Ganai ⁽¹⁾	Makassar Strait	Nov. 2008	100%	4,868
Seram ⁽¹⁾	Seram North	Nov. 2008	55%	4,991
South Matindok ⁽¹⁾	Sulawesi NE	Nov. 2008	100%	5,182
West Sageri ⁽¹⁾	Makassar Strait	Nov. 2008	100%	4,977
Cendrawasih	Papua NW	May 2009	45%	4,991
Kofiau ⁽¹⁾	West Papua	May 2009	57.5%	5,000
Kumawa	Papua SW	May 2009	45%	5,004
East Bula ⁽¹⁾	Seram NE	Nov. 2009	55%	6,029
Halmahera-Kofiau ⁽¹⁾	Papua W	Nov. 2009	51% ⁽²⁾	4,926
North Makassar ⁽¹⁾	Makassar Strait	Nov. 2009	30%	1,787
West Papua IV ⁽¹⁾	Papua SW	Nov. 2009	51% ⁽²⁾	6,389
Cendrawasih Bay II	Papua NW	May 2010	50%	5,073
Cendrawasih Bay III ⁽¹⁾	Papua NW	May 2010	50%	4,689
Cendrawasih Bay IV ⁽¹⁾	Papua NW	May 2010	50%	3,904
Sunda Strait I ⁽¹⁾	Sunda Strait	May 2010	100%	6,960
Obi ⁽¹⁾	Papua W	Nov. 2011	51% ⁽²⁾	8,057
North Ganai	Makassar Strait	Nov. 2011	31%	2,432
Halmahera II	Papua W	Dec. 2011	20%	6,000
South East Seram ⁽¹⁾	Papua SW	Dec. 2011	100%	8,217
Lhokseumawe ⁽²⁾	Aceh	Oct. 2005	30%	4,431

(1) Operated by the Company.

(2) The Company has entered into a farmout and joint bidding agreement that, subject to government approval, will reduce its working interest to 42% in the Obi block. The Company has entered into a farmout agreement for the West Papua IV and Halmahera-Kofiau blocks whereby the farmee will obtain an additional working interest, subject to government approval, that would reduce the Company's working interest to 40%. The Company has entered into a farmout agreement that, subject to government approval, it will acquire a 30% working interest in the Lhokseumawe block.

All of the blocks are in the first exploration period with the exception of Lhokseumawe. The Company has acquired a total of 29,570 kilometres of 2D seismic and 17,081 square kilometres of 3D seismic fulfilling the seismic work commitments on the blocks. Eleven of the blocks have a single well commitment. The Company has contracted a rig and the drilling program for the Company's operated blocks is expected to commence in 2012. The Company's share of the remaining minimum work commitments as specified in the PSCs for the exploration period is \$92 million to be spent at various dates up to December 2014. The Company is required to relinquish a portion of the exploration acreage after the first three years of the contract, however, the Company has received extensions in order to fulfill the well commitments on certain blocks.

Kurdistan

The onshore Qara Dagh block covers approximately 846 square kilometres, in the Sulaymaniyah Governorate of the Federal Region of Kurdistan in Iraq. The Company has a 37 percent interest and carries the proportionate cost for the regional government's interest, resulting in a 46 percent cost interest in the block. In August 2011, the Company agreed to pay an additional cost interest related to a partner's cash call commitments. In return, in the event a commercial discovery is made, Niko will receive an amount equal to the net proceeds of sale associated with a 12 percent undivided interest in the block.

The exploration period is for a term of five years and is extendable by two one-year terms. An exploratory well was drilled between May 2010 and October 2011 to a depth of 4,196 metres, which was the maximum depth possible with the drilling equipment. Multiple zones tested, however, not at commercial rates. The Company has left the well in such a condition that it retains the option to re-enter the well at a later date. The Company's share of the remaining minimum work commitment as specified in the PSC for the exploration period is \$6 million to be spent by May 2013.

Trinidad

The Company holds interests in ten PSCs/license for seven exploration areas and for one development area (Block 5(c)). The chart below indicates the location, PSC date, the Company's working interest and the size of the block.

Exploration Area	Location	Award Date	Working interest	Area (Square Kilometres)
Block 2AB ⁽¹⁾	Offshore	July 2009	35.75%	1,605
Guayaguayare—Shallow Horizon ⁽¹⁾	Onshore/Offshore	July 2009	65%	1,134
Guayaguayare—Deep Horizon ⁽¹⁾	Onshore/Offshore	July 2009	80%	1,190
Central Range—Shallow Horizon	Onshore	Sept. 2008	32.5%	734
Central Range—Deep Horizon	Onshore	Sept. 2008	40%	856
Block 4(b) ⁽¹⁾	Offshore	April 2011	100%	754
NCMA2 ⁽¹⁾	Offshore	April 2011	56%	1,020
NCMA3 ⁽¹⁾	Offshore	April 2011	80%	2,107
Block 5(c)	Offshore	July 2005	25%	324
MG Block ⁽¹⁾	Offshore	July 2007	70%	223

(1) Operated by the Company.

The Company has minimum exploration work commitments for the acquisition or reprocessing of seismic and to drill a total of 15 wells on the blocks. The seismic work commitment has been met for all of the areas. Three of the commitment wells have been drilled to date. The Stalin-1 well drilled on Block 2AB and the Cribho-1 and Mapepire 1 wells on the Central Range block were unsuccessful and have been abandoned. The Company's share of the remaining minimum work commitments as specified in the PSCs for the exploration period is \$182 million to be spent by various dates up to April 2016.

The Company closed the acquisition of a 25 percent interest in Block 5(c) in June 2011 for a purchase price of \$78.1 million. Block 5(c) is located 94 kilometres off the east coast of Trinidad and the development plan is awaiting government approval. The transfer of the Block MG license was also part of an agreement signed by the Company in December 2010.

Madagascar

The Company has a 75 percent working interest in a PSC for a 16,845-square-kilometre block off the west coast of Madagascar with water depths ranging from shallow water to 1,500 metres. The Company completed a 31,944-line kilometre aero-magnetic survey and a 10,000 square kilometre multi-beam survey. A 3,236-square-kilometre 3D survey was completed in July 2010. The 3D seismic will fulfill the Phase II work commitment. The Company's share of the remaining minimum work commitment as specified in the PSC for the exploration period is \$10 million to be spent by September 2015. A well location is expected to be selected after seismic interpretation.

Pakistan

The Company has production sharing agreements (PSAs) for four blocks in Pakistan. The blocks are located in the Arabian Sea offshore the city of Karachi and cover a combined area of almost 10,000 square kilometres. The Company has received a one-year extension to the Phase I exploration period, which now ends March 2014. The Company has substantially completed the commitments under this phase through seismic activity. The Company has evaluated the seismic and has selected drilling locations.

Capital additions and exploration and evaluation costs expensed directly to income

(thousands of U.S. dollars)	Additions to exploration and evaluation asset ⁽¹⁾	Directly expensed exploration and evaluation costs ⁽¹⁾	Additions to property, plant and equipment ⁽¹⁾	Total
India	1,459	5,569	18,637	25,665
Indonesia	15,826	53,475	-	69,301
Kurdistan	24,612	3,070	-	27,682
Trinidad	120,747	87,735	1,466	209,948
All other	256	5,027	4,986	10,269
Total	162,900	154,876	25,089	342,865

(1) Share-based compensation and other non-cash items are excluded. Includes additions in the year that were subsequently written off.

India: Spending in India related primarily to capital at the D6 gas plant.

Indonesia: Expenditures include \$13 million related to preparing for the future deep-water drilling campaign and approximately \$3 million related to signature bonuses for new blocks. In addition, approximately \$53 million was spent on geological and geophysical activity at the Sunda Strait I, South Matindok and Obi blocks, operating the branch, multi-beam and new venture activity.

Kurdistan: Spending related primarily to completing the drilling of the Company's first well on the Qara Dagh block. Drilling of this well commenced in the prior year. The Company's share of total well costs was approximately \$37 million including amounts spent in the prior year.

Trinidad: Expenditures include: signing bonuses of \$18 million for the signing of production sharing contracts for three additional blocks; the purchase of Block 5(c) in June 2011 for \$78 million; and \$24 million for exploration wells on Block 2AB and the Central Range Area. In addition, approximately \$74 million was spent on geological and geophysical activity for the Guayaguayare, 2AB and NCMA blocks, \$10 million for annual payments that are specified in the various PSCs and \$4 million for general office expenses.

SEGMENT PROFIT

INDIA

(thousands of U.S. dollars)	Year ended March 31,	
	2012	2011
Natural gas revenue	236,363	311,730
Oil and condensate revenue ⁽¹⁾	68,149	78,200
Royalties	(15,456)	(20,639)
Profit petroleum	(6,414)	(7,907)
Production and operating expenses	(32,528)	(30,768)
Depletion expense	(128,217)	(96,812)
Asset Impairment	(133,415)	-
Exploration and evaluation expenses	(11,663)	(3,069)
Current income tax (expense) / recovery	(6,926)	(2,389)
Minimum alternate tax (expense)	(9,105)	(35,508)
Deferred income tax reduction	59,374	35,670
Change in accounting estimate - deferred taxes	(57,865)	-
Segment profit / (loss) ⁽²⁾	(37,703)	228,508
Daily natural gas sales (Mcf/d)	157,289	211,018
Daily oil and condensate sales (bbls/d) ⁽¹⁾	1,701	2,559
Operating costs (\$/Mcf)	0.53	0.37
Depletion rate (\$/Mcf)	2.09	1.17

(1) Production that is in inventory has not been included in the revenue or cost amounts indicated.

(2) Segment profit / (loss) is a non-IFRS measure as calculated above.

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

Revenue and Royalties

The Company's gas production for the year was 149 MMcf/d compared to 198 MMcf/d in the prior year's period. Declines are expected to continue unless production volumes are added from new fields in the D6 Block.

Oil and condensate sales decreased in the current year compared to the prior year. Oil production from the D6 Block decreased as five wells were producing in the periods compared to six wells for the majority of the prior year's periods and a decrease in production from the remaining wells. The decrease as a result of volumes was partially offset by an increase in realized oil price to \$109/bbl in the year compared to \$84/bbl in the prior year.

The decrease in royalties is a result of the decreased revenues described above. Royalties applicable to production from the D6 Block are 5 percent for the first seven years of commercial production and gas royalties applicable to the Hazira and Surat fields are currently 10 percent of the sales price.

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. Profits are defined as revenue less royalties, operating expenses and capital expenditures. The decrease in profit petroleum is a result of the decreased revenues described above.

For the D6 Block, the Company is able to use up to 90 percent of profits to recover costs. The government was entitled to 10 percent of the profits not used to recover costs during the year. Profit petroleum expense will continue at this level until the Company has recovered its costs.

The government was entitled to 25 percent and 20 percent of the profits from Hazira and Surat, respectively.

Operating Expenses

Operating expenses increased for the year compared to the prior year primarily as a result of the write-down of inventory at the Company's Hazira and Surat blocks. Operating costs per Mcfe have increased as a result of decreased production with no corresponding decrease in operating costs as the majority of the operating costs are fixed.

Depletion, Depreciation and Accretion

The depletion rate increased as a result of the revision to the reserve volumes and future costs included in the March 31, 2012 reserve report. The effect of the increased depletion rate on the depletion expense was partially offset by decreased production.

Asset Impairment

As a result of reduced reserves volumes assigned to the D6 Block, the Company recognized a \$133 million impairment related to the Company's producing assets in the D6 Block in India for the year ended March 31, 2012. The producing assets were written down to management's estimate of value in use and determined using proved reserves and forecast cash flows using escalated prices and estimates of future production, capital and operating expenses, discounted at 10 percent, obtained from the reserve report. The prices used are those forecast by management and included in the independent reserve report as described in note 4 to the consolidated financial statements. Due to the unique nature of the asset, lack of comparable fair value transactions, as well as the recent uncertainty surrounding the reserves for the D6 Block, the Company used its estimate of value in use to assess the recoverable amount, resulting in an impairment of \$133 million.

Income Taxes

Current income tax expense relates to the Hazira and Surat blocks. Current income tax expense has increased as a result of recognizing adjustments related to prior year tax provisions.

The Company pays minimum alternate tax (MAT) at a rate of 19 percent of accounting profits from the D6 block, calculated in accordance with Indian generally accepted accounting principles, and records this as MAT expense. MAT has decreased from the prior year as a result of decreased revenues and the change in estimate of reserves that resulted in increased depletion expense and therefore decreased accounting profits.

A deferred tax asset or liability is calculated as the difference between the carrying amount and the remaining tax value of an item multiplied by the effective tax rate expected to be in effect when the differences between the carrying amount and the remaining tax value (temporary difference) reverse. The effective tax rate used in the calculation for the D6 Block varies with the amount of temporary differences reversing during the tax holiday period as described below.

Two significant factors affecting the deferred taxes for the D6 Block in India are: minimum alternate tax paid is eligible for offset against future income tax payable resulting in a deferred tax recovery; and the effective tax rate fluctuates based on the amount of temporary differences reversing during the tax holiday period. The Company has four years remaining in the tax holiday period. The amount of temporary differences reversing during the tax holiday period changes depending on capital spending and the accounting depletion rate. Temporary differences reverse at a tax rate of nil during the tax holiday period rather than the 42% statutory rate. In the prior year, the Company recognized the full amount of the deferred tax asset for minimum alternate tax credits available for offset against future income taxes payable. The fourth quarter reduction in the estimate of proved reserves resulted in a significant increase in depletion rates, which significantly increases the portion of the temporary differences that reverse during the tax holiday period at an effective tax rate of nil. Primarily as a result of these two factors, the Company recognized a deferred tax recovery of \$59 million.

The change in accounting estimate is related to deferred income taxes as a result of estimating the amount of taxable temporary differences reversing during the tax holiday period. Although the Company does not expect a change of this magnitude to occur in the future, there may be future changes in this estimate as the circumstances and facts surrounding this estimate change.

Contingencies

The Company has contingencies related to gas sales contracts, the profit petroleum calculation and ownership of the 36" pipeline for Hazira and related to income taxes for Hazira and Surat as at March 31, 2012. Refer to the consolidated financial statements and notes for the year ended March 31, 2012 for a complete discussion of the contingencies.

BANGLADESH

(thousands of U.S. dollars)	Year ended March 31,	
	2012	2011
Natural gas revenue	49,714	56,694
Condensate revenue	8,141	6,559
Profit petroleum	(19,589)	(21,354)
Production and operating expenses	(7,377)	(7,486)
Depletion expense	(13,049)	(12,372)
Exploration and evaluation expenses	(1,044)	(541)
Impairment of long-term receivable	(22,996)	-
Segment profit / (loss) ⁽¹⁾	(6,200)	21,500
Daily natural gas sales (Mcf/d)	58,801	67,042
Daily condensate sales (bbls/d)	190	202
Operating costs (\$/Mcfe)	0.34	0.30
Depletion rate (\$/Mcfe)	0.59	0.50

(1) Segment profit is a non-IFRS measure as calculated above. Segment profit includes the results from Block 9 and Feni in Bangladesh. Production from Feni ceased in April 2010.

Revenue, Profit Petroleum, Depletion and Operating Expenses

The Bangora-1 well is producing at a consistent level, which is lower than the prior year due to a mechanical problem that cannot be remedied in a cost-effective manner. Production from this well is expected to continue at no higher than current levels. Production from the remaining wells is consistent with the prior year. The decrease in production is the cause of the revenue decline as the gas price was consistent during the years at \$2.32/Mcf.

Condensate production decreased as a result of the decrease in production from the Bangora-1 well. The effect of the decreased production on revenue was more than offset by increased price to \$117.05/bbl in the year from \$89.00/bbl in the prior year.

Pursuant to the terms of the PSC for Block 9, the Government of Bangladesh was entitled to 61 percent of profit gas in the year and prior year, which equates to 34 percent of revenues while the Company is recovering historical capital costs. Overall, profit petroleum expense decreased due to decreased revenues from Block 9.

Depletion expense increased on a unit-of-production basis as a result of the addition of the dew-point control unit.

Impairment of long-term receivable and Contingencies

The Company has a gas revenue receivable of \$27.9 million for the natural gas sales to Bangladesh Oil, Gas and Mineral Corporation (Petrobangla) for production from the Feni field in Bangladesh. The Company produced natural gas from the Feni field from November 2004 to April 2010 and delivered the natural gas to Petrobangla for the duration.

Although the Company expects to collect the full amount of the receivable, the timing of collection is uncertain as the Company will not collect the receivable until resolution of the various claims raised against the Company. Although the Company has a valid claim to receive payment for the gas delivered to Petrobangla and the Company will continue to pursue collection of the receivable, due to the continued uncertainty with respect to timing of resolution of the various claims raised against the Company, a provision has been recorded against the full amount of the receivable as at March 31, 2012 and recorded the previously discounted value of \$23 million as an impairment. The various claims raised against the Company are described in notes 31(a) and (b) to the Company's

consolidated financial statements.

INDONESIA, KURDISTAN, MADAGASCAR, PAKISTAN, TRINIDAD

(thousands of U.S. dollars)	Other income		Exploration and evaluation expense		Income tax recovery		Segment Profit	
	Year ended March 31,							
	2012	2011	2012	2011	2012	2011	2012	2011
Indonesia	6,453	-	(61,717)	(48,431)	9,319	-	(45,945)	(48,431)
Kurdistan	-	-	(40,455)	(3,469)	-	-	(40,455)	(3,469)
Madagascar	-	-	(1,132)	(24,921)	-	-	(1,132)	(24,921)
Pakistan	-	-	(1,978)	(1,692)	-	-	(1,978)	(1,692)
Trinidad	-	-	(111,996)	(14,417)	22,913	-	(89,083)	(14,417)

Indonesia

The Company farms-out a portion of its interest in various properties. Other income in Indonesia in the year includes the proceeds from the farm-outs in excess of the recorded asset.

During the year, the Company spend \$23 million on seismic costs in South Matindok and Sunda Strait I, \$16 million of other geological and geophysical activity including processing and seismic on other blocks, \$9 million on new ventures and \$6 million to operate the branch office. In addition, the Company expensed \$4 million of previously capitalized acquisition costs and \$4 million of share-based compensation expense. The prior year expense relates primarily to seismic programs.

A deferred tax liability was recorded coincident with the Company's acquisition of Black Gold entities. Because a deferred tax liability was recognized for these entities, expenditures for these unproven properties result in a deferred tax recovery. In the year, the Company recognized a deferred tax recovery of \$9.3 million. Expenditures related to unproved properties held in entities that were not purchased do not result in a deferred tax recovery because there is no assurance of realizing the deferred tax asset.

Kurdistan

The exploration and evaluation expense for Kurdistan is the cost to operate the branch office and the write-off of the QD-1 well in the Qara Dagh block. While this well may be re-entered at a later date, the timing thereof is uncertain. The prior year expense is primarily the cost to operate the branch office.

Madagascar

The exploration and evaluation expense in the year for Madagascar is the cost to operate the branch office. The prior year cost includes the cost of the seismic program.

Pakistan

The exploration and evaluation expense for Pakistan includes seismic processing and the cost to operate the branch office.

Trinidad

Trinidad exploration and evaluation expense includes \$74 million for seismic programs on the Guayaguayare Area, Block 2AB, NCMA2, NCMA3 and the MG Block and \$24 million for the unsuccessful Stalin-1 well on Block 2AB and Cribo and Mapepire on the Central Range Area. The prior year cost includes seismic on Block 2AB. The annual payments required as per the signed PSCs increased in the current year as a result of NCMA2, NCMA3 and Block 4b, which were signed in April 2011. The costs to operate the branch office were incurred in both years.

A deferred tax liability was recorded coincident with the Company's acquisition of Voyager Energy Ltd. Because a deferred tax liability was recognized, expenditures for these unproven properties result in a deferred tax recovery. In the year, the Company recognized a deferred tax recovery of \$22.9 million. Expenditures related to unproved properties held in entities that were not purchased do not result in a deferred tax recovery because there is no assurance of realizing the deferred tax asset.

CORPORATE

(thousands of U.S. dollars)	Year ended March 31,	
	2012	2011
General and administrative	8,774	10,809
Share-based compensation	21,603	22,031
Share-based compensation - impact of option cancellation	13,913	-
Other expense - depreciation and other	3,344	2,930
Other expense	-	9,727
Finance expense	34,750	33,157
Foreign exchange loss / (gain)	14,366	(965)
Loss on short-term investments	5,823	12,720

General and administrative

In the current year, the general and administrative costs have decreased primarily as a result of increased overhead recoveries from the branch offices. The effect was partially offset by increased use of outside legal services.

Share-based compensation – impact of option cancellation

Stock options were cancelled during the year and accounting rules require immediate expense recognition as if the cancelled options had vested immediately resulting in a \$14 million charge to other expense in the period.

Other Expense

In January 2009, the Company received confirmation from Canadian authorities that they were engaged in a formal investigation into allegations of improper payments in Bangladesh by either the Company or its subsidiary in Bangladesh. The Company cooperated in the investigation, which was concluded on June 24, 2011, and the Company pleaded guilty to one count of bribery under the Corruption of Foreign Public Officials Act. The charge refers to two specific incidents that occurred in 2005: the provision of a vehicle for the personal use of the then-Bangladeshi Energy minister, valued at Cdn\$190,984; and the provision of travel costs to the same Minister to attend an Energy Expo in Calgary and a subsequent personal trip to New York, valued at Cdn\$5,000. The sentence includes a fine of Cdn\$8,260,000 and an additional 15% Victim Fine Surcharge for a total amount of Cdn\$9,499,000. Additionally, the sentence includes a probation order, which puts the Company under the Court's supervision for the next three years to ensure audits are done to ensure the Company's compliance with the Act. The costs of compliance with the Probation Order will be borne by the Company.

Finance expense

(thousands of U.S. dollars)	Year ended March 31,	
	2012	2011
Interest expense	21,674	26,166
Accretion expense	7,612	6,847
Other	5,464	144
Finance expense	34,750	33,157

Interest expense decreased as a result of the repayment of the long-term debt in October 2010. Accretion expense is on the Company's convertible debentures and decommissioning obligations. The recorded liability for the convertible debenture increases as time progresses to the maturity date resulting in a higher accretion expense than in the prior period. Other expense includes the costs of arranging financing.

Foreign Exchange

(thousands of U.S. dollars)	Year ended March 31,	
	2012	2011
Realized foreign exchange loss / (gain)	6,095	(1,712)
Unrealized foreign exchange loss / (gain)	8,271	747
Total foreign exchange loss / (gain)	14,366	(965)

The Company's realized foreign exchange losses and gains arise primarily because of the difference between the Indian rupee to U.S. dollar exchange rate at the time of recording individual accounts receivable and accounts payable compared to the exchange rate at the time of receipt of funds to settle recorded accounts receivable and payment to settle recorded accounts payable.

The unrealized foreign exchange loss in the year arose primarily on the translation of the Indian-rupee denominated income tax receivable and site restoration deposit to U.S. dollars as a result of the weakening of the rupee versus the U.S. dollar.

There were additional foreign exchange gains in the year on U.S. dollar cash held by the parent whose functional currency is the Canadian dollar. An offsetting entry increases the accumulated other comprehensive income but does not flow through the income statement.

Short-term Investments

The loss on short-term investments for the year was a result of marking the short-term investments to market value. The Company sold investments during the year resulting in realized losses of \$12 million. The majority of the losses had been included in income in prior periods as the investments have been marked to market since the time of purchase.

NETBACKS

The following tables outline the Company's operating, funds from operations and earnings netbacks (all of which are non-IFRS measures):

(\$/Mcf)	Year ended March 31, 2012			Year ended March 31, 2011		
	India	Bangladesh	Total	India	Bangladesh	Total
Oil and natural gas revenue	4.97	2.64	4.36	4.72	2.54	4.22
Royalties	(0.25)	-	(0.19)	(0.25)	-	(0.19)
Profit petroleum	(0.10)	(0.89)	(0.31)	(0.10)	(0.86)	(0.27)
Production and operating expense	(0.52)	(0.34)	(0.46)	(0.37)	(0.30)	(0.35)
Operating netback	4.10	1.41	3.40	4.00	1.38	3.41
Other income			0.08			-
G&A			(0.11)			(0.10)
Other expense			-			(0.09)
Net finance expense			(0.38)			(0.24)
Current income tax expense			(0.07)			(0.01)
Minimum alternate tax			(0.11)			(0.33)
Funds from operations netback			2.81			2.64
Production and operating expenses			(0.02)			(0.02)
Exploration and evaluation costs			(2.80)			(0.90)
Other expense			(0.47)			(0.23)
(Loss) on short-term investment			(0.07)			(0.12)
Deferred income tax reduction			0.41			0.33
Net finance expense			(0.16)			(0.04)
Impairment of long-term receivable			(0.28)			-
Asset Impairment			(1.60)			-
Depletion expense			(1.70)			(1.01)
Earnings netback			(3.88)			0.65

The netback for India, Bangladesh and in total for the Company is a non-IFRS measure calculated by dividing the revenue and costs for each country and in total for the Company by the total sales volume for each country and in total for the Company measured in Mcfe. Mcfe is derived by converting oil and condensate to natural gas in the ratio of 1 bbl:6 Mcf.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2012, the Company had total restricted and unrestricted cash of \$83 million (March 31, 2011 - \$126 million). The Company's unrestricted cash position decreased by \$44 million during the year. This decrease occurred primarily because capital spending and directly expensed exploration and evaluation costs of \$343 million exceeded funds from operations of \$234 million. This \$109 million reduction in cash was partially offset by \$40 million related to reduced non-cash working capital and realization of a long-term receivable and a \$25 million draw on the Company's credit facility.

The Company had a working capital deficit of \$270 million at March 31, 2012 (\$119 million surplus – March 31, 2011), calculated as current assets less current liabilities. The Company collected \$30 million during the period that had been advanced for a new venture with conditions precedent. The conditions were not met and the advance was returned to the Company during the year, reducing the account receivable balance. The accounts payable balance increased as a result of increased drilling and seismic activity in Trinidad during the period. The primary reason for the change from a surplus to a deficit is the inclusion of the convertible debentures (see next paragraph for a more detailed description) of \$306 million in current liabilities as they are due within one year. While the Company has the right to settle the debentures with equity, the Company intends to pursue other options.

On December 30, 2009, the Company entered into a Cdn\$310 million convertible debenture credit facility (the "Debentures"). The Debentures bear a coupon rate of 5 percent and mature on December 30, 2012. The interest is paid semi-annually in arrears on January 1st and July 1st of each year. Debentures are convertible at the option of the holder into common shares of the Company at a conversion price of Cdn\$110.50 per common share until 60 days prior to the maturity date. In May 2011, the terms of the debentures were altered such that the Company now may elect to convert all of the Debentures at maturity into common shares at a 6 percent discount to the weighted average trading price for the 20 trading days prior to the election.

In January 2012, the Company entered into a three-year facility agreement for a \$225 million credit facility and a \$25 million operating facility for general corporate purposes and has borrowed \$25 million against this facility. The maximum available credit under this facility is subject to review based on, among other things, updates to the Company's reserves. The Company has experienced a significant downward revision to its reserves and the syndicate of lenders are currently reviewing the reserve information to determine the impact, if any, on the maximum available credit under the facility. The Company expects that the maximum available under the facility will be reduced as a result of this review.

The Company's planned capital program for Fiscal 2013 is \$210 million, which is comprised of \$160 million for exploration and \$50 million for development.

The Company expects that it will use its unrestricted cash on hand of \$64 million as at March 31, 2012, funds from operations that are currently projected at approximately \$150 million to fund its planned capital program for Fiscal 2013. The Company intends to use its credit facility, as necessary, to fund working capital or other needs that may arise during the year. Cashflow from operations is affected by production levels, by fluctuations in foreign exchange rates, changes in operating costs and the market price of oil.

The contractual obligations of the Company are as follows:

As at March 31, 2012 (thousands of U.S. dollars)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Guarantees	13,785	9,244	4,541	-	-
Work commitments ⁽¹⁾	292,000	69,000	159,000	64,000	-
Decommissioning obligations ⁽²⁾	67,151	-	6,685	1,928	58,538
Finance lease obligations ⁽³⁾	69,048	10,757	21,514	21,514	15,263
Operating lease obligations ⁽⁴⁾	562,000	70,000	281,050	210,950	-
Convertible debentures ⁽⁵⁾	310,000	310,000	-	-	-
Total contractual obligations	1,313,984	469,001	472,790	298,392	73,801

- (1) Details of the work commitments by property are included in "Background on Properties" in this MD&A. The work commitments included in the above chart are based on the minimum costs specified in the PSC or in the Company's bid for the PSC. The commitments are included in the above chart based on the deadline for spending and are calculated based on the Company's working interest and are therefore prior to any promotes related to farm-ins or farm-outs. The Company may apply for extensions to exploration periods as required to complete the work commitment.
- (2) Decommissioning obligations are based on the undiscounted estimated future liability of the Company as disclosed in the notes to the consolidated financial statements for the year ended March 31, 2012. They do not include wells or facilities that were not complete as at March 31, 2012.
- (3) Finance lease obligation includes both the current and long-term portions.
- (4) The contract commencement date for the lease of an operating rig is not fixed and the above table includes commitments based on estimated commencement date. The lease obligations included above are before reimbursement from partners and the Company expects a significant portion of this commitment to be funded by joint venture partners.
- (5) The convertible debentures are recorded in the consolidated financial statements at a value of \$306 million, which is a discounted value to reflect the fact that the interest rate is lower than the market interest rate on similar debentures without a conversion feature. The convertible debentures are included in the table based on the amount that would be required to repay the Cdn\$310 million debentures converted at the year-end exchange rate.

SUMMARY OF QUARTERLY RESULTS

The following tables set forth selected financial information of the Company, in thousands of U.S. dollars unless otherwise indicated, for the eight most recently completed quarters to March 31, 2012:

Three months ended	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011	Mar. 31, 2012
Oil and natural gas revenue ⁽¹⁾	88,277	86,810	74,789	71,434
Net income (loss)	(54,983)	(43,916)	(40,405)	(183,324)
Per share				
Basic (\$)	(1.07)	(0.85)	(0.78)	(3.55)
Diluted (\$)	(1.07)	(0.85)	(0.78)	(3.55)

Three months ended	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011
Oil and natural gas revenue ⁽¹⁾	104,687	105,781	99,220	94,168
Net income (loss)	14,072	23,785	25,806	6,234
Per share				
Basic (\$)	0.28	0.47	0.50	0.12
Diluted (\$)	0.27	0.46	0.50	0.12

- (1) Oil and natural gas revenue is oil and natural gas sales less royalties and profit petroleum expense.

Gas production from the D6 Block commenced in the quarter ended June 30, 2009 and ramped-up during the subsequent quarters, substantially increasing revenues in each quarter to the quarter ended September 30, 2010. D6 gas production began to decline in the subsequent quarters due to well performance. Operating expense increased as additional wells in the D6 Block came on-stream and in 2010 when gas production commenced from the MA oil field.

Net income in the quarters was affected by:

- The Company repaid its long-term debt in October 2010 decreasing finance expense, thereafter.
- The Company's short-term investments are valued at fair value, which is the quoted market price. Gains and losses are recognized throughout the quarters based on fluctuations in the market prices.
- The Company expensed a portion of the exploration and evaluation costs during the quarters and the level of activity varies over the periods.
- The Company impaired assets of \$133 million and long term receivables of \$23 million in the quarter ended March 31, 2012.
- For the quarter ended June 30, 2011, there was a change in accounting estimate related to deferred income tax expense. There was a revision in the method of estimating the amount of taxable temporary differences reversing during the tax holiday period.
- For the quarter ended September 30, 2011, there was a \$14 million expense upon cancellation of stock options to recognize the remainder of the expense associated with the options.
- Depletion expense increased in the quarter ended March 31, 2011 and again in the quarter ended March 31, 2012 as a result of revisions to the reserves and estimated future costs to develop the reserves.
- In the quarter ended March 31, 2011, \$9.7 million fine was recorded related to the Company's guilty plea to one count of bribery under the Corruption of Foreign Public Officials Act relating to two specific instances that occurred in 2005.
- There was a deferred income tax recovery in the quarter ended March 31, 2012 related to the revision to the reserve estimate, which increased the value of the tax holiday for the D6 Block and there were deferred income tax recoveries related to spending in Indonesia and Trinidad applied against the deferred income tax liabilities recorded upon the acquisitions of Voyager Energy Ltd. and Black Gold Energy LLC.

FOURTH QUARTER

Funds from Operations

(thousands of U.S. dollars)	Quarter ended March 31,	
	2012	2011
Oil and natural gas revenue	71,434	94,167
Production and operating expenses	(10,921)	(10,075)
General and administrative expenses	(3,230)	(4,534)
Net finance expense	(7,490)	(4,360)
Other expense	(17)	(9,726)
Realized foreign exchange	(3,868)	(2,058)
Current income tax expense	(2,872)	(450)
Minimum alternate tax expense	9,914	(4,235)
Funds from operations ⁽¹⁾	52,950	58,729

(1) Funds from operations is a non-IFRS measure as defined under "Non-IFRS measures" in this MD&A.

The explanations provided in "Overall Performance" apply to the changes in the quarter ended March 31, 2012 compared to the quarter ended March 31, 2011 except as follows:

There was minimum alternate tax (MAT) expense in the prior year's quarter on Indian GAAP accounting profits from the D6 block. There was an adjustment to MAT expense in the current year's quarter as a result of the change in Indian GAAP accounting profits as due to the change in estimate of reserves and its effect on depletion expense.

Net Income (Loss)

(thousands of U.S. dollars)	Quarters ended March 31,	
	2012	2011
Funds from operations (non-IFRS measure)	52,950	58,729
Production and operating expenses	(54)	(445)
Depletion expense	(57,665)	(32,777)
Exploration and evaluation expense	(116,355)	(17,530)
Gain on short-term investments	361	784
Asset impairment	(133,415)	-
Share-based compensation expense	(3,742)	(5,657)
Other expenses	(832)	(772)
Finance expense	(1,786)	(1,789)
Impairment of long-term receivable	(22,996)	-
Unrealized foreign exchange (loss) / gain	1,532	1,193
Deferred income tax reduction	98,678	4,498
Net income (loss)	(183,324)	6,234

The explanations provided in "Overall Performance" apply to the changes in the quarter ended March 31, 2012 compared to the quarter ended March 31, 2011 except as follows:

Exploration expense in the quarter is comprised of the unsuccessful exploration wells in Hazira, the costs to exit the D4 block, seismic for Guayaguayare and NCMA3 in Trinidad, the unsuccessful exploration wells in Block 2AB and the Central Range in Trinidad, branch operating costs and annual payments specified in the various PSCs. In the prior year's quarter, the expense is for seismic in Indonesia, Trinidad and Madagascar as well as branch operating costs and annual payments specified in the various PSCs.

The mark-to-market loss on short-term investments also contributed to year-over-year variances.

The Indian Rupee strengthened against the U.S. dollar during the quarter. As a result, there was an unrealized foreign exchange gain on revaluing the Indian-rupee based income tax receivable and site restoration deposit to U.S. dollars.

Deferred income tax reduction: A deferred tax asset or liability is calculated as the difference between the carrying amount and the remaining tax value of an item multiplied by the effective tax rate expected to be in effect when the differences between the carrying amount and the remaining tax value (temporary difference) reverse. For the Company, the effective tax rates used in the calculations vary by country and with the amount of temporary differences reversing during the tax holiday period in India as described below.

For both Indonesia and Trinidad, a deferred tax liability was recorded coincident with the Company's acquisition of certain entities. Because a deferred tax liability was recognized for these entities, expenditures for these unproven properties result in a deferred tax recovery. In the year, the Company recognized a deferred tax recovery of \$9.3 million for Indonesian and \$22.9 million for Trinidadian assets. Expenditures related to unproved properties held in entities that were not purchased do not result in a deferred tax recovery because there is no assurance of realizing the deferred tax asset.

Two significant factors affecting the deferred taxes for the D6 Block in India are: minimum alternate tax paid is eligible for offset against future income tax payable resulting in a deferred tax recovery; and the effective tax rate fluctuates based on the amount of temporary differences reversing during the tax holiday period. The Company has four years remaining in the tax holiday period. The amount of temporary differences reversing during the tax holiday period changes depending on capital spending and the accounting depletion rate. Temporary differences reverse at a tax rate of nil during the tax holiday period rather than the 42% statutory rate. In the prior year, the Company recognized the full amount of the deferred tax asset for minimum alternate tax credits available for offset against future income taxes payable. The fourth quarter reduction in the estimate of proved reserves resulted in a significant increase in depletion rates, which significantly increases the portion of the temporary differences that reverse during the tax holiday period at an effective tax rate of nil. Primarily as a result of these two factors, the Company recognized a deferred tax recovery of \$66 million.

SELECTED ANNUAL INFORMATION

(thousands of U.S. dollars)	Years ended March 31,		
	2012	2011	2010 ⁽¹⁾
Oil and natural gas revenue ⁽²⁾	321,311	403,856	289,599
Net income (loss)	(322,628)	69,897	118,788
Per share basic (\$)	(6.25)	1.37	2.39
Per share diluted (\$)	(6.25)	1.36	2.37
Total assets	1,618,487	1,889,741	2,246,454
Total long-term financial liabilities	304,203	616,896	645,804
Dividends per share (Cdn\$)	0.24	0.21	0.12

(1) The Fiscal 2010 comparative numbers are non-adjusted Canadian GAAP amounts.

(2) Oil and natural gas revenue is oil and natural gas sales less royalties and profit petroleum expense.

Natural gas production from the D6 Block commenced in April 2009 and production volumes were increasing over fiscal 2010. With 16 to 17 wells producing for most of fiscal 2011, natural gas sales increased by \$86 million. The increase in revenues from D6 was partially offset by natural declines in production from Hazira and Surat. Oil and natural gas revenue has decreased in fiscal 2012 compared to fiscal 2011, primarily as a result of a decrease in gas production at the D6 Block. Declines are expected to continue unless production volumes are added from new fields in the D6 Block.

In addition to the changes in oil and natural gas revenues, the following items contributed to the changes in net income over the years:

- Proceeds of farm-out transactions in excess of recorded book value resulted in an increase of \$6 million to the fiscal 2012 income.
- Operating expense increased in fiscal 2011 as operations including maintenance programs were established.
- Depletion expense increased in fiscal 2011 as a result of a revision to reserve volumes and future costs and again in fiscal 2012 as a result of a revision to reserve volumes.
- In fiscal 2011 and fiscal 2012, \$97 million and \$233 million of exploration and evaluation costs were expensed, whereas costs of the same nature were capitalized under Canadian GAAP policies applied for fiscal 2010. Exploration and evaluation expense in fiscal 2011 were primarily for seismic in Indonesia, Madagascar and Trinidad. Exploration and evaluation expense in fiscal 2012 were incurred for seismic and unsuccessful drilling in Trinidad, unsuccessful drilling in Kurdistan and seismic in Indonesia. The expense in both fiscal 2011 and fiscal 2012 includes carrying costs of the blocks and annual payments specified in the PSCs.
- There was a mark-to-market gain of \$15 million in fiscal 2010, a loss of \$13 million in fiscal 2011 and a loss of \$6 million in fiscal 2012 as a result of the change in market value of the short-term investments.
- Stock options were cancelled during the fiscal 2012 and accounting rules require immediate expense recognition as if the cancelled options had vested immediately resulting in a \$14 million charge to other expense in the period.
- Other income of \$9 million was recognized in fiscal 2010 as the result of the award of ownership of the 36-inch pipeline to incorporate the results of the pipeline operations.
- Interest expense increased in fiscal 2011 as a result of the convertible debentures issued in December of 2009.
- There were foreign exchange losses in fiscal 2010 and fiscal 2012 as a result of the weakening of the INR against the U.S. dollar.
- The Company recorded an impairment of \$23 million in fiscal 2012 against the receivable from Petrobangla for gas sales. Please refer to "Segment Profit – Bangladesh" in this MD&A for further details.
- The Company recorded an impairment of \$133 million in fiscal 2012 against the D6 producing property.
- Minimum alternate tax (MAT) expense with respect to the D6 Block increased by \$15 million in fiscal 2011 as a result of the increased accounting income for the block. In fiscal 2012, the decreased accounting income as a result of the decreased revenues and increased depletion expense resulted in a \$26 million decrease in MAT expense.
- The deferred income tax recovery in fiscal 2011 offset the increase in the MAT expense. In fiscal 2012, there was an increase in the deferred income tax recovery due to: the change in value of the tax holiday for the D6 block as a result of the change in estimated reserves; and related to spending in Indonesia and Trinidad applied against the deferred income tax liabilities recorded upon the acquisitions of Voyager Energy Ltd. and Black Gold Energy LLC.

Total assets decreased in fiscal 2011 as a result of the conversion to International Financial Reporting Standards (IFRS) from Canadian GAAP applied to the financial statements in fiscal 2010. Items that are capitalized as assets under Canadian GAAP do not qualify for capitalization according to the accounting policies adopted by the Company under IFRS and therefore, total assets decreased. In fiscal 2012, total asset decreased as a result of the impairments of the long-term gas revenue receivable and the D6 producing property, the use of cash in operations, the net change in property, plant and equipment primarily as a result of depletion, partially offset by the net addition of exploration and evaluation assets.

Total long-term financial liabilities decreased in fiscal 2012 primarily as a result of the reclassification of the convertible debentures to current as they became due in less than one 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. The transactions with the related party are measured at the exchange amount, which is the amount agreed to between related parties.

FINANCIAL INSTRUMENTS

Financial instruments of the Company consist of short-term investments, accounts receivable, long-term accounts receivable, accounts payable and accrued liabilities, borrowings and convertible debentures.

The Company is exposed to fluctuations in the value of its cash, accounts receivable, short-term investments, accounts payable and accrued liabilities due to changes in foreign exchange rates as these financial instruments are partially or wholly denominated in Canadian dollars and the local currencies of the countries in which the Company operates. The Company manages the risk by converting cash held in foreign currencies to U.S. dollars as required to fund forecast expenditures. The Company is exposed to changes in foreign exchange rates as the future interest payments on the convertible debentures are in Canadian dollars.

The Company is exposed to changes in the market value of the short-term investments.

The Company is exposed to credit risk with respect to all of its financial instruments if a customer or counterparty fails to meet its contractual obligations. The Company has deposited the cash and restricted cash with reputable financial institutions, for which management believes the risk of loss to be remote. The Company takes measures in order to mitigate any risk of loss with respect to the accounts receivable, which may include obtaining guarantees.

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 by entering into contracts with fixed gas prices. 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. The Company is exposed to the change in the Brent crude price as the average Brent crude price from the preceding year is a variable in the gas price for the current year, calculated annually, for the D6 gas contracts.

The fair values of accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to their short periods to maturity. The fair value of the short-term investments is based on publicly quoted market values. A loss on the recognition of the short-term investments at fair value of \$6 million was recognized in income for the year.

The debt component of the convertible debentures has been recorded net of the fair value of the conversion feature. The fair value of the conversion feature of the debentures included in shareholders' equity at the date of issue was \$15 million. The fair value of the conversion feature of the debentures was determine based on the discounted future payments using a discount rate of a similar financial instrument without a conversion feature compared to the fixed rate of interest on the debentures. Interest and financing expense of \$21 million in the year was recorded for interest expense and accretion of the discount on the convertible debentures.

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 consolidated financial statements of the Company.

Oil and Natural Gas Reserves

Reserves estimated can have a significant effect on net earnings as a result of their impact on the depletion rate, provisions for decommissioning obligations and asset impairments. Independent qualified engineers in conjunction with the Company's reserve engineer estimate the value of oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgement. Estimates of economically recoverable oil and gas reserves and future cash flows from those reserves are based upon a number of variables and assumptions such as geological interpretation, commodity prices, operation and capital costs and production forecasts, all of which may vary considerable from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available, or as economic conditions change.

Depletion and Impairment of Producing Assets

The net carrying value of producing asset is depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved reserves of oil and natural gas, taking into account estimated future development costs necessary to bring those reserves into production. Revisions to reserve estimates and the associated future cashflows could significantly increase or decrease depletion expense charged to net income and could result in an impairment of property, plant and equipment charged as an expense to net income.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. Indications include: a significant decline in market value of the asset; significant changes have taken or will take place in the technological; market, economic or legal environment in which the Company operates or in the market to which an asset is dedicated; a significant increase in market interest rates that would affect the discount rate and value of the asset; and the carrying amount of the net assets of the entity is more than its market capitalization. Irrespective of whether there is any indication of impairment, the Company tests intangible assets with an indefinite useful life and intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. The recoverable amount requires the use of assumptions and estimates including quantities of recoverable resources, estimated production quantities, future commodity prices and further exploration, development and production costs. Changes in any of these assumptions, could impact the estimated recoverable amount and result in an impairment of exploration and evaluation assets, development assets, capital work-in-progress and other property, plant and equipment.

Decommissioning Obligations

Production sharing contracts that the Company has entered into indicate an obligation for abandonment of wells and facilities including removal of all equipment and installations and site restoration, collectively termed decommissioning obligations. Provision is made for the estimated cost of decommissioning obligations for a well that has been drilled and for equipment or installations upon completion. The provision is capitalized in the relevant asset category and a corresponding liability is recognized.

The provision for decommissioning obligations is calculated as the present value of the expenditures expected to be required to settle the obligation in the future. The present value is based on the best estimate of future costs and the economic lives of the wells, facilities and pipelines. There is uncertainty regarding both the amount and timing of incurring these costs and a change in either could result in an adjustment to the relevant capital asset and the decommissioning obligation.

Income Taxes

The Company estimates current and future income taxes based on its interpretation of tax laws in the various jurisdictions in which it operates and pays income taxes. The Company recorded its income tax expense including provisions that provide for a tax holiday deduction for various undertakings related to the Hazira and Surat properties for the taxation years 1998 to 2008. Should the tax authorities determine that the tax holiday deduction does not apply to natural gas, the Company would pay additional cash taxes, write-off the net income tax receivable on the statement of financial position and recognize additional income tax expense as a charge to net income. This may also impact the oil and natural gas reserves and asset impairment related to these properties. See note 31 to the consolidated financial statements for further discussion.

Share-Based Compensation

Compensation expense associated with the Company's share-based compensation plan is calculated and, recognized in net income or capitalized, over the vesting period of the stock option with a corresponding increase in contributed surplus. A forfeiture rate used in the calculation of compensation expense is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

INITIAL ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standards Board confirmed that IFRS will be required for interim and annual reporting by publicly accountable enterprises effective for January 1, 2011 including 2010 comparative information. The consolidated financial statements for the year ended March 31, 2012 have been prepared in accordance with IFRS applicable to the preparation of interim financial statements including International Accounts Standard (IAS) 34, "Interim Financial Reporting" and IFRS 1 "First-time Adoption of International Financial Reporting Standards".

The accounting policies adopted by the Company under IFRS are set out in note 2 to the consolidated financial statements for the year ended March 31, 2012. Note 27 to the same consolidated financial statements discloses the impact of the transition to IFRS on the Company's reported financial position, earnings and cash flows, including the nature and effect of certain transition elections and significant changes in accounting policies from those used in the Company's Canadian IFRS consolidated financial statements for fiscal 2011.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

The International Accounting Standards Board (IASB) has issued IFRS 9 "Financial Instruments" to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the multiple classification and measurement models for financial assets and liabilities with a new model that has only two categories: amortized cost and fair value through profit and loss. Under IFRS 9, fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2011, the IASB issued or amended a number of standards that will be effective for annual periods beginning on or after January 1, 2013.

Three new standards are IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". IFRS 10 establishes a single control model that applies to all entities and will require management to exercise judgment to determine which entities are controlled and need to be consolidated by the parent. The Company will continue to consolidate all of its wholly-owned subsidiaries and is currently assessing the accounting impact of its investments in other companies. IFRS 11 replaces IAS 31 "Interest in Joint Ventures" and SIC-13 "Jointly-controlled Entities – Non-monetary Contributions by Venturers". IFRS 11 identifies two forms of joint ventures when there is joint control: joint operations and joint ventures. Joint operations are accounted for using proportionate consolidation and joint ventures are accounted for using the equity method. IFRS 11 focuses on the nature of the rights and obligations associated with the joint arrangements and the Company is currently evaluating the effect of this standard on its joint arrangements. IFRS 12 introduces a number of new disclosures related to consolidated financial statements and interests in subsidiaries, joint arrangements, associates and structured entities.

As a result of the new standards described above, the IAS has amended IAS 28 "Investments in Associates and Joint Ventures" to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The IASB published IFRS 13 "Fair Value Measurement" which provides a precise definition of fair value and a single source of fair value measurement disclosures requirements for use across IFRSs.

The IASB issued amendments to IAS 1 *Presentation of Financial Statements* requiring companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments apply to annual periods beginning on or after July 1, 2012.

The IASB reissued IAS 27 "Separate Financial Statements" to focus solely on accounting and disclosure requirements when an entity presents separate financial statements that are not consolidated financial statements.

The Company is currently assessing the disclosure impact of the standards listed above on its consolidated 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 annual filings or other reports filed or submitted under applicable Canadian securities laws is made known to management on a timely basis to allow decisions regarding required disclosure.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision and evaluating the effectiveness of the Company's internal controls over financial reporting. The Chief Executive Officer and Chief Financial Officer have overseen the design and evaluation of internal controls over financial reporting and have concluded that the design and operation of these internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There were no changes in internal controls over financial reporting during the year ended March 31, 2012. In August 2011, the Company hired a dedicated employee to function as the Chief Compliance Officer and perform the duties previously fulfilled by an existing officer. The Chief Compliance Officer reports to the Audit Committee.

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;
- Adverse factors including climate and geographical conditions, weather conditions and labour disputes;
- Changes in foreign exchange rates that impact the Company's non-U.S. dollar transactions; 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 March 31, 2012. Refer to the notes to the Company's consolidated financial statements for a complete list of the contingencies and any potential effects on the Company.

OUTSTANDING SHARE DATA

At June 27, 2012, the Company had the following outstanding shares:

	Number	Cdn\$ Amount ⁽¹⁾
Common shares	51,641,845	1,325,403,000
Preferred shares	Nil	Nil
Stock options	3,993,128	-

(1) This is the dollar amount received for common shares issued excluding share issue costs and is presented in Canadian dollars. The U.S. dollar equivalent at June 27, 2012 is \$1,171,439,000.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all other information contained elsewhere in this report is the responsibility of the management of Niko Resources Ltd. The consolidated financial statements necessarily include amounts that are based on estimates, which have been objectively developed by management using all relevant information. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains and evaluates the effectiveness of disclosure controls and procedures and internal control over financial reporting for Niko Resources Ltd. Disclosure controls and procedures are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards. The Company evaluates the effectiveness of internal controls over financial reporting at the financial year end and discloses its conclusions about the effectiveness in the Company's annual Management's Discussion and Analysis.

The Audit Committee of the Board of Directors, comprised of non-management directors, has reviewed the consolidated financial statements with management and the auditors. The consolidated financial statements have been approved by the Board of Directors on recommendation of the Audit Committee.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

(signed) "Edward S. Sampson"

Edward S. Sampson

President and CEO

June 27, 2012

(signed) "Murray Hesje"

Murray Hesje

Vice President, Finance and CFO

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Niko Resources Ltd.

We have audited the accompanying consolidated financial statements of Niko Resources Ltd., which comprise the consolidated statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years ended March 31, 2012 and 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Niko Resources Ltd. as at March 31, 2012, March 31, 2011 and April 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended March 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

(signed) "KPMG LLP"
Chartered Accountants
Calgary, Canada
June 27, 2012

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Assets		(note 32)	(note 32)
Current assets			
Cash and cash equivalents	64,495	108,342	196,813
Restricted cash (note 5)	6,790	7,704	28,245
Accounts receivable (note 6)	61,247	75,160	44,298
Short-term investments (note 7)	748	14,922	32,081
Inventories (note 8)	9,961	7,212	7,255
	143,241	213,340	308,692
Restricted cash (note 5)	11,283	10,232	21,026
Long-term accounts receivable (note 9)	2,202	46,549	29,920
Long-term investment	2,752	2,830	-
Exploration and evaluation assets (note 10)	856,880	762,221	708,478
Property, plant and equipment (note 11)	509,091	763,019	864,444
Income tax receivable	34,724	34,747	27,299
Deferred tax asset (note 25)	58,314	56,803	20,410
	1,618,487	1,889,741	1,980,269
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	101,660	87,305	121,810
Current tax payable	1,220	2,351	2,072
Finance lease obligation (note 15)	4,804	4,804	4,278
Borrowings (note 12)	-	-	154,811
Convertible debentures (note 13)	306,052	-	-
	413,736	94,460	282,971
Decommissioning obligation (note 14)	40,017	31,454	27,117
Finance lease obligation (note 15)	43,671	48,475	53,278
Borrowings (note 12)	25,000	-	38,003
Deferred tax liabilities (note 25)	195,515	227,746	227,746
Convertible debentures (note 13)	-	309,221	291,063
	717,939	711,356	920,178
Shareholders' Equity			
Share capital (note 17)	1,171,439	1,162,319	1,111,593
Contributed surplus	104,964	63,037	45,077
Equity component of convertible debentures	14,765	14,765	14,765
Currency translation reserve	(2,094)	(8,344)	1,184
Deficit	(388,526)	(53,392)	(112,528)
	900,548	1,178,385	1,060,091
	1,618,487	1,889,741	1,980,269

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

Approved on behalf of the Board

(signed) "Wendell Robinson"
Wendell Robinson
Chairman of the Audit Committee, Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(thousands of U.S. dollars, except per share amounts)	Year ended March 31,	
	2012	2011
		(note 32)
Oil and natural gas revenue (note 18)	321,311	403,856
Production and operating expenses	(40,196)	(38,435)
Depletion expense (note 11)	(141,266)	(109,184)
Exploration and evaluation expenses (note 19)	(232,965)	(97,081)
Loss on short-term investments (note 7)	(5,823)	(12,720)
Asset impairment (note 11)	(133,415)	-
Other income (note 20)	6,453	-
Other expenses (note 21)	(3,344)	(12,657)
Share-based compensation expense	(35,516)	(22,031)
General and administrative expenses (note 22)	(8,774)	(10,809)
	(273,535)	100,939
Finance income	4,302	2,380
Finance expense (note 24)	(34,750)	(33,157)
Impairment of long-term receivable (note 9)	(22,996)	-
Foreign exchange (loss) / gain	(14,366)	965
Net finance expense	(67,810)	(29,812)
Income (loss) before income tax	(341,345)	71,127
Current income tax expense	(5,920)	(1,493)
Minimum alternate tax expense	(9,105)	(35,407)
Deferred income tax reduction	33,742	35,670
Income tax reduction / (expense) (note 25)	18,717	(1,230)
Net (loss) / income	(322,628)	69,897
Foreign currency translation (loss) / gain	6,250	(9,528)
Comprehensive (loss) / income for the year	(316,378)	60,369
Earnings / (loss) per share: (note 26)		
Basic	\$ (6.25)	\$ 1.37
Diluted	\$ (6.25)	\$ 1.36

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(thousands of U.S. dollars, except number of common shares)	Common shares (#)	Share capital	Contributed surplus	Currency translation reserve	Equity component of convertible debentures	Deficit	Total
Balance, April 1, 2010	50,818,110	1,111,593	45,077	1,184	14,765	(112,528)	1,060,091
Options exercised	708,791	50,726	(11,963)	-	-	-	38,763
Share-based compensation expense	-	-	29,923	-	-	-	29,923
Net income for the year	-	-	-	-	-	69,897	69,897
Payment of dividends ⁽¹⁾	-	-	-	-	-	(10,761)	(10,761)
Foreign currency translation	-	-	-	(9,528)	-	-	(9,528)
Balance, March 31, 2011	51,526,901	1,162,319	63,037	(8,344)	14,765	(53,392)	1,178,385
Options exercised	114,944	9,120	(2,288)	-	-	-	6,832
Share-based compensation expense	-	-	44,215	-	-	-	44,215
Net loss for the year	-	-	-	-	-	(322,628)	(322,628)
Payment of dividends ⁽¹⁾	-	-	-	-	-	(12,506)	(12,506)
Foreign currency translation	-	-	-	6,250	-	-	6,250
Balance, March 31, 2012	51,641,845	1,171,439	104,964	(2,094)	14,765	(388,526)	900,548

(1) The Company paid dividends of \$0.21 per share and \$0.24 per share in the years ended March 31, 2011 and 2012, respectively.

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

CONSOLIDATED STATEMENTS OF CASHFLOWS

(thousands of U.S. dollars, except per share amounts)	Year ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net (loss) / income	(322,628)	69,897
Adjustments for:		
Depletion and depreciation expense	144,594	112,365
Accretion expense	7,612	6,847
Deferred income tax reduction	(33,742)	(35,670)
Unrealized foreign exchange loss (gain)	6,095	(1,712)
Loss on short-term investment	5,823	12,720
Asset impairment	133,415	-
Exploration and evaluation write-off	71,816	-
Share-based compensation expense	43,358	29,338
Impairment of long-term receivable	22,996	-
Other expense / (income)	-	(1,271)
Change in non-cash working capital	11,743	10,430
Change in long-term accounts receivable	16,550	(23,742)
Net cash from operating activities	107,632	179,202
Cash flows from investing activities:		
Exploration and evaluation expenditures	(162,900)	(39,300)
Disposition of exploration and evaluation assets	2,355	-
Property, plant and equipment expenditures	(25,089)	(18,379)
Restricted cash contributions	(9,500)	(37,873)
Release of restricted cash	8,550	69,208
Addition to investments	-	(8,839)
Disposition of investments	7,970	11,103
Change in non-cash working capital	13,009	(75,315)
Net cash used in investing activities	(165,605)	(99,395)
Cash flows from financing activities:		
Proceeds from issuance of share capital, net of issuance costs	6,832	38,765
Change in loans and borrowings	25,000	(192,814)
Reduction in finance lease liability	(4,804)	(4,278)
Dividends paid	(12,506)	(10,761)
Net cash from financing activities	14,522	(169,088)
Change in cash and cash equivalents	(43,451)	(89,281)
Effect of translation on foreign currency cash	(396)	810
Cash and cash equivalents, beginning of year	108,342	196,813
Cash and cash equivalents, end of year	64,495	108,342

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Niko Resources Ltd. (the "Company") is a limited company incorporated in Alberta, Canada. The addresses of its registered office and principal place of business is 4600, 400 – 3 Avenue SW, Calgary, AB, T2P4H2. The Company is engaged in the exploration for and development and production of oil and natural gas in the countries listed in note 27. The Company's common shares are traded on the Toronto Stock Exchange.

2. Basis of Presentation and Significant Accounting Policies

a. Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These are the Company's first financial statements reported under International Financial Reporting Standards and IFRS1 "First-time Adoption of International Financial Reporting Standards" has been applied.

This note outlines the significant accounting policies under IFRS. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The impact of the new standards, including reconciliations presenting the change from previous GAAP to IFRS as at April 1, 2010 and as at and for the year ended March 31, 2011, is presented in note 32.

The financial statements were approved by the board of directors and authorized for issue on June 27, 2012.

b. Basis of Preparation and Presentation

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments as described in sections g. and o. of this note.

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

c. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income (loss) from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

d. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and demand deposits.

e. *Business Combinations*

The purchase method of accounting is used to account for acquisitions of subsidiaries and assets that meet the definition of a business under IFRS. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs incurred by the Company related to the acquisition are expensed in the periods they are incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in the income statement.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted when the Company obtains complete information about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

f. *Interests in Joint Ventures*

The Company is engaged in oil and gas exploration, development and production through unincorporated joint ventures. The consolidated financial statements include the Company's share of the assets, liabilities and cash flows of the joint venture. The Company combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. Income taxes are recorded based on the Company's share of the joint venture's activities.

The following table sets out a listing and description of the Company's interests in joint ventures:⁽¹⁾

Block	Country	Working interest %	Block	Country	Working interest %
Block 9	Bangladesh	60	South East Seram	Indonesia	100
Feni/Chattak	Bangladesh	100	South Matindok	Indonesia	100
D6	India	10	Sunda Strait I	Indonesia	100
Hazira Field	India	33	West Papua IV	Indonesia	51
NEC	India	10	West Sageri	Indonesia	100
Aru	Indonesia	60	Qara Dagh	Iraq	37
Bone Bay	Indonesia	45	Grand Prix	Madagascar	75
Cendrawasih	Indonesia	45	Indus-X	Pakistan	100
Cendrawasih Bay II	Indonesia	50	Indus-Y	Pakistan	100
Cendrawasih Bay III	Indonesia	50	Indus-Z	Pakistan	100
Cendrawasih Bay IV	Indonesia	50	Indus-North	Pakistan	100
East Bula	Indonesia	55	Block 2AB	Trinidad	35.75
Halmahera-Kofiau	Indonesia	51	Central Range, Shallow Horizon	Trinidad	32.5
Halmahera II	Indonesia	20	Central Range, Deep Horizon	Trinidad	40
Kofiau	Indonesia	100	Guayaguayare, Shallow Horizon	Trinidad	65
Kumawa	Indonesia	45	Guayaguayare, Deep Horizon	Trinidad	80
North Ganai	Indonesia	31	Block 4(b)	Trinidad	100
North Makassar	Indonesia	30	NCMA2	Trinidad	56
Obi	Indonesia	51	NCMA3	Trinidad	80
Seram	Indonesia	55	Block 5(c)	Trinidad	25
South East Ganai I	Indonesia	100	MG Block	Trinidad	70

(1) Excludes properties that the Company intends to relinquish. Working interest is as at March 31, 2012 and does not reflect farm-outs or farm-in transactions that are awaiting government approval.

g. Financial Assets

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value depending on their classification. The Company classifies financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets.

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

Loans and receivables and held-to-maturity investments are measured at amortized cost using the effective interest method. The Company classifies accounts receivable and long-term accounts receivables as loans and receivables. The Company does not have any financial instruments classified as held-to-maturity.

Investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured are recorded at cost. The Company has one investment in an equity instrument fitting the description above, which is classified as a long-term investment.

Available-for-sale financial assets are recognized at fair value with the gains and losses, except for impairment losses and foreign exchange gains and losses, being recognized in other comprehensive income (loss) and transferred to profit or loss when the asset is derecognized or impaired. The Company does not have any financial assets classified as held-for-sale.

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

h. Inventories

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

Inventory of oil and condensate is valued at the lower of the weighted average cost and net realizable value. Cost is comprised of operating expenses that have been incurred in bringing inventories to their present location and condition and the portion of depletion expense associated with the oil and condensate production. The cost of inventories is assigned using the weighted average cost formula, whereby the cost of each barrel of oil or condensate is determined from the weighted average of the cost of each barrel at the beginning of a period and the cost of barrels produced during the period. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

i. Oil and natural gas exploration and development expenditure

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting as described below.

- (i) Pre-license costs - Pre-licence costs are charged against income as incurred.
- (ii) Licence and property acquisition costs - Exploration licence and property acquisition costs are capitalized as exploration and evaluation assets pending drilling results on the licence.
- (iii) Exploration expenditure - Geological and geophysical exploration costs are charged against income as incurred.

Costs directly attributable to an exploration well are initially capitalized as exploration and evaluation assets. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, may be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to regular technical, commercial and management review to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to development assets.

All other exploration costs are expensed when incurred.

(iv) Development and production expenditure

Expenditure for development and production assets including the costs of drilling development wells and the construction of production facilities are capitalized under development assets and transferred to producing assets when they are put in use. After recognition as an asset, development and producing assets are carried at cost less any accumulated depletion and impairment losses.

(v) Farm-outs

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

j. Other Property, Plant and Equipment

Items of property, plant and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and impairment losses. Initial costs include expenditure that is directly attributable to the acquisition of the asset. The costs of the day-to-day servicing of items of property, plant and equipment are recognized in income as incurred.

k. Intangible Assets

Intangible assets acquired separately and with finite useful lives are carried at cost less accumulated amortization and impairment losses. Amortization of intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in income when the asset is derecognized.

l. Depletion and depreciation

Exploration and evaluation assets and development assets are not depreciated.

The net carrying value of producing assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved reserves of oil and natural gas, taking into account estimated future development costs necessary to bring those reserves into production.

Depreciation for finance lease assets is consistent with that for depreciable assets that are owned. Depreciation for finance lease assets is charged based on the unit-of-production method over the life of the total proved reserves.

For other assets, depreciation is recognized in profit or loss on a diminishing balance or straight-line basis depending on the nature of the asset over the estimated useful lives of each group of property, plant and equipment. Land is not depreciated.

The estimated useful lives of other property, plant and equipment are:

Buildings	27 - 30 years
Plant and machinery	7 - 9 years
Office equipment/furniture and fittings	3 - 10 years
Computers	3 - 5 years
Vehicles and aircraft	4 - 7 years
Pipeline	20 years

m. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in income in the period in which they are incurred.

n. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. Indications include: a significant decline in market value of the asset; significant changes have taken or will take place in the technological, market, economic or legal environment in which the Company operates or in the market to which an asset is dedicated; a significant increase in market interest rates that would affect the discount rate and value of the asset; and the carrying amount of the net assets of the entity is more than its market capitalization. The recoverable amount is defined as the greater of the asset's fair value less cost to sell and its value in use.

Irrespective of whether there is any indication of impairment, the Company tests intangible assets with an indefinite useful life and intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.

o. Financial Liabilities and equity instruments issued by the Company

Financial liabilities are initially measured at fair value, plus transaction costs, except for those financial liabilities classified as at fair value through profit or loss, which are initially measured at fair value. All recognized financial liabilities are subsequently measured in their entirety at either amortized cost or fair value depending on their nature.

Financial liabilities at fair value through profit or loss are measured at fair value with the corresponding gains or losses recognized in profit or loss. The Company does not have any financial liabilities at fair value through profit or loss.

A derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured is measured at cost. The Company does not have any derivative liabilities.

All other financial liabilities are measured at amortized cost using the effective interest method. The Company classified accounts payable and provisions, long-term debt and convertible debentures as other financial liabilities.

p. Derivative Financial Instruments

Derivative financial instruments are measured at fair value through profit or loss. The Company does not currently have any derivative financial instruments.

q. Leasing

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

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

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

An operating lease is a lease other than a finance lease.

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

r. Decommissioning obligations

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

The provision for decommissioning obligations is management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provision is calculated as the present value of the expenditures expected to be required to settle the obligation in the future, discounted using a risk-free rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

s. *Revenue Recognition*

Revenue resulting from the sale of oil, condensate and natural gas from properties in which the Company has an interest with other producers is recognized on the basis of the Company's working interest.

Revenue from the sale of oil, condensate and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer, which is at the delivery point as defined in the various sales contracts. Revenue is measured at the fair value of the consideration received or receivable. Revenue recorded is net of VAT, other sales-related taxes, royalties and the profit oil and gas sold and paid to the various governments as profit sharing.

t. *Finance Income and Finance Expense*

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

Finance expense comprises interest expense on borrowings, accretion of the discount on decommissioning obligations and borrowings, impairment losses recognized on financial assets and bank charges.

u. *Foreign Currencies*

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency), which is U.S. dollars for the foreign entities and Canadian dollars for Canadian entities. For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in U.S. dollars, which is the presentation currency for the consolidated financial statements.

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Canadian entities with the Canadian dollar as their functional currency are expressed in U.S. dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity.

v. *Share-based Payments*

The Company has a share-based compensation plan as described in note 17(b). All share-based awards of the Company are equity settled. Compensation expense associated with the plan is calculated and, recognized in income or capitalized, over the vesting period of the stock option with a corresponding increase in contributed surplus. The consideration received upon exercise of the stock options, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

w. *Taxation*

Income tax expense is the sum of current tax, minimum alternate tax and deferred tax.

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

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

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

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

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

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

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

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

x. *Earnings per share*

Basic earnings per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise convertible debentures and share options granted to employees.

3. Future Accounting Changes

The International Accounting Standards Board (IASB) has issued IFRS 9 "Financial Instruments" to replace IAS 39 "Financial Instruments: Recognition and Measurement". The new standard replaces the multiple classification and measurement models for financial assets and liabilities with a new model that has only two categories: amortized cost and fair value through profit and loss. Under IFRS 9, fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. The new standard is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In May 2011, the IASB issued or amended a number of standards that will be effective for annual periods beginning on or after January 1, 2013.

Three new standards are IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". IFRS 10 establishes a single control model that applies to all entities and will require management to exercise judgment to determine which entities are controlled and need to be consolidated by the parent. The Company will continue to consolidate all of its wholly-owned subsidiaries and is currently assessing the accounting impact of its investments in other companies. IFRS 11 replaces IAS 31 "Interest in Joint Ventures" and SIC-13 "Jointly-controlled Entities – Non-monetary Contributions by Venturers". IFRS 11 identifies two forms of joint ventures when there is joint control: joint operations and joint ventures. Joint operations are accounted for using proportionate consolidation and joint ventures are accounted for using the equity method. IFRS 11 focuses on the nature of the rights and obligations associated with the joint arrangements and the Company is currently evaluating the effect of this standard on its joint arrangements. IFRS 12 introduces a number of new disclosures related to consolidated financial statements and interests in subsidiaries, joint arrangements, associates and structured entities.

As a result of the new standards described above, the IASB has amended IAS 28 "Investments in Associates and Joint Ventures" to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The IASB published IFRS 13 "Fair Value Measurement" which provides a precise definition of fair value and a single source of fair value measurement disclosures requirements for use across IFRSs.

The IASB issued amendments to IAS 1 *Presentation of Financial Statements* requiring companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments apply to annual periods beginning on or after July 1, 2012.

The IASB reissued IAS 27 "Separate Financial Statements" to focus solely on accounting and disclosure requirements when an entity presents separate financial statements that are not consolidated financial statements.

The Company plans to adopt these standards when they become effective and is currently assessing the disclosure impact of the standards listed above on its consolidated financial statements.

4. Management's judgements and estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. By their nature, these estimates are subject to measurement uncertainty and actual results may differ from those estimated.

Significant estimates and judgement made by management in the preparation of these consolidated financial statements are as follows:

- Amounts recorded for depletion and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.
- At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. Events and circumstances may change resulting in indicators of impairment in future periods that could result in a material impairment.

The recoverability of production asset carrying values is assessed at the cash generating unit (CGU) level. Determination of what constitutes a CGU is subject to management judgements and the circumstances, but generally, each production sharing contract (PSC) constitutes a CGU. The composition of a CGU can impact the recoverability of the assets included therein. In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. At March 31, 2012, the recoverable amounts of the Company's CGUs for producing assets were estimated as the value in use based on the net present value of the cash flows from oil and gas reserves for the CGU for the D6 Block based on reserves estimated by the Company's independent reserve evaluator and for the Hazira and Surat Blocks based on reserves estimated by the Company. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the consolidated financial statements in future periods could be material.

The following commodity price estimates were used in the calculation of net present value of the cash flows from oil and gas reserves:

Year ending March 31,	D6 natural gas price (\$/Mcf)	D6 oil/ condensate price (\$/bbl)	Hazira natural gas price (\$/Mcf)	Hazira oil price (\$/bbl)	Surat natural gas price (\$/Mcf)	Block 9 natural gas price (\$/Mcf)	Block 9 condensate price (\$/bbl)
2013	3.91	110.95	5.19	109.43	6.24	2.31	119.70
2014	3.92	105.07	-	-	6.24	2.31	113.21
2015	10.28	97.71	-	-	-	2.31	105.33
2016	9.57	91.45	-	-	-	2.31	98.25
2017	9.33	89.09	-	-	-	2.31	95.82
Thereafter	10.00	94.54	-	-	-	2.31	99.86

- Amounts recorded for decommissioning obligations and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.
- Compensation costs recognized for the share-based compensation plan are subject to the estimate of what the ultimate payout will be using the Black-Scholes-Merton model, which is based on significant assumptions such as volatility, expected life, expected dividends and expected forfeiture rates.
- Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Management makes certain judgements in estimating the timing of temporary difference reversals and the likelihood that deferred tax assets will be realized from future taxable earnings. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

5. Restricted cash

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
<i>Current portion of restricted cash</i>			
Guarantees ⁽¹⁾	6,790	7,704	21,838
Funds restricted under the facility agreement ⁽²⁾	-	-	6,407
	6,790	7,704	28,245
<i>Non-current portion of restricted cash</i>			
Guarantees ⁽¹⁾	4,540	3,947	1,500
Funds restricted under the facility agreement ⁽²⁾	-	-	14,489
Site restoration fund ⁽³⁾	6,743	6,285	5,037
	11,283	10,232	21,026

(1) The Company has performance security guarantees related to the work commitments for exploration blocks. The Company is required to provide funds to support the guarantees in the amounts indicated above. See note 28 for details of the guarantees.

(2) The cash that was restricted in accordance with the facility agreement was released upon repayment of the long-term debt.

(3) In accordance with the Site Restoration Fund Scheme, 1999 in India, the Company is required to accumulate funds in a separate restricted account related to future decommissioning obligations. The funds may be used for site restoration on the expiry or termination of an agreement or relinquishment of part of the contract area.

6. Accounts receivable

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Oil and gas revenues receivable	28,033	34,055	36,138
Receivable from joint venture partners	13,004	3,339	696
Advances to vendors	1,751	33,809	3,252
Prepaid expenses and deposits	4,816	1,974	695
VAT receivable	9,405	1,458	160
Other receivables	4,238	525	3,357
	61,247	75,160	44,298

7. Short-term investments

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Opening balance	14,922	32,081
Purchases	-	6,135
Disposals	(7,970)	(11,103)
Loss on short-term investments	(5,823)	(12,720)
Foreign exchange	(381)	529
Closing balance	748	14,922

8. Inventories

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Stock, spares and consumables	9,596	6,849	6,999
Oil and condensate inventories	365	363	256
	9,961	7,212	7,255

The Company wrote-down \$1 million of stock, spares and consumables related to Hazira and Surat properties during the year ended March 31, 2012 as the Company does not expect to use the inventory during the remaining production period. These inventories of \$1.9 million are carried at estimated fair value less cost to sell.

9. Long-term accounts receivable

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Oil and gas revenue receivable	-	22,996	22,928
Joint venture receivable - 36-inch pipeline	2,202	3,553	6,449
Cash call receivable from joint venture partner	-	-	543
Deposit on acquisition of Block 5c	-	20,000	-
	2,202	46,549	29,920

Gas revenue receivable: The gas revenue receivable balance is for the natural gas sales to Bangladesh Oil, Gas and Mineral Corporation (Petrobangla) for production from the Feni field in Bangladesh. The Company produced natural gas from the Feni field from November 2004 to April 2010 and delivered the natural gas to Petrobangla for the duration.

Receipt of the outstanding amount (\$27.9 million) is being delayed as a result of various claims raised against the Company, which are described in notes 31(a) and (b). Although the Company expects to collect the full amount of the receivable, the timing of collection is uncertain as the Company will not collect the receivable until resolution of the various claims raised against the Company. As at April 1, 2010 and March 31, 2011, the Company discounted the receivable using a risk-adjusted rate of 6.5 percent to reflect the delay in collection of these amounts. Although the Company has a valid claim to receive payment for gas delivered to Petrobangla and the Company will continue to pursue collection of the receivable, due to the continued uncertainty with respect to timing of resolution of the various claims raised against the Company, a provision has been recorded against the full amount of the receivable as at March 31, 2012 and recorded in the statement of comprehensive income.

Joint venture receivable – 36-inch pipeline: The Company has recognized a receivable for a refund of previously paid profit petroleum and a receivable from its joint venture partner as a result of the award of ownership of a 36-inch pipeline that is connected to the Hazira facilities. See further discussion in note 31(f).

Deposit on acquisition of Block 5(c): In December 2010, the Company signed an agreement to acquire a 25 percent interest in Block 5(c), located 24 kilometres off the east coast of Trinidad. The Company had paid \$20 million as a deposit against the purchase price at March 31, 2011. The Company closed the acquisition of Block 5(c) in June 2011 and the deposit was moved to exploration and evaluation assets.

10. Exploration and evaluation assets

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Opening balance	762,221	708,478
Additions (note 27)	164,976	54,018
Transfers	5,354	(275)
Expensed	(71,500)	-
Disposals	(2,355)	-
Foreign currency translation	(1,816)	-
Closing balance	856,880	762,221

The Company expensed \$4 million of acquisition costs related to Indonesia, unsuccessful drilling costs of \$6 million in Hazira, India, \$24 million in Block 2ab and the Central Range in Trinidad and \$37 million for Kurdistan. The expenses were recorded in the exploration and evaluation expense line on the statement of comprehensive income (loss).

The Company disposed of \$2.4 million of Indonesian exploration and evaluation assets through farm-out transactions (see note 20).

11. Property, plant and equipment

a. Development assets

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Opening balance	18,421	4,572
Additions	7,447	22,803
Transfers to other asset categories	(8,880)	(8,954)
Closing balance	16,988	18,421

b. Producing assets

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
<i>Cost</i>		
Opening balance	1,019,696	1,012,905
Additions	16,458	-
Transfers from other asset categories	6,791	8,134
Disposals	-	(1,464)
Foreign currency translation	(76)	121
Closing balance	1,042,869	1,019,696
<i>Accumulated depletion</i>		
Opening balance	(312,767)	(203,463)
Additions	(141,266)	(109,184)
Foreign currency translation	76	(120)
Closing balance	(453,957)	(312,767)
Impairment	(133,415)	-
Net producing assets	455,497	706,929

As a result of reduced reserves volumes assigned to the D6 Block, the Company recognized a \$133 million impairment related to the Company's producing assets in the D6 Block in India for the year ended March 31, 2012. The producing assets were written down to management's estimate of value in use and determined using proved reserves and forecast cash flows using escalated prices and estimates of future production, capital and operating expenses, discounted at 10 percent, obtained from the reserve report. The prices used are those forecast by management and included in the independent reserve report as described in note 4. A change of 1% in the discount rate used in the assumptions above impacts net loss by approximately \$10 million.

c. *Other Property, plant and equipment*

(thousands of U.S. dollars)	Land and buildings	Vehicles, helicopters and aircraft	Office equipment, furniture and fittings	Pipelines	Total
<i>Cost</i>					
Balance, April 1, 2011	18,108	2,395	5,978	10,752	37,233
Additions / Transfers	238	-	2,907	20	3,165
Disposals	-	(19)	(89)	-	(108)
Foreign currency translation	-	-	(42)	-	(42)
Balance, March 31, 2012	18,346	2,376	8,754	10,772	40,248
<i>Accumulated depreciation</i>					
Balance, April 1, 2011	(4,880)	(1,148)	(3,390)	(6,738)	(16,156)
Additions	(1,247)	(352)	(1,126)	(603)	(3,328)
Disposals	-	18	34	-	52
Foreign currency translation	-	-	33	-	33
Balance, March 31, 2012	(6,127)	(1,482)	(4,449)	(7,341)	(19,399)
Net book value, March 31, 2012	12,219	894	4,305	3,431	20,849
(thousands of U.S. dollars)	Land and buildings	Vehicles, helicopters and aircraft	Office equipment, furniture and fittings	Pipelines	Total
<i>Cost</i>					
Balance, April 1, 2010	16,299	2,445	4,257	9,928	32,929
Additions	1,809	-	1,643	824	4,276
Disposals	-	(50)	-	-	(50)
Foreign currency translation loss	-	-	78	-	78
Balance, March 31, 2011	18,108	2,395	5,978	10,752	37,233
<i>Accumulated depreciation</i>					
Balance, April 1, 2010	(3,322)	(901)	(2,839)	(5,891)	(12,953)
Additions	(1,558)	(260)	(516)	(847)	(3,181)
Disposals	-	13	-	-	13
Foreign currency translation gain	-	-	(35)	-	(35)
Balance, March 31, 2011	(4,880)	(1,148)	(3,390)	(6,738)	(16,156)
Net book value, March 31, 2011	13,228	1,247	2,588	4,014	21,077

d. *Capital work-in-progress*

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Capital work-in-progress	15,757	16,592	30,454

12. Borrowings

- a. The Company has a \$225 million three year, extendible, revolving credit facility and a \$25 million three year, extendible, operating facility pursuant to a credit agreement with a syndicate of banks and financial institutions. The credit facility requires a review of the borrowing base amount upon receipt of an updated reserve evaluation. Such review has not been completed based on the March 31, 2012 reserve report. The Company expects that the maximum available under the facility will be reduced as a result of this review. The facilities are available for general corporate purposes and bear interest at the U.S. dollar LIBOR rate plus the applicable margin. The margins range from 1.75 percent to 4.25 percent depending on a leverage ratio and the type of loan drawn. The facility is secured by a corporate guarantee, demand debentures providing first priority security over personal property and pledges of shares of certain subsidiaries. The facility expires on January 16, 2015 and no amounts are due until that time. As at March 31, 2012, the Company had drawn \$25 million against this facility.
- b. The Company had a facility agreement for \$192.8 million bearing interest at LIBOR plus 4.0 percent. As at April 1, 2010, the Company had drawn the full amount against the facility, which was subsequently repaid.

13. Convertible debentures

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Opening balance	309,221	291,063
Accretion expense	5,336	4,766
Foreign currency translation	(8,505)	13,392
Closing balance	306,052	309,221

The Company issued Cdn \$310 million, 5 percent convertible debentures (the "Debentures") on December 30, 2009. The Debentures mature on December 30, 2012 with interest paid semi-annually in arrears on January 1st and July 1st of each year. The Debentures are convertible at the option of the holder into common shares of the Company at a conversion price of Cdn \$110.50 per common share until 60 days prior to the maturity date. In May 2011, the terms of the debentures were altered such that the Company now may elect to convert all of the Debentures at maturity into common shares at a 6 percent discount to the weighted average trading price for the 20 trading days prior to the election. Interest and accretion on the convertible debentures of \$21 million was expensed in the year ended March 31, 2012 (March 31, 2011 - \$20 million). Interest paid during the year ended March 31, 2012 was \$16 million (March 31, 2011 - \$15 million).

14. Decommissioning obligations

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Opening balance	31,454	27,117
Provisions made during the year	537	3,152
Change in estimate during the year	5,750	(896)
Accretion	2,276	2,081
Closing balance	40,017	31,454

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in wells and facilities, estimated costs of removal of all equipment and installations and site restoration and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be \$40 million as at March 31, 2012 (March 31, 2011 - \$31 million) based on an undiscounted total future liability of \$67 million (March 31, 2011 - \$78 million). These costs are expected to be incurred over the next two to 13 years. The discount rate used to calculate the net present value of the future decommissioning obligations is the pre-tax rate reflecting current market assessments of the time value of money. An amount of Rs. 344,836,009 (US\$ 6,742,577) has been deposited with State Bank of India for decommissioning obligations. This amount has been treated as restricted cash included in non-current assets.

15. Finance Lease

The Company has recognized the finance lease for the floating, production, storage and offloading vessel (FPSO) at the fair value of \$48 million. The fair value is calculated based on future lease payments discounted at a rate of 11.65 percent. The finance lease asset is included in producing properties within property, plant and equipment and the net carrying amount is \$43 million. The future minimum lease payments as at the end of the reporting period and their net present value are:

	Lease payments
<1 year	10,757
1—5 years	43,026
> 5 years	15,265
Subtotal	69,048
Imputed Interest	(20,573)
Carrying Value	48,475

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

16. Financial Instruments

a. Capital risk management

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.

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

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Borrowings	25,000	-	192,814
Convertible debentures	306,052	309,221	291,063
Shareholders' equity	900,548	1,178,385	1,060,091

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.

To manage capital, the Company uses a rolling three-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. As part of the review process, the Company also contemplates using farm-outs to reduce its expenditure commitments. The periodic reviews help ensure that the Company has the ability to fulfill its obligations and to fund ongoing operations. There were no changes in the Company's approach to capital management during the period.

b. *Categories and fair value of financial instruments*

Financial instruments are recognized under the following categories and have the following carrying values⁽¹⁾:

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Financial assets and financial liabilities at fair value through profit and loss: financial assets classified as held-for-trading			
- Restricted cash, current	6,790	7,704	28,245
- Short-term investments	748	14,922	32,081
- Restricted cash, non-current	11,283	10,232	21,026
Loans and receivables			
- Accounts receivable	61,247	75,160	44,298
- Long-term accounts receivable	2,202	46,549	29,920
Financial liabilities measured at amortized cost			
- Accounts payable	101,660	87,305	121,810
- Borrowings	25,000	-	192,814
- Convertible debentures	306,052	309,221	291,063

(1) The fair values approximate the carrying values as described below.

The Company's short-term investments are classified as held-for-trading, which is a financial asset at fair value through profit or loss. The Company classifies fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

Short-term investments as at March 31, 2011 and March 31, 2012 have been assessed on the fair value hierarchy describe above and have been classified as Level 1. The fair value of the short-term investments was based on publicly quoted market values. There was a loss of \$5.8 million in the year (2011 – \$12.7 million) on recognizing the short-term investments at their fair value. The fair values of short-term investments approximate their carrying amounts as they are recognized at fair value.

Cash and cash equivalents and restricted cash are classified as held-for-trading and measured at fair value through profit and loss. Accounts receivable are classified as loans and receivables. The fair values of accounts receivable approximate their carrying value due to their short periods to maturity.

Long-term accounts receivable are classified as loans and receivables. The fair value of the long-term account receivable for gas revenue receivable from Petrobangla (see note 9) was calculated, as at April 1, 2010 and March 31, 2011, based on the amount receivable discounted at 6.5 percent for three years as collection is assumed in three years. Although the Company has a valid claim to receive payment for gas delivered to Petrobangla and the Company will continue to pursue collection of the receivable, due to the continued uncertainty with respect to timing of resolution of the various claims raised (see notes 31(a) and (b)) against the Company, a provision has been recorded against the full amount of the receivable as at March 31, 2012.

Accounts payable and accrued liabilities, borrowings and convertible debentures are classified as other financial liabilities that are not held for trading. The fair values of accounts payable and accrued liabilities approximate their carrying values due to their short periods to maturity. The fair values of borrowings approximate their carrying values as they are the amounts owing. Interest and accretion expense for the convertible debentures of \$21 million was recognized in profit and loss during the year (2011 - \$20 million). The carrying value of the Company's convertible debentures approximates the fair value.

Fair value information has not been disclosed for the long-term investment because the fair value cannot be measured reliably. The long-term investment is in common shares of a private oil and gas company and the investment is recorded at the cost of Cdn\$3 million (US\$3 million). There is not a liquid market for the common shares and liquidation would require a private buyer or for the company to list on a stock exchange. The Company intends to hold this investment for the longer-term.

c. *Credit risk management*

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. The carrying amounts of the cash and cash equivalents, restricted cash, accounts receivable and the undiscounted amount of the long-term account receivable reflect management's assessment of the maximum credit exposure. The Company takes measures in order to mitigate any risk of loss, which may include obtaining guarantees. There were no changes in the Company's exposure to credit risks or any changes to the Company's processes for managing the risks from the previous period.

The aging of the accounts receivable as at March 31, 2012 was:

0—30 days	48,610
30—90 days ⁽¹⁾	7,688
90—365 days ⁽¹⁾	4,949
	61,247

(1) Accounts receivable are past due as at March 31, 2012, but not impaired.

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

d. *Liquidity risk management*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has future commitments as described in note 30 in addition to financial liabilities. The Company manages its exposure to this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company has unused financing arranged as described in note 12.

The Company has the following financial liabilities and due dates as at March 31, 2012:

(thousands of U.S. dollars)	Carrying amount	< 1 year	> 1 year
Accounts payable	101,660	101,660	-
Capital lease obligations ⁽¹⁾	48,475	4,804	43,671
Repayment of convertible debentures ⁽²⁾	306,052	306,052	-

(1) The amount of lease payments is \$10.8 million per year until August 2018. The above \$48 million represents the carrying value of the liability.

(2) The carrying amount of the convertible debentures is the fair value of \$306 million. The amount that will be required to be repaid assuming that the debentures are not converted is Cdn\$310 million (\$310 million as at March 31, 2012).

e. *Market risk*

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

(i) *Currency risk*

The majority of the Company's revenues and expenses are denominated in U.S. dollars and the Company holds the majority of its funds in U.S. dollars, except as required to fund dividends and make interest payments on the convertible debentures. 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 Indian rupee versus the U.S. dollar as they are applied to the Company's working capital, income tax receivable and deferred tax liability of its subsidiaries in India. The Company does not have any foreign exchange contracts in place to mitigate currency risk.

A 5 percent strengthening or a 5 percent weakening of the Indian rupee against the U.S. dollar at March 31, 2012, which is based on historical movements in the foreign exchange rates, would have respectively decreased or increased the net loss by \$1 million. This analysis assumes that all other variables remained constant.

The financial instruments are exposed to fluctuations in foreign exchange rates, which are used in the translation of the financial statements of the Canadian and corporate operations to U.S. dollars. The reported U.S. dollar value of the cash and cash equivalents, accounts receivable, short-term investment and accounts payable of the Canadian and corporate operations is exposed to fluctuations in the value of the Canadian dollar versus the U.S. dollar. A 4 percent strengthening or a 4 percent weakening of the Canadian dollar against the U.S. dollar at March 31, 2012, which is based on historical movement in foreign exchange rates, would have respectively increased or decreased other comprehensive loss by \$2 million. This analysis assumes that all other variables remained constant.

(ii) *Commodity Price Risk*

The Company is exposed to the risk of changes in market prices of commodities. The Company enters into natural gas contracts, which manages this risk. Because the Company has long-term fixed price gas contracts, a change in natural gas prices would not have impacted the net loss for the period ended March 31, 2012. The Company is exposed to changes in the market price of oil and condensate. In addition, the Company will be exposed to the change in the Brent crude price as the average Brent crude price from the preceding year is a variable in the gas price for the following year, calculated annually, for the D6 gas contracts.

(iii) *Other price risk*

The Company has deposited the cash equivalents with reputable financial institutions, for 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 17 percent change in the publicly quoted market values at the reporting date, which is based on historical changes in market values, would have had a \$0.1 million effect on the net loss for the period ended March 31, 2012. The fair value was \$1 million at March 31, 2012.

17. Share capital

a. Fully paid ordinary shares

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

b. Share options granted under the employee share option plan

The Company has reserved for issue 5,164,184 common shares for granting under stock options to directors, officers, and employees. The options become vested immediately to five years after the date of grant and expire one to six years after the date of grant. The stock options are settled in equity.

Stock option transactions for the respective periods were as follows:

	Year ended March 31, 2012		Year ended March 31, 2011	
	Number of options	Weighted average exercise price (Cdn\$)	Number of options	Weighted average exercise price (Cdn\$)
Opening balance	4,243,897	85.37	4,056,714	75.88
Granted	1,160,750	55.7	1,125,687	101.35
Forfeited	(155,750)	86.43	(155,938)	86.62
Cancelled	(587,500)	102.13	-	-
Expired	(568,450)	80.97	(73,775)	92.96
Exercised	(114,944)	58.01	(708,791)	55.33
Closing balance	3,978,003	75.62	4,243,897	85.37
Exercisable	952,624	85.19	702,144	77.15

The following table summarizes stock options outstanding and exercisable under the plan at March 31, 2012:

Exercise Price	Outstanding Options			Exercisable Options	
	Options	Remaining life (years)	Weighted average exercise price (Cdn\$)	Options	Weighted average exercise price (Cdn\$)
42.03 - 49.99	1,199,691	2.5	47.73	154,811	49.35
50.00 - 59.99	254,375	3.9	52.05	-	-
60.00 - 69.99	252,125	2.8	63.40	37,750	63.52
70.00 - 79.99	68,750	2.8	73.57	1,000	77.82
80.00 - 89.99	619,313	1.6	86.20	309,313	89.21
90.00 - 99.99	1,145,875	1.7	95.91	400,625	95.32
100.00 - 109.99	408,749	2.7	104.57	44,750	106.48
110.00 - 112.64	29,125	2.2	111.12	4,375	111.30
	3,978,003	2.3	75.62	952,624	85.19

The weighted average share price during the year ended March 31, 2012 was \$54.24 (2011 - \$97.47).

c. *Fair value measure of equity instruments granted*

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

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Grant-date fair value	Cdn\$17.49	Cdn\$33.90
Market price per share	Cdn\$55.70	Cdn\$101.35
Exercise price per option	Cdn\$55.70	Cdn\$101.35
Expected volatility	42%	42%
Expected life (years)	3.5	3.8
Expected dividend rate	0.5%	0.2%
Risk-free interest rate	1.4%	2.1%
Expected forfeiture rate	6%	7%

Expected volatility was determined based on the historical movements in the closing price of the Company's stock for a length of time equal to the expected life of each option. See note 23 for categorization of share-based payment expense during the period.

18. Revenue

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Natural gas sales	286,077	368,424
Oil and condensate sales	76,707	85,400
Less:		
Royalties	(15,470)	(20,707)
Government's share of profit petroleum	(26,003)	(29,261)
Oil and natural gas revenue	321,311	403,856

Revenues from oil and gas sales to Petrobangla comprised 16 percent of natural gas, oil and condensate sales for the year ended March 31, 2012 (2011 – 14 percent).

19. Exploration and evaluation expenses

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Geological and geophysical	114,810	64,753
Exploration and evaluation	82,123	6,461
General and administrative	5,012	7,527
Production sharing contract annual payments	10,805	6,700
New ventures	13,654	6,110
Share-based compensation	6,287	5,530
Impairment	274	-
Exploration and evaluation	232,965	97,081

20. Other income

The Government of Indonesia approved the Company's farm-outs of a portion of its interest in various properties. The proceeds in excess of the recorded asset of \$6 million in relation to these interests are included in earnings for the year.

21. Other expenses

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Depreciation	3,328	3,181
Other ⁽¹⁾	16	9,476
Other expenses	3,344	12,657

- (1) In January 2009, the Company received confirmation from Canadian authorities that they were engaged in a formal investigation into allegations of improper payments in Bangladesh by either the Company or its subsidiary in Bangladesh. The Company cooperated in the investigation, which was concluded on June 24, 2011, and the Company pleaded guilty to one count of bribery under the Corruption of Foreign Public Officials Act. The charge refers to two specific incidents that occurred in 2005: the provision of a vehicle for the personal use of the then-Bangladeshi Energy Minister, valued at Cdn\$190,984; and the provision of travel costs to the same Minister to attend an Energy Expo in Calgary and a subsequent personal trip to New York, valued at Cdn\$5,000. The sentence includes a fine of Cdn\$8,260,000 and an additional 15% Victim Fine Surcharge for a total amount of Cdn\$9.5 million and the Company has recorded this amount as an expense for the year ended March 31, 2011.

22. General and administrative expense

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Salaries	6,342	6,368
Legal fees	2,844	1,657
Consultants	1,203	979
Rent	721	694
Management fees	650	802
Audit fees	783	783
Insurance	252	295
Office costs	414	192
Other	1,011	2,192
Head office costs reclassified according to function	(5,446)	(3,153)
General and administrative expense	8,774	10,809

23. Expense disclosure

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

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Share-based compensation expense included in:		
Exploration and evaluation assets	857	586
Operating expense	1,555	1,776
Exploration and evaluation expense	6,287	5,530
Share-based compensation expense ⁽¹⁾	35,516	22,031
Total	44,215	29,923

(1) Share-based compensation expense includes \$14 million with respect to the cancellation of options during the year ended March 31, 2012.

The Company prepares its statement of comprehensive income (loss) classifying costs according to function as opposed to the nature of the costs. As a result, general and administrative expenses are charged to various other headings in the statement of comprehensive income. General and administrative expenses of \$18.9 million for the year ended March 31, 2012 (2011 - \$17 million) are categorized as exploration and evaluation expenses and of \$10.9 million for the year ended March 31, 2012, (2011 - \$7.9 million) are categorized as production and operating expenses.

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Audit fees	1,232	1,107
Management fees	661	813
Legal fees	3,865	2,210
Salary	14,653	13,502
Insurance	6,671	6,011
Security	903	1,144
Rent	1,547	1,458
Travel	953	998
Consultants	1,426	1,313
Non-operating and other	5,421	4,811
Office costs	2,754	2,689
Overhead recoveries from partners	(1,596)	(454)
Total	38,490	35,602

24. Finance expense

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Interest expense related to capital lease	5,952	6,543
Interest expense on long-term debt	-	4,215
Interest expense on convertible debentures	15,722	15,408
Accretion expense on convertible debentures	5,336	4,766
Accretion expense on decommissioning obligations	2,276	2,081
Bank fees and charges and other finance costs	5,464	144
Finance expense	34,750	33,157

25. Income taxes

(a) Income tax expense

The Company pays income tax in India for the Hazira, Surat and D6 Blocks. India's federal tax law contains a tax holiday deduction for seven years for profits from the commercial production of mineral oil. As a result of the tax holiday provision in India, the Company pays the greater of 42.04 percent of taxable income in India after a deduction for the tax holiday or a minimum alternate tax of 19.44 percent of Indian income. Indian income is calculated in accordance with Indian generally accepted accounting principles. See discussion of the application of the tax holiday provisions in contingency note 31(e).

The Company does not make payments to the Government of Bangladesh for Block 9 or Government of the region of Kurdistan for Qara Dagh with respect to income tax.

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

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Current year	1,220	2,550
Adjustment for prior years	4,700	(1,057)
Current tax expense	5,920	1,493
Minimum alternate tax expense	9,105	35,407
Origination and reversal of temporary differences	(14,483)	(35,670)
Recognition of previously unrecognized tax losses	(19,259)	-
Deferred income tax expense / (reduction)	(33,742)	(35,670)
Total tax expense / (reduction)	(18,717)	1,230

(b) Reconciliation of effective tax rate

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
(Loss) / Income for the year	(322,628)	69,897
Total tax recovery / (expense)	18,717	(1,230)
(Loss) / Income excluding tax	(341,345)	71,127
Tax using the Company's domestic tax rate (26.125% and 27.625%)	(89,176)	19,649
Share-based compensation expensed	9,174	5,995
Income subject to tax holiday	15,460	(85,729)
Income exempt from tax	12,681	-
Adjustment to foreign statutory tax rates	(47,520)	31,815
Foreign tax credits	(6,894)	(6,599)
Other non-deductible expenses	10,512	3,928
Difference between current and future income tax rates	1,590	-
Unrecognized deferred tax asset	70,754	33,228
Prior year adjustments	4,702	(1,057)
Total tax expense / (reduction)	(18,717)	1,230

The decrease in the statutory rate from fiscal 2011 to fiscal 2012 was due to a reduction in the Canadian corporate tax rate as part of a series of corporate rate reductions previously enacted by the Canadian government.

(c) *Unrecognized deferred tax assets*

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

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
Deductible temporary differences	231,202	200,618	188,404
Capital tax losses	27,499	16,990	3,513
Non-capital tax losses	173,099	100,686	43,585
	431,800	318,294	235,502

The deductible temporary differences do not expire. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom. The Canadian capital tax losses do not expire and the Canadian non-capital tax losses expire in fiscal 2030 (\$4 million), fiscal 2031 (\$13 million) and fiscal 2032 (\$11 million). The remaining tax losses are in foreign countries and do not expire. The Company recognized \$39 million of previously unrecognized tax losses in the year.

The Company has temporary differences associated with its investments in its foreign subsidiaries, branches and interests in joint ventures. At March 31, 2012, the Company has no deferred tax liabilities in respect of these temporary differences.

(d) *Recognized deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

(thousands of U.S. dollars)	Assets			Liabilities			Net		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Exploration and evaluation assets	-	-	-	(196,087)	(322,321)	(239,548)	(196,087)	(322,321)	(239,548)
Property, plant and equipment	1,057	2,361	4,143	(28,227)	(27,039)	(114,583)	(27,170)	(24,678)	(110,440)
Decommissioning obligations	10,341	7,465	7,247	-	-	-	10,341	7,465	7,247
Capital lease obligation	17,885	19,574	34,882	-	-	-	17,885	19,574	34,882
Convertible debentures	-	-	-	(1,057)	(2,377)	(4,143)	(1,057)	(2,377)	(4,143)
Minimum alternate tax credit ⁽¹⁾	58,314	56,803	20,410	-	-	-	58,314	56,803	20,410
Unused losses	573	94,591	84,256	-	-	-	573	94,591	84,256
Tax assets / (liabilities)	88,170	180,794	150,938	(225,371)	(351,737)	(358,274)	(137,201)	(170,943)	(207,336)

(1) The utilization of the minimum alternate tax credit is dependent on future taxable profits from the D6 Block. MAT paid can be carried forward for 10 years and deducted against regular income taxes in future years. As a result, the Company also recognizes the MAT tax as a deferred tax asset on the statement of financial position and a deferred income tax recovery in the statement of comprehensive income. Based on cashflow projections from the reserve report for the D6 Block, the Company expects to realize the benefit of the tax credit.

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

(thousands of U.S. dollars)	As at March	Recognized		As at March	Recognized		As at March
	31, 2010	in profit or loss	Other	31, 2011	in profit or loss	Other	31, 2012
Exploration and evaluation assets	(239,548)	(82,773)	-	(322,321)	126,233	-	(196,087)
Property, plant and equipment	(110,440)	85,762	-	(24,678)	(2,492)	-	(27,170)
Decommissioning obligations	7,247	218	-	7,465	2,877	-	10,341
Capital lease obligation	34,882	(15,308)	-	19,574	(1,689)	-	17,885
Convertible debentures	(4,143)	1,766	-	(2,377)	1,320	-	(1,057)
Minimum alternate tax credit ⁽¹⁾	20,410	36,393	-	56,803	1,511	-	58,314
Unused losses	84,256	10,335	-	94,591	(94,017)	-	573
Tax assets / (liabilities)	(207,336)	36,393	-	(170,943)	33,743	-	(137,201)

26. Earnings per share

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

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Net (loss) / income	(322,628)	69,897

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

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Weighted average number of common shares used in the calculation of basic earnings per share	51,587,246	51,032,893
Shares deemed to be issued for no consideration in respect of employee options	-	334,284
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	51,587,246	51,367,177

As a result of the net loss in the year ended March 31, 2012, the outstanding stock options of 3,978,003 and shares issuable upon conversion of the outstanding debentures of 2,805,430 as at March 31, 2012 were considered anti-dilutive to the loss per share and were excluded from the weighted average number of common shares for the purposes of diluted earnings per share. The average market value of the Company's common shares for purposes of calculating the dilutive effect of stock options for the year ended March 31, 2011 was based on quoted market prices for the period that the options were outstanding. The number of shares issuable upon conversion of the outstanding debentures is based on the conversion price of Cdn\$110.50 per common share, which is applicable to conversion at the option of the holder until 60 days prior to the maturity date. See note 13 for details of conversion at the option of the Company at maturity of the debentures.

27. Segmented Information

a. Products and services from which reportable segments derive their revenues

The Company's operations are conducted in one business sector, the oil and natural gas industry. All revenues are from external customers. All of Bangladesh sales are received from one customer and this customer accounted for 16 percent of sales during the year ended March 31, 2012.

b. Determination of reportable segments

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.

c. Segment assets and liabilities, revenues and results

	Year ended March 31, 2012		Year ended March 31, 2011	
	Additions to:			
Segment	Exploration and evaluation assets (E&E)	Property, plant and equipment (PP&E) ⁽¹⁾	Exploration and evaluation assets	Property, plant and equipment
Bangladesh	63	755	511	5,435
India	2,432	23,144	22,206	17,368
Indonesia	16,676	-	6,402	-
Kurdistan	24,795	-	20,547	-
Madagascar	9	-	800	-
Pakistan	248	-	-	-
Trinidad	120,753	6	3,552	-
All other	-	3,165	-	4,276
Total	164,976	27,070	54,018	27,079

(1) Excludes changes in capital work-in-progress.

	As at March 31, 2012			As at March 31, 2011			As at April 1, 2010		
Segment	Total E&E	Total PP&E	Total assets	Total E&E	Total PP&E	Total assets	Total E&E	Total PP&E	Total assets
Bangladesh	4,737	31,605	46,617	5,248	42,323	82,057	4,737	50,219	91,886
India	136,104	454,421	730,134	133,929	698,869	990,857	111,998	792,925	1,047,580
Indonesia	510,161	-	534,923	499,810	-	510,905	493,408	125	534,373
Kurdistan	50,519	749	54,573	62,839	749	96,895	42,293	1,239	45,340
Madagascar	1,209	-	1,377	1,200	-	1,341	400	-	527
Pakistan	248	-	310	-	-	42	-	-	19
Trinidad	153,902	1,467	190,617	59,195	-	62,104	55,642	-	58,555
All other	-	20,849	59,936	-	21,078	145,540	-	19,936	201,989
Total	856,880	509,091	1,618,487	762,221	763,019	1,889,741	708,478	864,444	1,980,269

Year ended March 31, 2012

Segment	Natural gas, condensate and oil sales	Other income	Profit petroleum expense	Royalty expense	Production and operating expense	Depletion expense	Exploration and evaluation expense	Loss on short-term investments	Other expense and share-based compensation	Asset impairment	General and administrative expense	Net finance expense	Income tax (reduction) / expense	Segment profit (loss)
Bangladesh	57,855	-	(19,589)	-	(7,377)	(13,049)	(1,044)	-	-	-	-	(22,996)	-	(6,200)
India	304,512	-	(6,414)	(15,456)	(32,528)	(128,217)	(11,663)	-	-	(133,415)	-	-	(14,522)	(37,703)
Indonesia	-	6,453	-	-	-	-	(61,717)	-	-	-	-	-	9,319	(45,945)
Kurdistan	-	-	-	-	-	-	(40,455)	-	-	-	-	-	-	(40,455)
Madagascar	-	-	-	-	-	-	(1,132)	-	-	-	-	-	-	(1,132)
Pakistan	-	-	-	-	-	-	(1,978)	-	-	-	-	-	-	(1,978)
Trinidad	-	-	-	-	-	-	(111,996)	-	-	-	-	-	22,913	(89,083)
Canada	417	-	-	(14)	(291)	-	-	-	-	-	-	-	-	112
All other	-	-	-	-	-	-	(2,980)	(5,823)	(38,860)	-	(8,774)	(44,814)	1,007	(100,244)
Total	362,784	6,453	(26,003)	(15,470)	(40,196)	(141,266)	(232,965)	(5,823)	(38,860)	(133,415)	(8,774)	(67,810)	18,717	(322,628)

Year ended March 31, 2011

Segment	Natural gas, condensate and oil sales	Other income	Profit petroleum expense	Royalty expense	Production and operating expense	Depletion expense	Exploration and evaluation expense	Loss on short-term investments	Other expense and share-based compensation	Asset impairment	General and administrative expense	Net finance expense	Income tax (reduction) / expense	Segment profit (loss)
Bangladesh	63,253	-	(21,354)	-	(7,486)	(12,372)	(541)	-	-	-	-	-	-	21,500
India	389,930	-	(7,97)	(20,639)	(30,768)	(96,812)	(3,069)	-	-	-	-	-	(2,227)	228,508
Indonesia	-	-	-	-	-	-	(48,431)	-	-	-	-	-	-	(48,431)
Kurdistan	-	-	-	-	-	-	(3,469)	-	-	-	-	-	-	(3,469)
Madagascar	-	-	-	-	-	-	(24,921)	-	-	-	-	-	-	(24,921)
Pakistan	-	-	-	-	-	-	(1,692)	-	-	-	-	-	-	(1,692)
Trinidad	-	-	-	-	-	-	(14,417)	-	-	-	-	-	-	(14,417)
Canada	641	-	-	(68)	(181)	-	-	-	-	-	-	-	-	392
All other	-	-	-	-	-	-	(541)	(12,720)	(34,688)	-	(10,809)	(29,812)	997	(87,573)
Total	453,824	-	(29,261)	(38,435)	(38,435)	(109,184)	(97,081)	(12,720)	(34,688)	-	(10,809)	(29,812)	(1,230)	69,897

28. Guarantees

(thousands of U.S. dollars)	As at March 31, 2012	As at March 31, 2011	As at April 1, 2010
<i>Performance security guarantees included in restricted cash ⁽¹⁾</i>			
Cauvery—India	-	804	804
D4—India	1,474	3,234	984
Indonesia	9,856	7,613	21,550
<i>Performance security guarantees not included in restricted cash ⁽²⁾</i>			
Indonesia	2,454	2,454	2,454
Madagascar	-	-	1,178
Total guarantees	13,784	14,105	26,970

(1) The Company is required to provide funds to support the guarantees in the amounts indicated above.

(2) These performance security guarantees are not reflected on the balance sheet as they are supported by Export Development Canada. The performance security guarantee outstanding at March 31, 2012 expired on May 5, 2012.

The Company has performance security guarantees related to the capital commitments for exploration blocks. The guarantees are cancelled when the Company completes the work required under the exploration period.

29. Related-Party Transactions

(a) Oil and gas property

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-part operator of the property in 2002. The transactions with the related party are measured at the exchange amount, which is the amount agreed to between the related parties. The Company records its share of revenues, royalty expense and production and operating expense as indicated in note 27(c) in the Canada segment. The related party owes the Company one thousand dollars as at March 31, 2012.

(b) Key management personnel

The Company has determined that key management personnel of the Company include directors and executive officers. Non-management directors receive an annual fee and participate in the Company's stock option program. Executive officers (Chief Executive Officer, Chief Financial Officer and Chief Operating Officer) receive a salary, are eligible for an annual bonus and participate in the Company's stock option program. The Company does not have other short-term benefits, defined contribution plans or defined benefit plans and does not provide post-employment benefits.

Key management personnel compensation comprised the following:

(thousands of U.S. dollars)	Year ended March 31, 2012	Year ended March 31, 2011
Annual fee for non-management directors	95	98
Executive officers - salary	1,670	1,592
Executive officers - bonus	996	862
Share-based payments ⁽¹⁾	7,955	15,228
	10,716	17,780

(1) The value of share-based payments related to stock options granted during the year is estimated using the Black-Scholes option-pricing model. See note 17 for further details.

30. Commitments and Contractual Obligations

(a) Exploration Spending

The Company has commitments for approved annual budgets under various joint venture agreements. In addition, the Company has estimated the cost of the minimum work commitments as specified in the PSCs for its exploration properties. The Company may apply for extensions to commitment deadline if it is unable to fulfill the commitment by the deadline or may relinquish the property. The estimated cost of the minimum work commitments is as follows:

Property	Estimated Spending (thousands of U.S. dollars)	Exploration period
India	2,000	(1)
Indonesia	92,000	Various (2)
Kurdistan	6,000	May 2013
Madagascar	10,000	September 2015
Trinidad	182,000	Various (3)
Total	292,000	

- (1) The Company intends to relinquish the Cauvery block therefore the commitment will be fulfilled in the year.
- (2) The deadlines for fulfilling the work commitments in Indonesia are: \$5 million by May 2012; \$2 million by September 2012; \$60 million by November 2012; \$21 million by May 2013; \$1 million by November 2014 and \$3 million by December 2014. The Company has applied or plans to apply for extensions to commitment deadlines if it is unable to fulfill the commitment by the deadline.
- (3) The deadlines for fulfilling the work commitments in Trinidad are: \$26 million by July 2013; \$18 million by September 2013, \$64 million by April 2014, \$20 million by July 2014 and \$54 million by April 2016.

(b) Finance Lease

Refer to note 15 for contractual obligations related to the finance lease.

(c) Operating Lease

The Company has a contract for a drilling rig for a four-year term with an additional year, at the option of the Company. The contract commencement date is not fixed; however, the Company expects the gross future minimum lease payments, before reimbursement from partners, to be as follows:

(thousands of U.S. dollars)	Lease payments
<1 year	70,000
1—5 years	492,000
> 5 years	nil
Total	562,000

31. Contingent Liabilities

- a. During the year ended March 31, 2006, a group of petitioners in Bangladesh (the petitioners) filed a writ with the High Court Division of the Supreme Court of Bangladesh (the High Court) against various parties including Niko Resources (Bangladesh) Ltd. (NRBL), a subsidiary of the Company.

In November 2009, the High Court ruled on the writ. Both the Company and the petitioners have the right to appeal the ruling to the Supreme Court. The ruling can be summarized as follows:

Petitioner Request	High Court Ruling
That the Joint Venture Agreement for the Feni and Chattak fields be declared null and illegal.	The Joint Venture Agreement for Feni and Chattak fields is valid.
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.	The compensation claims should be decided by the lawsuit described in note (b) below or by mutual agreement.
That Petrobangla withhold future payments to the Company relating to production from the Feni field (\$27.9 million as at March 31, 2012).	Petrobangla to withhold future payments to the Company related to production from the Feni field until the lawsuit described in note (b) below is resolved or both parties agree to a settlement.
That all bank accounts of the Company maintained in Bangladesh be frozen.	The ruling did not address this issue, therefore the previous ruling stands. Funds in the Company's bank accounts maintained in Bangladesh cannot be repatriated pending resolution of the lawsuit described in note (b) below.

On January 7, 2010, NRBL requested an arbitration proceeding with the International Centre for the Settlement of Investment disputes (ICSID). The arbitration is between NRBL and three respondents: The People's Republic of Bangladesh; Bangladesh Oil, Gas & Mineral Corporation (Petrobangla); and Bangladesh Petroleum Exploration & Production Company Limited (Bapex). The arbitration hearing will attempt to settle all compensation claims described in this note and note (b). ICSID registered the request on May 24, 2010.

In June 2010, the Company filed an additional proceeding with ICSID to resolve its claims for payment from Petrobangla in accordance with the Gas Purchase and Sale Agreement with Petrobangla to receive all amounts for previously delivered gas.

- 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 422,726,000 (\$5.3 million) for 3 Bcf of free natural gas delivered from the Feni field as compensation for the burnt natural gas;
 - (ii) taka 829,953,000 (\$10.3 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 (\$10.5 million) for environmental damages, an amount subject to be increased upon further assessment;
 - (iv) taka 6,340,895,000 (\$78.8 million) for 45 Bcf of natural gas as compensation for further subsurface loss; and
 - (v) any other claims that arise from time to time.

ICSID has registered the request for arbitration of the issues indicated above as discussed in note 31(a). In addition,

the Company will actively defend itself against the lawsuit, which may take an extended period of time to settle. Alternatively, the Company may attempt to receive a stay order on the lawsuit pending either a settlement and/or results of ICSID arbitration. The Company believes that the outcome of the lawsuit and/or ICSID arbitration and the associated cost to the Company, if any, are not determinable. As such, no amounts have been recorded in these consolidated financial statements. Settlement costs, if any, will be recorded in the period of determination.

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

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

- d. The Company calculates and remits profit petroleum expense to the Government of India in accordance with the Production Sharing Contract. The profit petroleum expense calculation considers capital and other expenditures made by the joint interest, 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 profit petroleum expense. No amount has been recorded in these consolidated financial statements. Settlement costs, if any, will be recorded in the period of determination.
- e. The Company has filed its income tax returns in India for the taxation years 1998 through 2008 under provisions that provide for a tax holiday deduction for eligible undertakings related to the Hazira and Surat fields.

The Company has received unfavourable tax assessments related to taxation years 1999 through 2007. The assessments contend that the Company is not eligible for the requested tax holiday because: a) the holiday only applies to "mineral oil" which excludes natural gas; and/or b) the Company has inappropriately defined undertakings.

In India, there are potentially four levels of appeal related to tax assessments: Commissioner Income Tax – Appeals ("CIT-A"); the Income Tax Appellate tribunal ("ITAT"); the High Court; and the Supreme Court. For taxation years 1999 to 2004, the Company has received favourable rulings at ITAT and the revenue Department has appealed to the High Court. For the 2005 taxation year, the Company has received a favourable ruling at CITA. For the 2006, 2007 and 2008 taxation years, the Company has appealed to CITA, however, CITA has agreed to wait for the High Court ruling on previous years prior to their ruling. The taxation years 2009 and later have not yet been assessed by the tax authorities.

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

With respect to "undertakings" eligible for the tax holiday deduction, the Act was amended to include an "explanation" on how to determine undertakings. The Act now states that all blocks licensed under a single contract shall be treated as a

single undertaking. The “explanation” is described in the amendment as having retrospective effect from April 1, 2000. Since tax holiday provisions became effective April 1, 1997, it is unclear as to why the “explanation” has effect from April 1, 2000. The Hazira production sharing contract (PSC) was signed in 1994 and commenced production prior to April 1, 2000. As a result, the Company is unable to apply the amended definition of “undertaking” to the Hazira PSC. The Company has previously filed and recorded its income taxes for the taxation years of 1999 to 2008 on the basis of multiple undertakings for the Hazira and Surat PSC.

The Company will continue to pursue both issues through the appeal process. The Company has challenged the retrospective amendments to the undertakings definition and the lack of clarification of whether natural gas is eligible for the tax holiday with the Gujarat High Court. The Company was granted an interim relief by the High Court on March 12, 2010 instructing the Revenue Department to not give effect to the “explanation” referred to above retrospectively until the matter is clarified in the courts. Even if the Company receives favourable outcomes with respect to both issues discussed above, the Revenue Department can challenge other aspects of the Company’s tax filings.

For the taxation years ended March 31, 2009 through March 31, 2011, the Company has filed its tax return assuming natural gas is eligible for the tax holiday at Hazira and Surat but, unlike all previous years, has filed its tax return based on Hazira and Surat each having a single undertaking. The Company has reserved its right, under Indian tax law, to claim the tax holiday with multiple undertakings. While the Company still believes that it is eligible for the tax holiday on multiple undertakings, the change in method of filing is because the legislative changes, referred to above, lead to ambiguity in the Act. More specifically, if the Company had filed its return in a manner that is deemed to be in violation of the current legislation, the Company can be liable for interest and penalties. Further, at the time of filing the 2009 and 2010 tax returns, the Company had not appealed the amendments brought out in the tax holiday provisions and did not have the benefit of the interim relief by the High Court. As a result, the Company has filed in a more conservative manner than its interpretation of tax law as described previously. Despite filing in a conservative manner, the Company will continue to pursue the tax holiday changes through the appeals process.

Should the High Court overturn the rulings previously awarded in favour of the Company by the Tribunal court, and the Company either decides not to appeal to the Supreme Court or appeals to the Supreme Court and is unsuccessful, the Company would have to accordingly change its tax position and record a tax expense of approximately \$58 million (comprised of additional taxes of \$34 million and write off of approximately \$24 million of the net income tax receivable). In addition, the Company could be obligated to pay interest on taxes for the past periods.

- f. In December 2009, the arbitration of ownership of a 36-inch pipeline that is connected to the Hazira facilities in India was ruled in favor of the Company and its joint venture partner. The Government of India has filed a writ with the High Court in Delhi challenging the arbitration decision. The High Court has heard the matter and the judgement is pending. If the court rules against the Company and its joint venture partner, the Company may challenge the decision in the division bench of Delhi High Court of the Supreme Court of India. Adverse resolution would result in the write-off of long-term accounts receivable of \$1.4 million and record a payable of \$6.3 million.
- g. The Cauvery and D4 Blocks in India are under relinquishment. The Company believes it has fulfilled all commitments for the Cauvery block while the Government of India contends that the Company has unfulfilled commitments of up to approximately \$2 million. The Company believes the outcome is currently not determinable. The Company did not drill the three wells required under the minimum work commitment for the D4 block. The Company has accrued \$4.5 million related to these commitments.
- h. Various lawsuits have been filed against the Company for incidents arising in the ordinary course of business. In the opinion of management, the outcome of the lawsuits, now pending, is not determinable or not material to the Company’s operations. Should any loss result from the resolution of these claims, such loss will be charged to operations in the year of resolution.

32. Reconciliations from Canadian GAAP to IFRS

The Company adopted IFRS effective April 1, 2010 and is presenting its opening statement of financial position on transition to IFRS as at April 1, 2010. The Company's accounting policies under IFRS, as outlined in note 2, differ from those followed under previous GAAP. These accounting policies have been applied for the year ended March 31, 2011, as well as to the opening statement of financial position on the transition date, April 1, 2010 and the comparative information for the year ended March 31, 2011.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit on the statement of financial position when appropriate.

On transition to IFRS on April 1, 2010, the Company used an exemption allowed under IFRS 1 "First Time Adoption of International Reporting Standards". IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combinations retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has used this exemption and has applied IFRS 3 only to business combinations that occurred on or after April 1, 2010.

There were no material adjustments to the Company's cash flows on transition from Canadian GAAP to IFRS.

Reconciliation of consolidated statement of financial position:

(thousands of U.S. dollars)	March 31, 2011			April 1, 2010		
	Canadian GAAP	Adjustment	IFRS	Canadian GAAP	Adjustment	IFRS
Assets						
<i>Current assets</i>						
Cash and cash equivalents	108,342	-	108,342	196,813	-	196,813
Restricted cash	7,704	-	7,704	28,245	-	28,245
Accounts receivable (notes a, b, c, d, l, m)	72,422	2,738	75,160	47,706	(3,408)	44,298
Short-term investments	14,922	-	14,922	32,081	-	32,081
Inventory	363	6,849	7,212	256	6,999	7,255
Prepaid expenses / deposits (note b)	1,566	(1,566)	-	724	(724)	-
	205,319	8,021	213,340	305,825	2,867	308,692
Restricted cash	10,232	-	10,232	21,026	-	21,026
Long-term accounts receivable (notes d, l)	50,076	(3,527)	46,549	31,128	(1,208)	29,920
Long-term investment	2,830	-	2,830	-	-	-
Exploration and evaluation assets	-	762,221	762,221	-	708,478	708,478
Property, plant and equipment (notes d, e, f, g, h, i, j, l, m)	1,861,442	(1,098,423)	763,019	1,844,826	(980,382)	864,444
Income tax receivable (note a)	34,637	110	34,747	23,240	4,059	27,299
Deferred tax assets (note d)	42,977	13,826	56,803	20,410	-	20,410
	2,207,513	(317,772)	1,889,741	2,246,455	(266,186)	1,980,269
Liabilities						
<i>Current liabilities</i>						
Accounts payable (note a, d, l, m)	90,340	(3,035)	87,305	123,547	(1,737)	121,810
Current tax payable (note a)	2,277	74	2,351	1,971	101	2,072
Finance lease obligation (note h)	5,848	(1,044)	4,804	5,357	(1,079)	4,278
Borrowings	-	-	-	154,811	-	154,811
	98,465	(4,005)	94,460	285,686	(2,715)	282,971
Decommissioning obligations (note j)	37,703	(6,249)	31,454	30,520	(3,403)	27,117
Finance lease obligation (note h)	52,624	(4,149)	48,475	58,472	(5,194)	53,278
Borrowings	-	-	-	38,003	-	38,003
Deferred tax liabilities (note a)	227,746	-	227,746	227,746	-	227,746
Convertible debentures	309,221	-	309,221	291,063	-	291,063
	725,759	(14,403)	711,356	931,490	(11,312)	920,178
Shareholders' equity						
Share capital (note j)	1,157,889	4,430	1,162,319	1,107,163	4,430	1,111,593
Contributed surplus (note j)	67,279	(4,242)	63,037	48,397	(3,320)	45,077
Equity component of convertible debentures	14,765	-	14,765	14,765	-	14,765
Accumulated other comprehensive income (notes e, j)	422	(8,766)	(8,344)	12,220	(11,036)	1,184
Retained earnings (deficit) (note n)	241,399	(294,791)	(53,392)	132,420	(244,948)	(112,528)
	1,481,754	(303,369)	1,178,385	1,314,965	(254,874)	1,060,091
	2,207,513	(317,772)	1,889,741	2,246,455	(266,186)	1,980,269

Reconciliation of consolidated statement of comprehensive income:

Year ended
March 31, 2011

(thousands of U.S. dollars)	Canadian GAAP	Adjustment	IFRS
Oil and natural gas revenue	453,824	-	453,824
Royalties	(20,707)	-	(20,707)
Profit petroleum (note d)	(29,261)	-	(29,261)
Production and operating expenses (notes h, j, k, l)	(38,360)	(75)	(38,435)
Depletion expense (note g)	(134,694)	25,510	(109,184)
Exploration and evaluation (notes e, j, k)	-	(97,081)	(97,081)
(Loss) / gain on short-term investments	(12,720)	-	(12,720)
Other expenses	(9,861)	385	(9,476)
General and administrative expenses (notes e, k)	(11,972)	1,163	(10,809)
Share-based payment expense (note j)	(28,998)	6,967	(22,031)
Depreciation (note g)	(2,410)	(771)	(3,181)
Operating profit	164,841	(63,902)	100,939
Finance income (notes d, k)	912	1,468	2,380
Finance expense			
Interest expense (note h)	(24,928)	(1,003)	(25,931)
Accretion expense (note i)	(6,904)	57	(6,847)
Foreign exchange gain / (loss) (notes a, m)	875	90	965
Other	-	(379)	(379)
Net finance expense	(30,045)	233	(29,812)
Income before income taxes	134,796	(63,669)	71,127
Income tax expense			
Current tax (expense) (note a)	(36,900)	35,407	(1,493)
Minimum alternate tax (expense) (note a)	-	(35,407)	(35,407)
Deferred tax reduction (note a)	21,844	13,826	35,670
	(15,056)	13,826	(1,230)
Net income	119,740	(49,843)	69,897
Foreign currency translation (loss) / gain	(11,798)	2,270	(9,528)
Comprehensive income	107,942	(47,573)	60,369

Notes to reconciliations:

a. Income taxes

The book value of property, plant and equipment related to the D6 Block is less under IFRS than under Canadian GAAP. This results in an increase in the deferred tax asset.

Under Canadian GAAP, the Company classified excess tax instalments as accounts receivable and have classified the same as income tax receivable under IFRS. This resulted in a \$4.4 million adjustment as at April 1, 2010.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
Increase / (decrease) in accounts receivable	-	(4,429)
Increase in income tax receivable	110	4,059
Increase in deferred tax asset	13,826	-
(Increase) / decrease in accounts payable	(48)	414
(Increase) in current tax payable	(74)	(101)
(Increase) / decrease in deficit	13,814	(57)

Consolidated statement of comprehensive income	March 31, 2011
Increase in foreign exchange gain	45
Decrease in deferred tax reduction	13,826
Decrease in current income tax expense	35,407
Increase in minimum alternate tax expense	(35,407)
(Decrease) / increase in comprehensive income	13,871

b. Prepaid Expenses / Deposits

Prepaid expenses and deposits have been reclassified to accounts receivable.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
Increase in accounts receivable	1,566	724
(Decrease) in prepaid expenses / deposits	(1,566)	(724)
(Increase) / decrease in deficit	-	-

c. Cash calls receivable

Cash calls receivable from joint venture partners are classified as current assets as they are due in the current period. Under Canadian GAAP, these were misclassified as long-term accounts receivable.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
Increase in accounts receivable	638	-
(Decrease) in long-term accounts receivable	(638)	-
(Increase) / decrease in deficit	-	-

d. 36" Pipeline

Accounts receivable and payable related to the 36" pipeline in Hazira reported under Canadian GAAP were net under IFRS as the amounts are expected to be settled net with the Company's joint venture partner. In addition, there were adjustments related to the audit of the results from the 36" pipeline.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
(Decrease) / increase in accounts receivable	-	1,441
(Decrease) in long-term accounts receivable	(2,889)	(1,208)
Decrease / (increase) in accounts payable	2,889	(233)
(Increase) / decrease in deficit	-	-

e. Property, plant and equipment

Under Canadian GAAP, the Company followed the full-cost method of accounting capitalizing costs incurred for exploration, development and producing properties. Under the Company's selected IFRS policies, pre-license costs, geological and geophysical costs (G&G), the costs of unsuccessful exploration drilling and associated general and administrative costs (G&A) are expensed. The remaining capital assets previously categorized as property, plant and equipment have considered under the IFRS categories including inventory and exploration and evaluation assets.

Under Canadian GAAP, cumulative translation differences arose on the revaluation of assets and liabilities to the reporting currency. The cumulative translation change under IFRS is a result of the adjustment of historical differences associated with assets that were written off, impaired or adjusted in property, plant and equipment.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
Increase in inventory	6,849	6,981
Increase in exploration and evaluation assets	762,221	708,478
Decrease in property, plant and equipment	(1,158,580)	(1,018,428)
Decrease in accumulated other comprehensive income	8,920	11,036
(Increase) / decrease in deficit	(380,590)	(291,933)

Consolidated statement of comprehensive income	March 31, 2011
(Increase) in exploration and evaluation expense	(88,657)
(Decrease) / increase in comprehensive income	(88,657)

f. Impairment

Impairment tests were calculated on transition to IFRS for each cash-generating unit. The cash-generating unit comprised of Feni and Chattak properties in Bangladesh and the cash-generating unit comprised of the Cauvery property in India were impaired. These properties were included in property, plant and equipment under Canadian GAAP. Under Canadian GAAP, the impairment test was considered on a country-by-country basis. Under IFRS, the impairment test is considered at the cost-generating-unit level, which is the PSC for Cauvery and the JVA for Feni and Chattak and does not include the Company's other properties in India or Bangladesh. The fair value of the properties used in the assessment of the impairment was the value in use and neither property had reserves attributable to it.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
(Decrease) in property, plant and equipment	(73,407)	(73,407)
(Increase) / decrease in deficit	(73,407)	(73,407)

g. Accumulated depletion

Under Canadian GAAP, depletion related to producing properties was calculated for each cost centre, which was defined as a country. IFRS requires depletion to be calculated based on individual components, which the Company has determined to be a production sharing contract (PSC). An adjustment was made for the change in the cost base as a result of the accounting policies for exploration and evaluation costs selected by the Company.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
Increase in property, plant and equipment	150,318	125,194
(Increase) / decrease in deficit	150,318	125,194

Consolidated statement of comprehensive income	March 31, 2011
Decrease in depletion expense	25,510
(Increase) in depreciation expense	(771)
Decrease in other expense	385
(Decrease) / increase in comprehensive income	25,124

h. Lease

Under Canadian GAAP and IFRS, the finance lease obligation is recorded at inception of the lease for an amount that is the lesser of the present value of the minimum lease payments and the fair value of the asset. Under Canadian GAAP, the present value of the minimum lease payments is calculated using the lesser of the rate implicit of 11.7% in the lease and the Company's incremental cost of borrowing at the time of 6% while the rate implicit in the lease is always used under IFRS. As a result, the lease obligation was recorded at the fair value under Canadian GAAP and is recorded at the present value of the minimum lease payments under IFRS.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
(Decrease) in property, plant and equipment	(6,217)	(6,104)
Decrease in current portion of finance lease obligation	1,044	1,079
Decrease in non-current portion of finance lease obligation	4,149	5,194
(Increase) / decrease in deficit	(1,024)	169

Consolidated statement of comprehensive income	March 31, 2011
Decrease in production and operating expense	-
(Increase) in interest expense	(1,193)
(Decrease) / increase in comprehensive income	(1,193)

i. Decommissioning obligations

Under Canadian GAAP asset retirement obligations were discounted at the corporate credit adjusted risk free rate of 5 to 7 percent over time. Under IFRS the estimated cash flow to abandon and remediate the wells and facilities has been risk adjusted and applied by country therefore the provision is discounted at an average risk free rate of 7 percent resulting in a decrease in the decommissioning obligations and property, plant and equipment.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
(Decrease) in property, plant and equipment	(5,924)	(3,135)
Decrease in decommissioning obligations	6,249	3,403
(Increase) / decrease in deficit	325	268

Consolidated statement of comprehensive income	March 31, 2011
Decrease in accretion expense	57
(Decrease) / increase in comprehensive income	57

j. Share-based payments

Under Canadian GAAP, the Company recognized an expense related to the share-based payments (SBP) for options granted after March 31, 2003. On transition to IFRS, the Company applied IFRS2 retrospectively and recognized the cost for share-based payments vesting after April 1, 2005 as an expense. This resulted in an additional share-based payment expense increasing the deficit and increasing share capital as these stock options have been exercised and the associated expense has been moved to share capital.

Under Canadian GAAP, the Company recognized an expense related to share-based payments, however, did not incorporate a forfeiture multiple. Under IFRS, the Company is required to estimate a forfeiture rate. The share-based payments recognized under Canadian GAAP were adjusted to incorporate a forfeiture rate resulting in a decrease in the deficit and a decrease in contributed surplus.

Under Canadian GAAP, the Company capitalized the portion of share-based payments attributable to exploration activities. Under IFRS, the Company expensed the majority of share-based payments. This resulted in a decrease in property, plant and equipment and an increase in the deficit.

Consolidated statement of financial position	March 31, 2011	April 1, 2010
(Decrease) in property, plant and equipment for capitalized share-based payments	(5,913)	(4,502)
(Increase) in share capital	(4,430)	(4,430)
Decrease in contributed surplus	4,242	3,320
(Increase) / decrease in accumulated other comprehensive income	(154)	-
(Increase) / decrease in deficit	(6,255)	(5,612)

Consolidated statement of comprehensive income	March 31, 2011
(Increase) in production and operating expense	(1,776)
(Increase) in exploration and evaluation expense	(5,834)
Decrease in share-based payment expense	6,967
Increase / (decrease) in comprehensive income	(643)

k. Reclassification of the income statement according to function

The Company classifies the statement of comprehensive income according to the function of the costs. The costs incurred are booked into the categories of production and operating expense, exploration and evaluation expense and general and administrative expense dependant on the activities to which they relate. As a result, a number of the costs recorded in one category under Canadian GAAP were reclassified to another category under IFRS.

Consolidated statement of financial position	March 31, 2011
Decrease in production and operating expense	1,431
(Increase) in exploration and evaluation expense	(2,590)
Decrease in general and administrative expense	1,163
Increase in net finance income	189
(Increase) in net finance expense	(193)
Increase / (decrease) in comprehensive income	-

l. Other

The Company had other individually insignificant adjustments from Canadian GAAP to IFRS as follows:

Consolidated statement of financial position	March 31, 2011	April 1, 2010
Increase / (decrease) in accounts receivable	534	(1,144)
Increase / (decrease) in inventory	-	18
Increase in property, plant and equipment	1,300	-
Decrease / (increase) in accounts payable	194	1,556
(Increase) / decrease in deficit	2,028	430

Consolidated statement of comprehensive income	March 31, 2011
Decrease / (increase) in production and operating expenses	270
Decrease in general and administrative expenses	-
Increase in finance income	1,279
Decrease / (increase) in finance expense	49
Decrease / (increase) in comprehensive income	1,598

m. Deficit

The following is a summary of adjustments to the deficit:

Note	Description	March 31, 2011	April 1, 2010
a	Reclassification of tax amounts	13,814	(57)
d	36" pipeline adjustments	-	-
e	Write-off of exploration and evaluation costs and associated general and administrative costs	(380,590)	(291,933)
f	Impairment of property, plant and equipment	(73,407)	(73,407)
g	Decrease in accumulated depletion as a result of calculating depletion expense on a cash-generating unit basis as opposed to a cost centre	150,318	125,194
h	Adjustment related to initial value recorded for the lease of the floating, production, storage and offloading vessel	(1,024)	169
i	Adjustment to rate used to discount decommissioning obligations	325	268
j	Adjustment for commencement of share-based payments, expensing all share-based payments and including a forfeiture rate in the calculation of share-based payments	(6,255)	(5,612)
l	Other miscellaneous adjustments	2,028	430
	(Increase) / decrease in deficit	(294,791)	(244,948)

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VP Finance and Chief Financial Officer

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