NIKO RESOURCES LTD

Q2 INTERIM REPORT FOR THE QUARTER ENDED SEPTEMBER 30, 2013

NIKO REPORTS RESULTS FOR THE QUARTER ENDED SEPTEMBER 30, 2013

Niko Resources Ltd. ("Niko" or the "Company") is pleased to report its operating and financial results for the quarter ended September 30, 2013. The operating results are effective November 14, 2013. 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

In the second quarter of fiscal 2014, the Company announced a shift in its strategic focus to developing and appraising the assets in the D6 Block in India, while maintaining optionality on the balance of its exploration portfolio. To provide the financial capacity to implement this strategy, the Company has signed a non-binding term sheet for up to $340 million of debt financing and signed a letter of intent with Diamond Offshore relating to a settlement of the Company's payment obligations and other commitments under drilling contracts for the semisubmersible drilling rigs *Ocean Lexington* and *Ocean Monarch*. The settlement agreement is expected to be executed upon completion of negotiations and concurrently with the Company's proposed financing. The Company is also finalizing its plans for the remainder of the portfolio and have engaged Citi to act as its financial advisor in connection with the sale of certain of its non-core assets in India and Trinidad. In addition, the Company is working on farming out portions of its interests in many of its exploration production sharing contracts and rescheduling its exploration commitments.

The management of Niko has been aggressively engaged in active pursuit of a comprehensive financing arrangement since the beginning of the fiscal year. To date it has secured net proceeds of $110 million from two short term "bridge" financings and has received proceeds of $61 million from its program of farm-outs, asset sales and other arrangements. Despite this aggressive pursuit, the Company has not been able to raise from conventional sources the funds required to completely reset its capital structure. As a result, it has been necessary to look for funds from lenders that are willing to lend to companies whose credit standing is considered to be high risk.

"Admittedly, this will be a very high cost finance package with tight repayment terms and other highly restrictive terms. However, the proposed debt financing is to be repaid in four years and there is the ability to prepay in two years with certain premium considerations. The D6 Block is a valuable and growing asset that is expected to have a long life with higher production and revenue from new wells, new fields and increases in the price of natural gas. Bridging the gap from the Company's current condition to the expected higher value and production from D6 and other Niko assets is worth the high cost of the arrangements."

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

The Company has entered into a non-binding term sheet with sophisticated institutional investors to provide the majority of the funding for a senior secured credit facility of up to $340 million (the "Proposed Credit Facility") that would provide funds to refinance certain of its existing debt obligations, to fund the Company's investment in the D6 Block and otherwise for general corporate and working capital purposes. The Proposed Credit Facility would be secured on a first priority basis, subject to certain permitted liens, by substantially all of the assets of the Company and its subsidiaries and would have terms that are customary for debt financings of this type for similarly situated borrowers. The Proposed Credit Facility would provide for quarterly interest payments as well as a certain royalty payment by the Company to the lenders in respect of revenues received from the D6 Block.

In addition, the Company has signed a letter of intent with Diamond Offshore relating to a settlement of the Company's payment obligations and other commitments under drilling contracts for the semisubmersible drilling rigs *Ocean Lexington* and *Ocean Mona*rch. The settlement agreement is expected to be executed upon completion of negotiations and concurrently with the Company's proposed financing transaction.

The consummation of the Proposed Credit Facility is subject to a number of closing conditions, including, without limitation, execution of the settlement agreement with Diamond Offshore, satisfaction of the Company's unsecured non-convertible notes obligation from sources other than the Proposed Credit Facility, the completion of the lenders' due diligence, and the execution and delivery of certain definitive documentation.

The Company has engaged Credit Suisse and another global investment bank to arrange the proposed financing transactions.

There can be no assurance, however, that the Company will be able to obtain the Proposed Credit Facility or execute the settlement agreement with Diamond Offshore on the terms described above or at all.

The Company is also finalizing its plans for the remainder of the portfolio and have engaged Citi to act as its financial advisor in connection with the sale of certain of its non-core assets in India and Trinidad. Sale of these assets could provide proceeds that could be used to fund the Company's future capital programs or pay down the Proposed Credit Facility. In addition, the Company is working on farming out portions of its interests in many of its exploration production sharing contracts and rescheduling its exploration commitments.

As at September 30, 2013, the Company had a working capital deficiency of $110 million. The Company's unrestricted cash and cash equivalents balance of $55 million at September 30, 2013 and anticipated revenues from its operating assets are expected to be sufficient to satisfy the anticipated cash requirements of its operating subsidiaries for the foreseeable future, but are not expected to be sufficient to satisfy its current liabilities and meet its current exploration and drilling rig commitments. The Company has negotiated extended payment terms with many of its suppliers of drilling and related services to its exploration subsidiaries.

The Company's current credit facilities are reserve based lending facilities that are not expected to provide sufficient borrowing base capacity for funding of the Company's planned activities. As at September 30, 2013, the availability under the facilities is $80 million and the facilities are fully drawn. The Company is working with the syndicate banks on a deferral from October 31 to November 29, 2013 for the date of the re-determination of the borrowing base under the current credit facility and from November 29 to December 31, 2013 for the date of any required repayment to reflect the new borrowing base. As at September 30, 2013, the Company had placed $15 million in escrow for the benefit of its credit facility lenders and a further $18 million received by the Company in October was placed in escrow, with these funds to be used, if required, to fund any reduction in outstanding borrowings. The Company has received a waiver from the syndicate banks of a provision in a previous consent agreement regarding a restriction on the use of cash balances, with similar waivers potentially required in future months.

There is uncertainty regarding whether the Company can complete all or a portion of the above efforts, raising significant doubt about the Company's ability to continue as a going concern.

REVIEW OF OPERATIONS AND GUIDANCE

Sales Volumes

(MMcfe/d)	Quarter ended September 30, 2013	Quarter ended June 30, 2013
D6 Block, India	54	53
Block 9, Bangladesh	56	50
Other[1]	2	3
Total[2]	113	107

[1] Other includes Hazira in India, and Canada.
[2] Figures may not add up due to rounding.

Total sales volumes for the second quarter of fiscal 2014 increased to 113 MMcfe/d from 107 MMcfe/d for the first quarter of fiscal 2014 due to the positive impact of workovers and the sale of crude oil and condensate volumes that had been held in inventory at the end of the first quarter. At the Bangora field in Block 9 in Bangladesh, the workovers of a suspended well and a producing well increased production in the quarter, reaching over 67 MMcfe/d from the field in September 2013. In the D6 Block in India, approximately 400 b/d (2.4 MMcfe/d) of the Company's share of crude oil and condensate production volumes that had been held in inventory at the end of the first quarter were sold in the second quarter, with approximately 200 b/d (1.2 MMcfe/d) sold in October.

Development drilling activities in the D6 Block in India commenced in September 2013 with the spudding of the MA-8 development well in the MA oil and gas field, with the well expected to be on-stream in December 2013. The drilling rig used for this well will now mobilize to the Dhirubhai 1 and 3 gas fields in the D6 Block to commence a three-well workover program that is expected to increase the volumes from this field in the fourth quarter of the fiscal year. These development activities are targeted to contribute to an annual average sales volumes forecast for the Company of between 112 and 116 MMcfe/d for fiscal 2014 and 133 MMcfe/d for fiscal 2015.

Funds from Operations[1]

(millions of U.S. dollars)	Quarter ended September 30, 2013	Quarter ended June 30, 2013
Funds from operations	32	15

[1] Includes other income related to cash gain of a farm-out.

Funds from operations for the second quarter of fiscal 2014 were $32 million compared to $15 million for the first quarter of fiscal 2014, benefitting from the cash gain related to the Company's farm-out of a 40 percent interest in the Grand Prix block in Madagascar and from increased sales volumes.

Capital and Exploration Expenditures, net of Proceeds of Farm-outs and Other Arrangements[1]

(millions of U.S. dollars)	Quarter ended September 30, 2013	Quarter ended June 30, 2013
Total	112	37

[1] Excludes proceeds related to cash gain of a farm-out recorded as other income.

Capital and exploration expenditures, net of proceeds of farm-outs and other arrangements, totaled $112 million for the second quarter of fiscal 2014. Spending in the quarter related primarily to exploration activities in Indonesia and Trinidad, and the commencement of drilling of development and appraisal wells in the D6 Block in India. Two wells drilled in Indonesia, the Elang-1 well in the Cendrawasih Block and the Elit-1 well in the Kofiau Block, did not encounter significant hydrocarbons and have been expensed. In addition, the Company suspended its drilling program in Indonesia in the second quarter and expensed the moving and standby costs related to the Ocean Monarch drilling rig.

The level of Company's funds from operations and capital spending for the remainder of fiscal 2014 and beyond will be dependent on a number of factors, including the successful execution of the Proposed Credit Facility transaction, and guidance on funds from operations and capital spending for fiscal 2014 and fiscal 2015 will be provided at a later date.

FINANCIAL RESULTS

Net Loss

(millions of U.S. dollars)	Quarter ended September 30, 2013	Quarter ended June 30, 2013
Net loss	149	59

Net loss for the second quarter of fiscal 2014 was $149 million compared to $59 million for the first quarter of fiscal 2014. In the current quarter, the Company recorded $122 million of exploration and evaluation expenses, primarily related to unsuccessful wells in Indonesia, including two wells drilled in the current quarter and the Ajek-1 well drilled in the prior year in the Kofiau Block, and to rig mobilization and standby costs. The Company also recorded impairments totaling $21 million in the current quarter related to the relinquishments of the Central Range Shallow and Deep Blocks in Trinidad and the four Cendrawasih Blocks in Indonesia.

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 three and six months ended September 30, 2013 should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2013. This MD&A is effective November 14, 2013. 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 current quarter" or "the current period" is used throughout the MD&A and in all cases refers to the period from July 1, 2013 through September 30, 2013. The term "prior year's quarter" or "prior year's period" is used throughout the MD&A for comparative purposes and refers to the period from July 1, 2012 through September 30, 2012.

The fiscal year for the Company is the 12-month period ending March 31. The terms "Fiscal 2013" and "prior year" is used throughout this MD&A and in all cases refers to the period from April 1, 2012 through March 31, 2013. The terms "Fiscal 2014", "current year" and "the year" are used throughout the MD&A and in all cases refer to the period from April 1, 2013 through March 31, 2014.

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.

Cautionary Statement Regarding Forward-Looking Information and Material Assumptions

Certain statements in this MD&A are "forward-looking statements" or "forward-looking information" within the meaning of applicable securities laws, herein referred to as "forward looking statements" or "forward looking information". Forward-looking information is frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate," "estimate," "scheduled," "potential" or other similar words, or statements that certain events or conditions "may," "should" or "could" occur. Forward-looking information is based on the Company's expectations regarding its future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, plans for and results of drilling activity, environmental matters, business prospects and opportunities. Such forward-looking information reflects the Company's current beliefs and assumptions and is based on information currently available to it. Forward-looking information involves significant known and unknown risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information including risks discussed below. Although the forward-looking information contained in this report is based upon assumptions which the Company believes to be reasonable, it cannot assure investors that actual results will be consistent with such forward-looking information. Such forward-looking information is presented as of the date of this MD&A, and the Company assumes no obligation to update or revise such information to reflect new events or circumstances, except as required by law. Because of the risks, uncertainties and assumptions inherent in forward-looking information, you should not place undue reliance on this forward-looking information. See also "Risk Factors."

Specific forward-looking information contained in this MD&A may include, among others, statements regarding:

- a proposed shift in strategic focus of the Company;
- the performance characteristics of the Company's oil, NGL and natural gas properties;
- natural gas, crude oil, and condensate production levels, sales volumes and revenue;
- the size of the Company's oil, NGL and natural gas reserves;
- projections of market prices and costs;
- supply and demand for oil, NGL and natural gas;
- the Company's ability to raise capital and to continually add to reserves through acquisitions and development;
- future funds from operations;
- debt and liquidity levels, and particularly in respect of debt and liquidity;
    - a Proposed Credit Facility and settlement agreement with Diamond Offshore;
    - the proposed sale of non-core assets and farm-out transactions involving exploratory production sharing contract;
    - the satisfaction of all conditions to closing of the Proposed Credit Facility, including execution of the settlement agreement with Diamond Offshore and satisfaction of the Company’s unsecured non-convertible notes obligation from sources other than the Proposed Credit Facility;
    - the re-determination of the Company's borrowing base under the Company's existing credit facility;
- future royalty rates;
- treatment under governmental regulatory regimes and tax laws;
- work commitments and capital expenditure programs;
- the Company's future development and exploration activities and the timing of these activities, including drilling activities in the D6 Block in India and the corresponding increases in sales volumes from these drilling activities;
- the Company's future ability to satisfy certain contractual obligations;
- future economic conditions, including future interest rates;
- the impact of governmental controls, regulations and applicable royalty rates on the Company's operations;
- the Company's expectations regarding the development and production potential of its properties;
- the Company's expectations regarding the costs for development activities;
- the resolution of various legal claims raised against the Company;
- the potential for asset impairment and recoverable amounts of such assets; and
- changes to accounting estimates and accounting policies.

The forward-looking statements contained in this MD&A are based on certain key expectations and assumptions made by us, including expectations and assumptions relating to prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the availability of capital to undertake planned activities and the availability and cost of labor and services. Although the Company believes that the expectations reflected in the forward-looking statements in this MD&A are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and natural gas industry in general, such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, governmental regulation, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and the Company’s ability to access sufficient capital from internal and external sources, costs and expenses, commodity price and exchange rate fluctuations, marketing and transportation risks, the ability to access sufficient capital from internal and external sources, changes in tax, royalty and environmental legislation, the impact of general economic conditions, imprecision of reserve estimates, the lack of availability of qualified personnel or management, stock market volatility, risks associated with satisfying the conditions to closing for the Proposed Credit Facility (including, without limitation, the negotiation of definitive documentation, completion of due diligence to the satisfaction of the lenders, access to sources of funding necessary to retire the outstanding unsecured non-convertible notes, completion of the settlement with Diamond Offshore), risks associated with the completion of the settlement with Diamond Offshore (including the negotiation of definitive documentation), the risks discussed under "Risk Factors" in the Company's most recent Annual Information Form and under the heading "Risk Factors" herein and in the Company's public disclosure documents, and other factors, many of which are beyond the Company's control. Statements relating to ”reserves” are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. You are cautioned that the foregoing list of factors and risks is not exhaustive.

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 its reserve reports.

The Company prepares capital spending forecasts based on internal budgets for operated properties, budgets prepared by the Company's joint venture partners, when available, for non-operated properties, field development plans and actual and planned events that are expected to affect the timing or amount of capital spending.

The Company prepares operating expense forecasts based on historical and current levels of expenses and actual and planned events that are expected to increase or decrease production and/or the associated expenses. Niko makes no representation that the actual results achieved during the forecasted period will be the same in whole or in part as those forecasts,

The Company discloses the nature and timing of expected future events based on 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 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 update reserve estimates on an annual basis. See "Risk Factors" for discussion of uncertainties and risks that may cause actual events to differ from forward-looking information provided in this report. The information contained in this report, including the information provided under the heading "Risk Factors," identifies additional factors that could affect the Company's operating results and performance. The Company urges you to carefully consider those factors and the other information contained in this report.

The forward-looking statements contained in this report are made as of the date hereof. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless so required by applicable law. The forward-looking statements and the forward-looking information contained in this report are expressly qualified by this cautionary statement.

Non-IFRS Measures

The selected financial information presented throughout this MD&A is prepared in accordance with IFRS, except for "funds from operations", "EBITDAX', "operating netback", "EBITDAX netback", "funds from operations netback", "earnings netback", "segment profit" and "working capital". These non-IFRS financial measures, which have been derived from financial statements and applied on a consistent basis, are used by management as measures of performance of the Company. These non-IFRS measures should not be viewed as substitutes for measures of financial performance presented in accordance with IFRS or as a measure of a company's profitability or liquidity. These non-IFRS measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies.

The Company utilizes EBITDAX and funds from operations to assess past performance and to help determine its ability to fund future capital projects and investments. EBITDAX is calculated as net income before interest expense, income taxes, depletion and depreciation expenses, exploration and evaluation expenses, and other non-cash items (gain or loss on investments, asset impairment, share-based compensation expense, accretion expense, and unrealized foreign exchange gain or loss). 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.

The Company utilizes operating netback, EBITDAX netback, funds from operations netback, earnings netback and segment profit to evaluate past performance by segment and overall.

Operating netback is calculated as oil and natural gas revenues less royalties, the government share of profit petroleum and operating expenses for a given reporting period, per thousand cubic feet equivalent (Mcfe) of production for the same period, and represents the before-tax cash margin for every Mcfe sold.

EBITDAX netback is calculated as the EBITDAX per Mcfe and represents the cash margin before interest and taxes for every Mcfe sold.

Funds from operations netback is calculated as the funds from operations per Mcfe and represents the cash margin for every Mcfe sold.

Earnings netback is calculated as net income per Mcfe and represents net income for every Mcfe sold.

Segment profit is defined as oil and natural gas revenues less royalties, the government share of profit petroleum, 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

Funds from Operations

(thousands of U.S. dollars)	Three months ended Sept 30, 2013	2012	Six months ended Sept 30, 2013	2012
Oil and natural gas revenue	36,388	58,080	64,430	113,179
Production and operating expenses	(14,180)	(9,696)	(22,276)	(17,574)
General and administrative expenses	(2,262)	(2,266)	(3,597)	(4,323)
Other income	18,052	311	18,052	311
Finance income	229	610	369	853
Bank charges and other finance costs	(542)	(684)	(682)	(749)
Realized foreign exchange gain	(117)	(2,833)	839	(2,480)
EBITDAX [1]	37,568	43,522	57,135	89,217
Interest expense	(5,915)	(6,007)	(10,268)	(12,269)
Current income tax recovery / (expense)	(6)	(285)	(10)	2,091
Minimum alternate tax expense	-	(3,125)	-	(4,410)
Funds from operations [1]	31,647	34,105	46,857	74,629

[1] EBITDAX and Funds from operations are non-IFRS measures as defined under “Non-IFRS measures” in this MD&A.

Oil and natural gas revenue decreased in the current quarter and year to date primarily due to anticipated natural declines and reservoir management activities in the D6 Block in India. The prior year to date included a $6 million adjustment in the government share of profit petroleum for Hazira field in India.

Production and operating expenses increased mainly in Block 9 in Bangladesh due to the costs of workovers and in D6 Block in India due to the transfer of costs to expenses related to crude oil and condensate volumes held in inventory at the end of first quarter of fiscal 2014.

General and administrative expenses for the current year to date decreased primarily due to higher overhead recoveries under the production sharing contracts.

During the quarter the Company farmed out a portion of its interest in its Madagascar property. Other income includes the proceeds from the farm out in excess of the recorded asset.

Realized foreign exchange gains in the current year to date related to the weakening of the Indian Rupee against the U.S. Dollar on Indian Rupee denominated payables. Realized foreign exchange losses in the prior year to date related to the strengthening of the Indian Rupee against the U.S. Dollar on Indian Rupee denominated payables.

Interest expense decreased in the current year to date primarily due to lower outstanding debt amounts during the current year to date compared to the prior year to date.

Current income tax recovery in the prior year to date related to the adjustment in the government share of profit petroleum for the Hazira field in India.

Minimum alternative tax expense for the current year to date was nil as the D6 Block in India did not generate positive accounting income under Indian GAAP.

Net Income (Loss)

(thousands of U.S. dollars)	Three months ended Sept 30, 2013	2012	Six months ended Sept 30, 2013	2012
Funds from operations (non-IFRS measure)	31,647	34,105	46,857	74,629
Production and operating expenses	(192)	(330)	(343)	(637)
Depletion and depreciation expenses	(28,506)	(39,204)	(58,693)	(81,616)
Exploration and evaluation expenses	(121,704)	(52,879)	(151,936)	(89,300)
Asset (impairment) / recovery	(21,097)	181	(21,097)	(38,919)
Share-based compensation expense	(2,444)	(3,342)	(5,130)	(6,902)
Accretion expense	(4,587)	(2,162)	(6,773)	(4,158)
Unrealized foreign exchange (loss) / gain	388	6,657	(8,542)	1,512
Loss on investments	(453)	(32)	(1,342)	(276)
Deferred income tax recovery / (expense)	(1,593)	28,433	(712)	24,971
Net loss	(148,541)	(28,573)	(207,711)	(120,696)

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

Depletion and depreciation expenses decreased primarily due to lower production volumes.

Exploration and evaluation expenses for the current quarter relate primarily to costs associated with unsuccessful wells in the Cendrawasih and Kofiau blocks in Indonesia, standby cost for the Ocean Monarch rig and associated services, directly expensed costs of seismic and other exploration projects, payments specified in various production sharing contracts, and branch office costs related to exploration activities. Exploration and evaluation expenses for the prior year's quarter relate primarily to costs associated with unsuccessful wells in the Lhokseumawe & North Ganal blocks in Indonesia and Block 2ab in Trinidad, directly expensed costs of seismic and other exploration projects, payments specified in various production sharing contracts, and branch office costs related to exploration activities.

Asset impairment in the current quarter relates to the reduction in the carrying value of the exploration and evaluation assets in the Central Range blocks in Trinidad and the four Cendrawasih blocks in Indonesia, in which the Company has or intends to relinquish its interest. Asset impairment in the prior year to date related to the reduction in the carrying value of the exploration and evaluations assets in Kurdistan to the Company's estimate of net recoverable amount.

Share-based compensation expense decreased due to forfeitures of stock options.

Accretion expense increased primarily due to the issuance of unsecured notes in June 2013 and a secured loan in July 2013.

Unrealized foreign exchange losses in the current year to date relate to the impact of the weakening of the Indian Rupee against the U.S. dollar on India Rupee denominated income tax and minimum alternate tax receivables. Also, the weakening of the Canadian dollar against the U.S. dollar in the current year to date resulted in recording of foreign exchange losses on U.S. dollar denominated debt in a Canadian dollar functional currency entity, with an offsetting foreign exchange gain recorded to other comprehensive income. In the prior quarter and year to date, the Indian Rupee strengthened against the U.S. dollar resulting in unrealized foreign exchange gain due to revaluing the Indian rupee based income tax receivable to U.S. dollar.

Deferred income tax expense for the current quarter and year to date relates primarily to the D6 and NEC-25 blocks in India, partially offset by deferred tax recovery related to the various blocks in Indonesia. In the prior year's quarter and year to date, deferred tax recovery was primarily due to reduction in deferred tax liabilities resulting from a reduction in exploration and evaluation assets related to proceeds from a farm out and from a former partner in exchange for assuming the partner's obligation for future drilling commitments in Indonesia.

Capital expenditures, net of Proceeds of Farm-outs and Other Arrangements

Six months ended September 30, 2013						
(thousands of U.S. dollars)	Additions to exploration and evaluation asset[1][2]	Additions related to future drilling	Directly expensed exploration and evaluation costs[1]	Additions to property, plant and equipment[1]	Proceeds from farm-outs and other arrangements	Total
Indonesia	69,371	10,501	38,930	51	(4,368)	114,485
Trinidad	3,028	7,418	14,245	-	-	24,691
Other	8,440	-	5,549	11,006	(15,557)	9,438
Total	80,839	17,919	58,724	11,057	(19,925)	148,614

[1] Share-based compensation and other non-cash items are excluded.

[2] Includes additions that were subsequently written off.

Indonesia

Additions to exploration and evaluation assets for Indonesia primarily relate to the costs for the Pananda-1 commitment well drilled in the North Makassar block, Elang-1 commitment well drilled in the Cendrawasih block (net of $24 million recorded as a offset to the costs of the well related to funds received in the second quarter of the year from a former partner in exchange for assuming the partner's obligations for the well) and the Elit-1 well drilled in the Kofiau block. The additions to future drilling relate to the costs of drilling inventory. Exploration and evaluation costs expensed directly to income during the period include rig mobilization and standby costs incurred subsequent to the drilling of the Elit-1 well, costs related to seismic and other exploration projects and branch office costs. In the prior quarter of the current year, the Company also received proceeds of a farm out.

Trinidad and Tobago

Additions to exploration and evaluation assets for Trinidad primarily relate to the costs for the Primrose commitment well planned to be drilled in the NCMA-2 block. The additions to future drilling in Trinidad primarily relate to the costs of drilling inventory and other activities incurred to prepare for an upcoming drilling campaign. These costs will be allocated as wells are drilled. Exploration and evaluation costs expensed directly to income during the period include costs related to seismic and other exploration projects, payments that are specified in various PSC's, and branch office costs.

Other *(India, Bangladesh, Madagascar, Brazil, Pakistan, Kurdistan)*

Additions to exploration and evaluation assets relate primarily to the successful MJ-1 discovery well in India. Additions to property, plant and equipment relate primarily to the development of the MA oil and gas field in India and a compression project in Block 9 in Bangladesh. Exploration and evaluation costs expensed directly to income primarily relate to the exploration projects and branch office costs. Proceeds from farm-outs and other arrangements relate primarily to the payment received related to the Company's exit from the Qara Dagh block in Kurdistan.

BACKGROUND ON PROPERTIES

The Company's diversified portfolio of producing, development and exploration assets is described below.

Producing Assets

The Company's principal producing natural gas and crude oil assets are in the D6 Block in India and in Block 9 in Bangladesh.

D6 Block, India

The Company entered into the PSC for the D6 Block in India in 2000 and has a 10 percent working interest, with Reliance Industries Limited ("Reliance"), the operator, holding a 60 percent interest and BP holding the remaining 30 percent interest. The D6 Block is 7,645 square kilometers lying approximately 20 kilometers offshore of the east coast of India.

Successful exploration programs in the D6 Block led to the discoveries of the Dhirubhai 1 and 3 natural gas fields in 2002 and the MA crude oil and natural gas field in 2006.

Production from the crude oil discovery in the MA field commenced in September 2008 and commercial production commenced in May 2009. Six wells are tied into a floating production storage offloading vessel ("FPSO"), which stores the crude oil until it is sold on the spot market at a price based on the Bonny Light reference price and adjusted for quality, and four of these wells are currently on production. In fiscal 2014, the joint venture plans to drill an additional gas development well and convert one of the two suspended oil wells into a gas producing well to accelerate the production of the reservoir's gas reserves.

Field development of the Dhirubhai 1 and 3 fields included the drilling and tie-in of 18 wells, construction of an offshore platform and onshore gas plant facilities. Production from the Dhirubhai 1 and 3 natural gas discoveries commenced in April 2009 and commercial production commenced in May 2009. The natural gas produced from offshore is being received at an onshore facility at Gadimoga and is sold at the inlet to the East-West Pipeline owned by Reliance Gas Transportation Infrastructure Limited.

Production from the Dhirubhai 1 and 3 fields peaked in March 2010 and has decreased since then, primarily due to natural declines of the fields and greater than anticipated water production. Four additional wells have been drilled in the post-production phase of drilling. Based on the information obtained from three wells drilled within the main channel fairway, the Company has determined that it is not economic to tie-in any of these three wells at the present time. The fourth well was drilled outside of the main channel fairway and did not encounter economic quantities of natural gas. Nine of the original 18 wells are currently shut-in and several others are choked, primarily due to current constraints in water handling capacity. Workovers are planned to bring some of the shut-in wells back online during fiscal 2014. Increased water handling capacity and additional booster compression is expected to be installed over the next two years to address the decline in reservoir pressure.

The PSC for the D6 Block states that natural gas must be sold at arm's length prices, with "arm's length" defined as sales made freely in the open market between willing and unrelated sellers and buyers, and that the pricing formula be approved by the Government of India ("GOI") taking into account the prevailing policy on natural gas. In May 2007, Reliance, on behalf of the joint venture partners, discovered an arm's length price for the sale of gas on a transparent basis with a term of three years and accordingly, proposed a gas price formula to the GOI. In September 2007, the GOI approved a pricing formula with some modification to the proposed formula. As a result of these modifications, the gas price is capped at $4.20/MMBtu and the formula was declared effective for a period of five years rather than the three years proposed by Reliance. The Company has signed numerous gas sales contracts with customers in the fertilizer, power, steel, city gas distribution, liquefied petroleum gas market and pipeline transportation industries, and all of these contracts expire on March 31, 2014. In June 2013, the Cabinet Committee of Economic Affairs of the GOI approved a new pricing formula for domestic gas sales in India, based on the recommendations of the Rangarajan Committee. The pricing formula is based on the average of the prices of imported LNG into India and the weighted average of gas prices in North America, Europe and Japan, as follows:

- PAV = {PIAV + PWAV} / 2
    - PAV = Sales price for domestic natural gas sales in India
    - PIAV = Netback price of Indian LNG term imports (excluding spot imports)
    - PWAV = Weighted average of prevailing gas prices in global markets, based on:
        - Henry Hub gas price in U.S. and total volumes consumed in North America
        - National Balancing Point gas price in U.K. and total volume consumed in Europe and Eurasia
        - Netback price of Japanese LNG imports and total volume imported by Japan

The pricing formula will be effective on April 1, 2014 for a period of five years, with the price to be revised quarterly using the approved formula. The price for each quarter will be calculated based on the 12 month trailing average price with a lag of one quarter (i.e., the price for April to June 2014 will be calculated based on the averages for the 12 months ended December 31, 2013). At the present time, the Indian LNG term imports relate primarily to the Petronet contract with RasGas of Qatar. Per the Rangarajan Committee Report, the pricing terms of this contract are as follows:

- FOB = P_o x JCC_t / $15
    - P_o = $1.90 / MMBTU (therefore, FOB = 12.67% x JCC_t)
    - JCC_t = 12 trailing month average JCC price, subject to a floor and ceiling:
        - Floor = {(60 – N) x $20 + (N x A60)} / 60 - $4
        - Ceiling = {(60 – N) x $20 + (N x A60)} / 60 + $4
        - N = 1 for January 2009, increasing by 1 every month until December 2013 after which it remains at 60
        - A60 = 60 trailing month average price of JCC

In the future, the Indian LNG term imports are expected to include imports related to the Petronet contract with ExxonMobil for import of LNG from the Gorgon venture in Australia. Per the Rangarajan Committee Report, the terms of this contract are as follows:

- FOB = 14.5% x JCC

Estimated liquefaction and transportation costs of $3.00/MMbtu for older LNG facilities (pre-2010) or $4.00/MMbtu for newer LNG facilities are to be deducted to arrive at the netback price for Indian LNG term imports.

Using the approved price formula, the price effective for April 1, 2014 is estimated at around $8.40/MMbtu, double the price of $4.20/MMbtu for current gas sales from the D6 Block. The pricing terms of the Petronet contracts are expected to result in further increases in the gas prices in future quarters, assuming current pricing levels of JCC, U.S. Henry Hub, U.K. National Balancing Point and Japan LNG imports.

The production and operating expenses for the D6 Block relate primarily to the offshore wells and facilities, the onshore gas plant facilities and the operating fee portion of the lease of the FPSO. The majority of these expenses are fixed in nature with repairs and maintenance expenditures incurred as required.

The Company calculates and remits the government share of profit petroleum to the GOI in accordance with the PSC for the D6 Block. The profit petroleum calculation considers capital, operating and other expenditures made by the joint venture. Because there are unrecovered costs to date, the GOI's share of profit petroleum has amounted to the minimum level of one percent of gross revenue. The government share of profit petroleum will increase above the minimum level once past unrecovered costs have been fully recovered. The Company has included certain costs in the profit petroleum calculations that are being contested by the GOI and has received notice from the GOI making allegations in relation to the fulfillment of certain obligations under the PSC for the D6 Block. Refer to Note 30 to the consolidated financial statements for year ended March 31, 2013 for a complete discussion of this contingency.

The Company currently pays royalty expense of five percent of gross revenue, increasing to ten percent of gross revenue in May 2016. Royalty payments are deductible in calculating profit petroleum.

The Company pays the greater of minimum alternate tax and regular income taxes for the D6 Block. In the calculation of regular income taxes, the Company believes it is entitled to a seven-year income tax holiday commencing from the first year of commercial production and has claimed the tax holiday in the filing of tax returns. Minimum alternate tax is the amount of tax payable in respect of accounting profits. Minimum alternate tax paid can be carried forward for 10 years and deducted against regular income taxes in future years.

Block 9, Bangladesh

In September 2003, the Company acquired a 60 percent working interest in the PSC for Block 9. Tullow, the operator, holds a 30 percent interest and the remaining 10 percent interest is held by BAPEX. Block 9 covers approximately 1,770 square kilometres of land in the central area of Bangladesh surrounding the capital city of Dhaka. Natural gas and condensate production for the Bangora field in Block 9 commenced in May 2006 and gas is transported from four currently producing wells to a gas plant in the block.

The Company's share of production from the Bangora field reached a sustained rate of production of 60 MMcf/d in 2009. A workover of a well that was suspended in the third quarter of fiscal 2013 was completed at the end of the first quarter of fiscal 2014

and the workover of a producing well was completed in the second quarter of the fiscal 2014. The Company expects to add compression at the gas processing plant in the fourth quarter of fiscal 2014 which will allow sustained production levels through 2015. The Company has signed a GPSA including a price of $2.34/MMBtu (or $2.32/Mcf), which expires at the earliest of the end of commercial production, at expiry of the PSC (March 31, 2026) and 25 years after approval of the field development plan (May 15, 2032). Petrobangla is the sole purchaser of the natural gas production from this field. The sales delivery point is at the outlet of the gas plant and thereafter is the responsibility of Petrobangla and is transported via Trunk Pipeline.

The production and operating expenses for Block 9 relate primarily to the onshore wells and facilities, including a gas plant and pipeline. The majority of these expenses are fixed in nature with repair and maintenance expenditures incurred as required. The costs of workovers to restore or maintain production from existing well bores are also expensed.

The Company calculates and remits the government share of profit petroleum to the government of Bangladesh ("GOB") in accordance with the PSC for Block 9. The profit petroleum calculation considers capital, operating and other expenditures made by the joint venture. To date, the GOB's share of profit petroleum amounted to the minimum level of 34 percent of gross revenue based on the profit petroleum provisions of the PSC. The profit petroleum percentage of gross revenue will increase above the minimum level of 34 percent of gross revenue once past unrecovered allowable costs have been fully recovered.

Under the terms of the Block 9 PSC, the Company does not make payment to the GOB with respect to income tax.

Planned Developments

The Company has undeveloped discoveries in D6 and NEC 25 blocks in India and in Block 5(c) in Trinidad and Tobago. Based on development plan submissions, increased clarity on future gas prices and positive project economics for the developments, the Company booked significant proved and probable reserves for these projects, effective March 31, 2013. The developments will provide the opportunity for significant production growth for the Company in the next four to six years.

The following is a brief description of these development plans.

Additional Areas, D6 Block, India

The Company's exploration program has identified three additional areas in the D6 Block for potential future development. In January 2013, the G2 well on the D19 discovery, one of four satellite discoveries approved for development by the GOI, was successfully drilled and the development plan for the R-Series area was approved by the GOI. The development of these areas is expected to be completed within four years after the approval of the development plans. The plans include the re-entry and completion of certain existing wells and the drilling of new wells, all connected with new flow-lines and other facilities into existing D6 Block infrastructure.

NEC-25 Block, India

The Company has a 10 percent working interest in the NEC-25 Block, with Reliance, the operator, holding a 60 percent interest and BP holding the remaining 30 percent interest. The remaining contract area comprises 9,461 square kilometres offshore adjacent to the east coast of India. Exploration and appraisal drilling has been conducted on the block and the development plan for certain discovered natural gas fields was submitted in March 2013. The development plans include the re-entry and completion of certain existing wells and the drilling of new wells, all connected via new flow-lines and other facilities into a new offshore central processing platform. The produced natural gas is expected to be transported onshore via a new pipeline.

Block 5(c), Trinidad and Tobago

The Company has a 25 percent working interest in Block 5(c) with the BG Group plc ("BG Group"), the operator, holding the remaining 75 percent working interest in this offshore development area that covers 241 square kilometres. In October 2011, the BG Group submitted a development plan to the government of Trinidad and Tobago ("GTT") for approval. Development of natural gas production from two discovered fields in the block is expected to require the drilling of new wells, construction of new flow-lines and other facilities, and expansion of an existing platform in the adjacent Block 6(b) operated by the BG Group.

Exploration Discoveries

Discovery: MJ-1, D6 Block, India

In March 2013, after a multi-year hiatus, exploration drilling recommenced in the D6 Block in India with the drilling of the MJ-1 exploration well. In May 2013, the joint venture partners announced a significant gas and condensate discovery. The MJ-1 well was drilled to a water depth of 1,024 metres - and to a total depth of 4,509 metres - to explore the prospectivity of a Mesozoic Synrift Clastic reservoir lying over 2,000 metres below the already producing reservoirs in the Dhirubhai 1 and 3 gas fields. Formation evaluation indicates a gross gas and condensate column in the well of about 155 metres in the Mesozoic reservoirs. In the drill stem test, the well flowed 30.6 MMcf/d of natural gas and 2,121 b/d of liquids though a choke of 36/64", with a flowing bottom hole pressure of 8461 psia suggesting good flow potential. Well flow rates during such tests are limited by the rig and well test equipment configuration. The discovery, named 'D-55', has been notified to the GOI and the Management Committee of the block.

Subsequent to the completion of drilling operations, a preliminary technical evaluation has been conducted that has incorporated all seismic and new well data. Principal findings demonstrate that most parameters for the MJ reservoir exceed the high end pre-drill estimates. In particular, MJ-1 has considerable thicker reservoir pay than the best case pre-drill assessment. The fully cored MJ-1 pay interval was found to be 95% sand bearing with net pay averaging 125 metres. In addition, the MJ-1 gas water contact, as confirmed by wireline log and MDT data, is at the equivalent depth of a mapped seismic flat spot and a northern structural spill point. This validates that MJ is filled fully to structural spill and accordingly aligns the MJ field nearer the maximum case pre-drill field size estimates of 65 square kilometres. In comparison, the producing MA field covers a reservoir area of 11 square kilometres.

The MJ field discovery is well positioned to take advantage of the existing D6 Block infrastructure. Conceptual planning has been initiated to maximize MJ gas and condensate recovery which has a measured compositional ratio of approximately 62 bbls/MMcf.

An appraisal program has been approved by Management Committee for 'D-55' with drilling for five appraisal wells (2 firm and 3 in 'to mature' category). The drilling of the first appraisal well #A1 in MJ-1 field commenced on 12th September 2013.

Potential Discoveries: Lebah-1, Ajek-1 and Cikar-1 wells, various blocks, Indonesia

The Lebah-1 well, drilled by the operator, ENI, in the North Ganal block, located offshore Kalimantan in the Makassar Strait of Indonesia, penetrated 12 feet of net pay at the top of a 41 feet gross sand Upper Miocene sand interval, a secondary target zone of the well. The joint venture partners have evaluated the potential of this zone and are finalizing plans to drill the Lebah-2 appraisal well in an area of the structure where the zone is believed to be thicker.

The Ajek-1 well, drilled in the Kofiau block, located offshore Papua province in eastern Indonesia, encountered 23 feet of pay over two target Pliocene clastic intervals, with additional thin bedded pay potential. Drilling confirmed the presence of reservoir and hydrocarbon charge, the primary pre-drill concerns in this previously undrilled sub-basin. All sands encountered were hydrocarbon filled with no water leg and C5+ gas composition indicated liquid hydrocarbons. The well has been assessed as a sub-commercial oil and gas discovery. The Company is evaluating the potential of drilling of an appraisal well or one of the other prospects on the block that it believes could contain thicker Pliocene clastic sands. During the second quarter of fiscal 2014, the Company drilled the Elit-1 in the Kofiau block. While the results of the unsuccessful Elit-1 well in the Kofiau block did indicate the presence of hydrocarbons, the Company is re-evaluating its plans for further drilling in the block based on the information gathered from the Elit-1 well.

The Cikar-1 well, drilled in the West Papua IV block, located offshore Papua province in eastern Indonesia, encountered a 700 feet thick section of the targeted New Guinea Limestone primary objective and was still in the porous zone when well conditions forced suspension of drilling operations. The well encountered gas in the drilling of the deeper section and the temporary suspension of the well will allow the Company to return to the well for future deepening and testing. The Company is also evaluating the potential of drilling of an appraisal well or one of the other prospects on the block that it believes could also contain thick sections of New Guinea Limestone.

Exploration Opportunities

The Company's business strategy is to commit resources to finding, developing and producing exploration opportunities that have the potential for a "high impact"' on the Company. Exploration acreage is generally obtained by committing to acquire and process a specified amount of seismic and in most cases, drill one or more exploration wells. The Company generally uses advanced technology including high resolution multi-beam data collection and analysis, sub-sea coring and focused 3D seismic to reduce costs associated with selecting prospects to drill and increase the probability of success. The Company generally uses the information acquired to farm-out its blocks to world-class industry partners under terms where the partners fund their share of sunk costs and carry a disproportionate share of drilling costs.

The Company holds interests in contract areas covering 162,073 gross square kilometres of undeveloped land, primarily in Indonesia and Trinidad and Tobago.

Indonesia

As at September 30, 2013, the Company held interests in 21 offshore exploration blocks in Indonesia, covering 106,697 square kilometres. The Company has successfully farmed out interests in several of its blocks and is working with various parties on additional farm-outs to reduce its share of future drilling costs.

Block Name	Operator	Offshore Area	Award Date	Working Interest	Area (Square Kilometres)
Bone Bay	Niko	Sulawesi S	Nov. 2008	100%	4,969
South East Ganal I	Niko	Makassar Strait	Nov. 2008	100%	2,918
Seram	Niko	Seram NE	Nov. 2008	55%	2,987
South Matindok	Niko	Sulawesi NE	Nov. 2008	100%	3,110
West Sageri	Niko	Makassar Strait	Nov. 2008	100%	2,986
Cendrawasih[(1)]	Niko	Papua NW	May 2009	70%	4,991
Kofiau	Niko	Papua W	May 2009	100%	5,000
Kumawa	Niko	Papua SW	May 2009	100%	5,004
East Bula	Niko	Seram NE	Nov. 2009	55%	6,029
Halmahera-Kofiau	Niko	Papua W	Nov. 2009	80%	4,926
North Makassar	Niko	Makassar Strait	Nov. 2009	30%	1,787
West Papua IV	Niko	Papua SW	Nov. 2009	49.9%	6,389
Cendrawasih Bay II[(1)]	Repsol	Papua NW	May 2010	50%	5,073
Cendrawasih Bay III[(1)]	Niko	Papua NW	May 2010	50%	4,689
Cendrawasih Bay IV[(1)]	Niko	Papua NW	May 2010	50%	3,904
Sunda Strait I	Niko	Sunda Strait	May 2010	100%	6,960
Obi	Niko	Papua W	Nov. 2011	51%	8,057
North Ganal	Eni	Makassar Strait	Nov. 2011	31%	2,432
Halmahera II	Statoil	Papua W	Dec. 2011	20%	8,215
South East Seram	Niko	Papua SW	Dec. 2011	100%	8,217
Aru	Niko	Papua SW	July 2012	60%	8,054

[(1)] The Company intends to relinquish each of the Cendrawasih Blocks.

All of the Indonesian blocks are in their initial six year exploration period. The seismic work commitments on the majority of the blocks have been fulfilled and as at September 30, 2013, the Company had remaining minimum work commitments to drill a total of eight wells. As at September 30, 2013, the Company's share of the remaining minimum work commitments as specified in the PSCs for the exploration period was $109 million to be spent at various dates through June 2015. The minimum work commitments are based on the Company's share of the estimated cost included in the PSCs and represent the amounts the host government may claim if the Company does not perform the work commitments. The actual cost of fulfilling work commitments may materially exceed the amount estimated in the PSCs. The Company has applied for or has plans to apply for extensions where drilling activity is planned. The Company is required to relinquish a portion of the exploration acreage after the first exploration period; however, the Company has received extensions in order to fulfill the well commitments on certain blocks.

Trinidad

As at September 30, 2013, the Company held interests in nine contract areas in Trinidad and Tobago, covering 8,256 square kilometers.

Exploration Area	Operator	Location	Award Date	Working interest	Area (Square Kilometres)
Guayaguayare—Shallow Horizon	Niko	Onshore/Offshore	July 2009	65%	1,134
Guayaguayare—Deep Horizon	Niko	Onshore/Offshore	July 2009	80%	1,190
Central Range—Shallow Horizon[1]	Parex	Onshore	Sept. 2008	32.5%	734
Central Range—Deep Horizon[1]	Parex	Onshore	Sept. 2008	40%	856
Block 4(b)	Niko	Offshore	April 2011	100%	753
NCMA2	Niko	Offshore	April 2011	56%	1,019
NCMA3	Niko	Offshore	April 2011	80%	2,106
Block 5(c)[2]	BG Group	Offshore	July 2005	25%	241
MG Block	Niko	Offshore	July 2007	70%	223

[1] The operator has applied to relinquish the Central Range, Shallow and Deep Blocks, on behalf of the joint venture partners.

[2] Block 5(c) contains discoveries that are included in a field development plan submitted to the GTT for approval.

The seismic work commitments on the majority of the blocks have been fulfilled, and as at September 30, 2013, the Company had remaining minimum work commitments to drill a total of nine wells. As at September 30, 2013, the minimum remaining work commitments under the PSCs were $148 million, to be spent at various dates through April 2016 and represent the amounts the host government may claim if the Company does not perform the work commitments. The actual cost of fulfilling work commitments may materially exceed the amount estimated in the PSCs. The Company is working with various parties on farm-outs to reduce its share of future drilling costs.

Other Properties

India

Hazira Field

Niko is the operator of and holds a 33.33 percent interest in the Hazira Field, located about 25 kilometers southwest of the city of Surat and covering an area of 50 square kilometers on and offshore. Niko and GSPC have constructed a 36-inch gas sales pipeline to the local industrial area. The Company has constructed an offshore platform, an LBDP, a gas plant and an oil facility at the Hazira Field. The Company has one significant contract for the sale of natural gas at a price of $4.86/Mcf, expiring April 30, 2016, and the commitment for future physical deliveries under this contract exceeds the expected future production from the Hazira Field. Refer to Note 20 to the consolidated financial statements for the six month period ended September 30, 2013 for a complete discussion of this contingency.

Surat Block

The Company holds and is the operator of the 24 square kilometer Surat Block located onshore adjacent to the Hazira Field. The natural gas production from the Surat Block commenced in April 2004 and ceased in November 2012 as the cap on cumulative production in the approved field development plan was reached. The Company plans to relinquish the block.

Madagascar

In October 2008, the Company farmed into a PSC for a property located off the west coast of Madagascar covering approximately 16,845 square kilometers. The Company will earn a 75 percent participating interest in the Madagascar block and is the operator of this block. The Company has completed a multi-beam sea bed coring and 3,200 square kilometers of 3D seismic on the block. In August 2013, Niko farmed out to OMV, an integrated international oil and gas company, whereby OMV will earn a 40% interest in the Grand Prix PSC in Madagascar, with Niko retaining a 35% working interest. The assignment was approved by Government of Madagascar in September 2013. The Company has work commitments for an exploration well to be drilled prior to September 2015 and its share of the costs of the remaining commitments pursuant to the PSC is $3 million. The actual cost of fulfilling work commitments may exceed the amount estimated in the PSC.

Pakistan

The Company holds and operates the four blocks comprising the Pakistan Blocks, located in the Arabian Sea near the city of Karachi and covering an area of 9,921 square kilometers. The Company has applied for relinquishment of all of the Pakistan Blocks.

Kurdistan

The Company held a 49% working interest in the Qara Dagh Block in Kurdistan and in November 2012, the Company and its consortium partners entered into an agreement with the Kurdistan Regional Government to surrender their collective interests in the block. Pursuant to the agreement, none of the consortium partners will have any future obligations or liabilities with regard to the original production sharing agreement, and the Company recovered a net amount of approximately $15 million in June 2013.

Brazil

In September 2013, the Company acquired interests in two contract areas in Brazil, covering 985 square kilometers.

Exploration Area	Operator	Location	Award Date	Working interest	Area (Square Kilometres)
PEPB-M-621	Niko	Offshore	Sept 2013	30%	477
PEPB-M-729	Niko	Offshore	Sept 2013	30%	508

Both the blocks are in the first exploration period, which is a five year period. The Company's share of the minimum work commitments for the acquisition and processing of seismic for the two blocks $3 million to be spent by September 2018.

SEGMENT PROFIT

INDIA

	Three months ended Sept 30,		Six months ended Sept 30,	
(thousands of U.S. dollars)	2013	2012	2013	2012
Natural gas revenue	19,036	40,007	39,881	85,120
Oil and condensate revenue	9,938	12,125	11,205	22,457
Royalties	(1,272)	(2,601)	(2,647)	(5,456)
Government share of profit petroleum	(321)	(1,016)	(886)	(8,338)
Production and operating expenses	(7,852)	(7,318)	(11,418)	(13,404)
Depletion expense	(26,323)	(35,163)	(54,609)	(73,465)
Exploration and evaluation expenses	(13)	(414)	(49)	(354)
Current income tax recovery / (expense)	-	(281)	(3)	2,099
Minimum alternate tax expense	-	(3,125)	-	(4,410)
Deferred income tax recovery / (expense)	(4,321)	8,409	(3,863)	3,912
Segment profit / (loss)(1)	(11,128)	10,623	(22,389)	8,161
Daily natural gas sales (Mcf/d)	50,309	105,474	52,918	112,926
Daily oil and condensate sales (bbls/d) (1)	998	1,289	578	1,219
Operating costs ($/Mcfe)	$1.57	$0.68	$1.09	$0.61
Depletion rate ($/Mcfe)	$5.21	$3.33	$5.16	$3.30

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

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

Oil and natural gas revenue decreased primarily due to anticipated natural declines and reservoir management activities in the D6 Block. The prior year's half year included a $6 million adjustment in the government share of profit petroleum for Hazira.

Royalties and the government share of profit petroleum decreased due to lower revenues.

Production and operating expenses during the current quarter increased primarily due to the transfer of costs to expenses related to volumes held in inventory at the end of previous quarter.

Depletion and depreciation expense decreased as a result of lower production volumes from the D6 Block.

Current income tax recovery in the prior year to date relates to an adjustment to the GOI's share of profit petroleum for Hazira.

Minimum alternative tax expense for the current quarter and year to date was nil as the D6 Block did not generate positive accounting income under Indian GAAP.

Deferred income tax expense for the current quarter and year to date relates to the D6 and the NEC-25 blocks. In the prior quarter and year to date, deferred tax recovery related primarily to the D6 block.

Contingencies
The Company has contingencies related to the Hazira Field, the D6 Block, and the Surat Block. Refer to Note 20 to the consolidated financial statements for the six months ended September 30, 2013 for a complete discussion of these contingencies.

BANGLADESH

	Three months ended Sept 30,		Six months ended Sept 30,	
(thousands of U.S. dollars)	2013	2012	2013	2012
Natural gas revenue	11,725	12,436	22,086	25,142
Condensate revenue	1,687	1,856	3,038	3,785
Government share of profit petroleum	(4,537)	(4,836)	(8,496)	(9,792)
Production and operating expenses	(6,430)	(2,641)	(11,021)	(4,649)
Depletion and depreciation expense	(1,909)	(3,715)	(3,595)	(7,509)
Exploration and evaluation expenses	-	-	(180)	(180)
Segment profit / (loss)[1]	536	3,100	1,832	6,797
Daily natural gas sales (Mcf/d)	55,079	58,341	52,138	59,295
Daily condensate sales (bbls/d)	172	137	161	189
Operating costs ($/Mcfe)	$1.21	$0.43	$1.09	$0.39
Depletion rate ($/Mcfe)	$0.37	$0.68	$0.37	$0.68

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

Oil and gas revenues decreased primarily due to the curtailment of production in the third quarter of fiscal 2013 from one of the four wells in the Bangora field due to operational issues. The workover of this well was completed at the end of the first quarter of fiscal 2014 and a workover of a producing well has been completed in the second quarter of the current fiscal year.

The government share of profit petroleum decreased due to decreased revenues.

Production and operating expense increased primarily due to workover costs.

Depletion and depreciation expense decreased due to lower production volumes.

Contingencies
The Company has contingencies related to various claims filed against it with respect to the Feni / Chattak properties in Bangladesh as at September 30, 2013. Refer to Note 20 to the consolidated financial statements for the six months ended September 30, 2013 for a complete discussion of these contingencies.

INDONESIA, TRINIDAD, BRAZIL AND KURDISTAN

(thousands of U.S. dollars)	Exploration and evaluation expenses		Asset impairment		Income tax recovery		Depreciation and other		Segment profit	
	Six months ended September 30,									
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Indonesia	(129,314)	(48,426)	(13,829)	-	3,151	21,058	(144)	207	(140,136)	(27,161)
Trinidad	(16,646)	(36,052)	(7,268)	-	-	-	(61)	(47)	(23,975)	(36,099)
Brazil	(4,516)	-	-	-	-	-	(11)	-	(4,527)	-
Kurdistan	(1)	(2,185)	-	(38,919)	-	-	-	-	(1)	(41,104)

Indonesia

Exploration and evaluation expenses of $129 million in the current year to date included cost of unsuccessful wells in the following blocks: Kofiau $45 million, North Makassar $16 million and Cendrawasih $28 million, $26 million for rig mobilization and standby cost for the drilling rig and associated services, $6 million for seismic and other exploration projects, $6 million for branch office costs and $2 million for share based compensation. During the quarter, $13 million of asset impairment were recognized relating to Cendrawasih block. In the prior year to date, exploration and evaluation expenses of $48 million included $24 million for unsuccessful wells in the Lhokseumawe block, $3 million for unsuccessful well in North Ganal block, $11 million for seismic and other exploration projects, $5 million for branch office costs, $3 million for new ventures and $2 million for share based compensation.

Trinidad

Exploration and evaluation expenses of $17 million in the current year included $2 million for seismic and other exploration projects, $8 million for various exploration activities and for payments specified in the PSC and $7 million for branch office costs. During the current quarter, $7 million of asset impairment were recognized relating to the relinquishment of the Central Range Blocks. In the prior year, exploration and evaluation expenses of $36 million included the cost of an unsuccessful well of $20 million in Block 2ab, $7 million of seismic and other exploration projects, $7 million for payments specified in various PSCs, and $2 million for branch office costs.

Brazil

Exploration and evaluation expenses of $5 million in the current year included costs related to exploration projects and branch office costs.

Kurdistan

Asset impairment in the prior year related to the reduction in the carrying value of the Qara Dagh exploration and evaluation assets to the Company's estimate of the net recoverable amount.

CORPORATE

	Three months ended Sept 30,		Six months ended Sept 30,	
(thousands of U.S. dollars)	2013	2012	2013	2012
Share-based compensation expense	2,444	3,342	5,130	6,902
Finance income	(229)	(610)	(369)	(853)
Finance expense	11,044	8,853	17,723	17,176
Foreign exchange loss / (gain)	(272)	(3,824)	7,702	968
Loss on investments	453	32	1,342	276

Share-based compensation

Share-based compensation expense decreased due to lower fair value per stock option granted in the year resulting from lower stock prices in the quarter. Share-based compensation expense also decreased due to the forfeiture of stock options.

Finance expense

(thousands of U.S. dollars)	Three months ended Sept 30, 2013	2012	Six months ended Sept 30, 2013	2012
Interest expense	5,915	6,007	10,268	12,269
Accretion expense	4,587	2,162	6,773	4,158
Bank charges and other finance cost	542	684	682	749
Finance expense	11,044	8,853	17,723	17,176

Interest expense decreased primarily due to lower outstanding debt amounts during the current year to date compared to the prior year to date.

Accretion expense relates to the recorded liabilities for the convertible notes, secured loan, unsecured notes and decommissioning obligations in the current quarter and to the recorded liabilities for the convertible debentures and decommissioning obligations in the prior year's quarter. The recorded liabilities increase as time progresses to the final settlement date.

Foreign Exchange

(thousands of U.S. dollars)	Three months ended Sept 30, 2013	2012	Six months ended Sept 30, 2013	2012
Realized foreign exchange gain	116	2,826	(840)	2,482
Unrealized foreign exchange loss / (gain)	(388)	(6,650)	8,542	(1,514)
Total foreign exchange loss / (gain)	(272)	(3,824)	7,702	968

Realized foreign exchange gain relates to the impact of the weakening of the Indian Rupee against the US Dollar on Indian Rupee denominated payables.

Unrealized foreign exchange gain in the current year quarter relates to strengthening of the Canadian dollar against the U.S. dollar in the current period which resulted in recording of foreign exchange gain on U.S. dollar denominated debt in a Canadian dollar functional currency entity. Unrealized foreign exchange loss in the current year to date related to the impact of the weakening of the Indian Rupee against the U.S. dollar on India Rupee denominated income tax and minimum alternate tax receivables. Also, the weakening of the Canadian dollar against the U.S. dollar in the resulted in recording of foreign exchange losses in the current year to date on U.S. dollar denominated debt in a Canadian dollar functional currency entity, with an offsetting foreign exchange gain recorded to other comprehensive income. In the prior year's quarter and year to date, the unrealized foreign exchange gain arose primarily on the revaluing of the Indian rupee denominated income tax receivable and site restoration deposit to U.S. dollar and the strengthening of the Indian rupee versus the U.S. dollar.

NETBACKS

($/Mcfe)	Three months ended Sept 30, 2013 India	Bangladesh	Total	Three months ended Sept 30, 2012 India	Bangladesh	Total
Oil and natural gas revenue	5.82	2.60	4.19	5.01	2.61	4.19
Royalties	(0.26)	-	(0.13)	(0.25)	-	(0.16)
Government share of profit petroleum	(0.06)	(0.88)	(0.48)	(0.10)	(0.88)	(0.37)
Production and operating expenses	(1.57)	(1.21)	(1.39)	(0.68)	(0.43)	(0.61)
Operating netback[1]	3.93	0.51	2.19	3.98	1.30	3.05
General and administrative expenses			(0.22)			(0.14)
Farm out recovery income			1.78			0.02
Finance income			0.02			0.04
Bank charges and other finance costs			(0.05)			(0.04)
Realized foreign exchange gain			(0.03)			(0.09)
EBITDAX netback[1]			3.69			2.84
Interest expense			(0.58)			(0.47)
Current income tax recovery			-			(0.02)
Minimum alternate tax			-			(0.20)
Funds from operations netback[1]			3.11			2.15
Production and operating expenses			(0.02)			(0.02)
Depletion and depreciation expense			(2.81)			(2.47)
Exploration and evaluation expenses			(11.99)			(3.33)
Loss on investments			(0.04)			-
Asset impairment			(2.08)			0.01
Share-based compensation expense			(0.24)			(0.21)
Accretion expense			(0.45)			(0.14)
Unrealized foreign exchange loss			0.04			0.42
Deferred income tax recovery (expense)			(0.16)			1.79
Earnings netback[1]			(14.64)			(1.80)

[1] Operating netback, EBITDAX netback, funds from operations netback and earnings netback are non-IFRS measures as defined under "Non-IFRS measures" in this MD&A.

Netbacks for India, Bangladesh and in total are calculated by dividing the revenue and costs for each country and in total by the total sales volume for each country and in total measured in Mcfe.

($/Mcfe)	Six months ended Sept 30, 2013 India	Bangladesh	Total	Six months ended Sept 30, 2012 India	Bangladesh	Total
Oil and natural gas revenue	4.89	2.59	3.79	4.89	2.62	4.13
Royalties	(0.25)	-	(0.13)	(0.25)	-	(0.16)
Government share of profit petroleum	(0.08)	(0.87)	(0.47)	(0.38)	(0.89)	(0.55)
Production and operating expenses	(1.09)	(1.09)	(1.09)	(0.61)	(0.39)	(0.53)
Operating netback[1]	3.47	0.63	2.10	3.65	1.34	2.89
General and administrative expenses			(0.18)			(0.13)
Farm out recovery income			0.89			0.01
Finance income			0.02			0.03
Bank charges and other finance costs			(0.03)			(0.02)
Realized foreign exchange gain			0.04			0.01
EBITDAX netback[1]			2.84			2.79
Interest expense			(0.51)			(0.46)
Current income tax recovery			-			0.06
Minimum alternate tax			-			(0.13)
Funds from operations netback[1]			2.33			2.26
Production and operating expenses			(0.02)			(0.02)
Depletion and depreciation expense			(2.91)			(2.47)
Exploration and evaluation expenses			(7.53)			(2.70)
Loss on investments			(0.07)			(0.01)
Asset impairment			(1.05)			(1.18)
Share-based compensation expense			(0.25)			(0.21)
Accretion expense			(0.34)			(0.13)
Unrealized foreign exchange loss			(0.42)			0.05
Deferred income tax recovery (expense)			(0.04)			0.75
Earnings netback[1]			(10.30)			(3.66)

[1] Operating netback, EBITDAX netback, funds from operations netback and earnings netback are non-IFRS measures as defined under "Non-IFRS measures" in this MD&A.

Netbacks for India, Bangladesh and in total are calculated by dividing the revenue and costs for each country and in total by the total sales volume for each country and in total measured in Mcfe.

LIQUIDITY AND CAPITAL RESOURCES

The Company has been engaged in active pursuit of a comprehensive financing arrangement since the beginning of the fiscal year. To date it has secured funds through two short term "bridge" financing with net proceeds of $110 million and has received proceeds from its program of farm-outs, asset sales and other arrangements of $61 million. However the Company has not been able to obtain the totality of funds required to completely reset its capital structure from conventional sources in the capital markets. As a result it has been necessary to look for funds from lenders that are willing to lend to companies whose credit standing is considered to be high risk.

During the second quarter of fiscal 2014, the Company shifted its strategic focus to developing and appraising the assets in the D6 Block in India, while maintaining optionality of the balance of its exploration portfolio. To provide the financial capacity to implement this strategy, the Company has entered into a non-binding term sheet with sophisticated institutional investors to provide the majority of the funding for a senior secured credit facility of up to $340 million (the "Proposed Credit Facility") that would provide funds to refinance certain of its existing debt obligations, to fund the Company's investment in the D6 Block and otherwise for general corporate and working capital purposes. The Proposed Credit Facility would be secured on a first priority basis, subject to certain permitted liens, by substantially all of the assets of the Company and its subsidiaries and would have terms that are customary for debt financings of this type for similarly situated borrowers. The Proposed Credit Facility would provide for quarterly interest payments as well as a certain royalty payment by the Company to the lenders in respect of revenues received from the D6 Block, and is to be repaid in four years, with prepayment options after two years with certain premium considerations. The Proposed Credit Facility is to be funded by lenders that are willing to lend to companies whose credit standing is considered high risk. As a result, the proposed terms are very high cost with significant restrictions on the Company's uses of its cash inflows.

In addition, the Company has signed a letter of intent with Diamond Offshore relating to a settlement of the Company's payment obligations and other commitments under drilling contracts for the semisubmersible drilling rigs Ocean Lexington and Ocean Monarch. The settlement agreement is expected to be executed upon completion of negotiations and concurrently with the Company's proposed financing transaction.

The consummation of the Proposed Credit Facility is subject to a number of closing conditions, including, without limitation, execution of the settlement agreement with Diamond Offshore, satisfaction of the Company's unsecured notes obligation from sources other than the Proposed Credit Facility, the completion of the lenders' due diligence, and the execution and delivery of certain definitive documentation.

The Company has engaged Credit Suisse and another global investment bank to arrange the proposed financing transactions.

There can be no assurance, however, that the Company will be able to obtain the Proposed Credit Facility or execute the settlement agreement with Diamond Offshore on the terms described above or at all.

Non-core Asset Dispositions, Farm-outs and Other Arrangements

The Company is finalizing its plans for the remainder of the portfolio and have engaged Citi to act as its financial advisor in connection with the sale of certain of its non-core assets in India and Trinidad. Sale of these assets could provide proceeds that could be used to fund the Company's future capital programs or pay down the Proposed Credit Facility. In addition, the Company is working on farming out portions of its interests in many of its exploration production sharing contracts and rescheduling its exploration commitments.

Going Concern Uncertainty

There is uncertainty regarding whether the Company can complete all or a portion of the above efforts and whether the Company's contingent liabilities materialize (see note 20), raising significant doubt about the Company's ability to continue as a going concern.

Cash and Working Capital

As at September 30, 2013, the Company had a working capital deficiency of $110 million. The Company's unrestricted cash and cash equivalents balance of $55 million at September 30, 2013 and anticipated revenues from its operating assets are expected to be sufficient to satisfy the anticipated cash requirements of its operating subsidiaries for the foreseeable future, but are not expected to be sufficient to satisfy its current liabilities and meet its current exploration and drilling rig commitments. The Company has negotiated extended payment terms with many of its suppliers of drilling and related services to its exploration subsidiaries.

Credit Facility

In January 2012, the Company entered into a three-year facility agreement for a $225 million revolving credit facility and a $25 million operating facility for general corporate purposes. Effective August 1, 2013, the Company elected to reduce the total commitment on the facilities to $125 million. The maximum available credit under the credit agreement is subject to review based on, among other things, updates to the Company's reserves. As at September 30, 2013, the availability under the facilities is $80 million and the facilities are fully drawn. The Company is working with the syndicate banks on a deferral from October 31 to November 29, 2013 for the date of the re-determination of the borrowing base under the current credit facility and from November 29 to December 31, 2013 for the date of any required repayment to reflect the new borrowing base. As at September 30, 2013, the Company had placed $15 million in escrow for the benefit of its credit facility lenders and a further $18 million received by the Company in October was placed in escrow, with these funds to be used, if required, to fund any reduction in outstanding borrowings. The Company has received a waiver from the syndicate banks of a provision in a previous consent agreement regarding a restriction on the use of cash balances, with similar waivers potentially required in future months.

The financial covenants as specified in the credit agreement to be calculated at the end of each fiscal quarter are as follows:

i. Senior Debt to EBITDAX ratio not greater than 3:1;
ii. Debt to EBITDAX ratio not greater than 3.75:1;
iii. EBITDAX to Interest Expense ratio greater than 3:1; and
iv. Debt to Capitalization ratio not greater than 50%.

As at September 30, 2013, as defined in the Credit Agreement:

i. Senior Debt includes the Company's a) borrowings under credit facilities and b) finance lease obligation;
ii. Debt includes the Company's a) Senior Debt, b) convertible notes, c) unsecured notes, and d) secured loan, less e) unrestricted cash and cash equivalents;
iii. EBITDAX (for the trailing twelve months ending at the end of each fiscal quarter) includes the Company's net income less a) Interest Expense, b) income taxes, c) depletion and depreciation expense, d) exploration and evaluation expenses, and e) other non-cash items;
iv. Interest Expense includes the Company's a) interest expense and b) standby and other fees in respect of Debt; and
v. Capitalization includes the Company's a) Debt and b) Shareholders' Equity (adjusted for the impact of conversion to IFRS).

As at September 30, 2013, the Senior Debt to EBITDAX ratio was 1.0:1, the Debt to EBITDAX ratio was 2.1:1, the EDITDAX to Interest Expense ratio was 6.1:1, and the Debt to Capitalization ratio was 20%, well within the specified financial covenants.

Convertible Notes

In December 2012, the Company repaid its Cdn$310 million convertible debentures due December 30, 2012 at par plus accrued interest, using the combined net proceeds of Cdn$273 million of offerings of common shares and convertible notes, along with cash on hand and advances under the Company's credit facility. The Cdn$115 million principal amount of convertible unsecured notes issued in December 2012 mature on December 31, 2017 and bear interest at a rate of seven percent, with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2013. The convertible notes are convertible at the option of each holder into common shares at a conversion price of Cdn$11.30 per share. After December 31, 2015, the convertible notes are redeemable by the Company, in whole or in part from time to time, provided that the market price of the Company's common shares (defined as the weighted average trading price of the common shares for the twenty consecutive trading days ending five trading days prior to the issue of the notice of redemption) is at least 130% of the conversion price. The Company has the right to use common shares to satisfy some or all of its obligations for the convertible notes.

Unsecured Notes

In June 2013, the Company issued $63.5 million of unsecured notes. The unsecured notes bear interest at 7.00% per annum, payable monthly, and will be repaid through twelve equal monthly principal payments commencing August 13, 2013. Principal and interest payments are payable in cash or, at the Company's option, in common shares of the Company. If the Company elects to make any portion of a payment in common shares of the Company, the number of shares to be issued will be determined by dividing the amount to be paid in stock by 94.5% of the lower of the volume weighted average price of the shares for the fifteen day period prior to the payment date and the volume weighted average price of the shares for the five day period prior to the payment date, subject to certain restrictions. The unsecured notes are ranked equally with the Company's Cdn$115 million convertible notes issued in December 2012. The net proceeds from the issue of the unsecured notes were approximately US$58 million, after deducting the initial purchasers' discount and the estimated related expenses payable by Niko. Under the terms of the unsecured notes, the net proceeds are available for general corporate purposes.

Secured Loan Agreement

In July 2013, the Company entered into an agreement for a $60 million secured loan funded by a group of institutional investors. The secured loan bears interest at 7.00% per annum, payable quarterly, and will mature on July 17, 2015 with no scheduled amortization. The Company has the right to prepay the secured loan after one year without penalty. The secured loan is secured by pledges of the shares of the Company's subsidiaries that own the Company's interests in the NEC-25 Block in India and two blocks in Indonesia and is guaranteed on an unsecured basis by the Company's subsidiaries that directly or indirectly own the Company's interests in the D6 Block in India. The net proceeds from the secured loan are estimated to be approximately $52 million, after deducting the original issue discount and the estimated related expenses payable by Niko. Under the terms of the secured loan, the net proceeds can be used for funding of working capital requirements, from drawdowns that occurred in separate tranches in July, 2013. In connection with the loan agreement, the Company also signed exploration option agreements granting farm-in options to the investors' nominee to (i) receive a five percent working interest in each of the two blocks in Indonesia, after payment of five percent of the costs incurred in the applicable block(s) or (ii) receive a specified cash payment if a commercial discovery is made with the initial well(s) drilled in the applicable block(s) and the optionee elects not to exercise its farm-in option in the applicable block(s).

Contractual Obligations

The Company has various contractual obligations, as follows:

As at September 30, 2013			Obligations by Period		
(thousands of U.S. dollars)	Total	< 1 year	1 to 3 years	3 to 5 years	> 5 years
Guarantees[1]	4,680	1,650	3,030	-	-
Finance lease obligations [2]	52,899	10,757	21,513	20,629	-
Convertible notes payable [3]	146,048	7,773	15,556	122,719	-
Unsecured notes [4]	54,609	54,609	-	-	-
Secured loan [5]	67,641	4,258	63,383	-	-
Decommissioning obligations [6]	84,258	1,796	6,626	-	75,836
Exploration work commitments [7]	282,566	52,140	227,113	3,313	-
Operating lease obligation [8]	469,000	188,000	281,000	-	-
Total contractual obligations	1,161,701	320,983	618,221	146,661	75,836

(1) Guarantees are fully backed by cash deposits, therefore no additional cash outflow is anticipated.

(2) The finance lease obligation relates to the charter of the FPSO used in the MA field in the D6 Block and includes both the current and long-term portions.

(3) The convertible notes are recorded in the consolidated financial statements at $81 million, which is a discounted value to reflect the fact that the interest rate is lower than the market interest rate on similar notes without a conversion feature. The convertible notes are included in the table based on the sum of principal amount that would be required to be repay the Cdn$115 million convertible notes plus quarterly interest payments, converted at the year-end exchange rate.

(4) The unsecured notes are recorded in the consolidated financial statements at $50 million, reflecting the impact of the un-accreted portion of the note issuance costs. The unsecured notes are included in the table based on the sum of principal amount that would be required to be repay the US$63.5 million unsecured notes plus monthly interest payments.

(5) Secured loan is recorded in the consolidated financial statements at $52 million, reflecting the impact of the un-accreted portion of the loan issuance costs. The secured loan is included in the table based on the sum of principal amount that would be required to be repay the US$60 million secured loan plus quarterly interest payments.

(6) Decommissioning obligations are based on the undiscounted estimated future liability of the Company as disclosed in the notes of the financial statements for the period ended Sept 30, 2013. They do not include costs related to wells or facilities that were not complete as at September 30, 2013.

(7) Details of the exploration work commitments by country are included in the Background of Properties section of this MD&A. The majority of the exploration work commitments relate to production sharing contracts where the Company is working on farm-outs to joint venture partners in exchange for a re-imbursement a portion of the sunk costs, funding of a disproportionate share of future costs, and/or future payments related to commencement of production or other milestones. Completion of these farm-outs could significantly reduce the Company's share of the future commitment costs. The Company has in the past and may in the future receive extensions to the periods required to complete the work commitments. A delay or rejection of the requested extensions may result in additional funding required to fulfill the commitments.

(8) The operating lease obligation relates to the multi-year drilling rig contract for the Ocean Monarch that commenced on October 2, 2012 and runs for a term of four years, with a fifth year at the Company's option. The obligations shown in the table above reflect the gross minimum commitment amounts, before re-imbursement from partners in future wells and before potential

assignment of the rig contract to third parties. In case of termination of the contract the Company has to pay a lump sum final payment which will be calculated by multiplying the termination rate with the number of days remaining in the contract. As on September 30, 2013 the termination liability under the contract stands at $312 million. The Company is actively pursuing the option to sub lease the rig. The table does not include costs related to the service contracts for the Indonesian drilling program as these contracts are generally based on usage and can be terminated with one week's notice. In addition, the operating lease obligation includes a drilling rig contract for the Ocean Lexington which has a maximum commitment for 477 days for the consortium partners with the Company's share being 158 days ($47 million). The Company's share will be reduced by the number of days that the consortium partners may overuse from their allotted share of days.

Contingencies

The Company has a number of contingencies as at September 30, 2013 that could significantly impact liquidity. Refer to Note 20 to the consolidated financial statements for the year ended September 30, 2013 for a complete discussion of these contingencies.

SUMMARY OF QUARTERLY RESULTS

Three months ended	Dec. 31, 2012	Mar. 31, 2013	June 30, 2013	Sept. 30, 2013
Oil and natural gas revenue [1]	46,515	39,670	28,042	36,388
Net income (loss)	(93,709)	(2,092)	(59,171)	(148,541)
Per share				
Basic and diluted ($)	(1.64)	(0.03)	(0.84)	(2.12)

Three months ended	Dec. 31, 2011	Mar. 31, 2012	June 30, 2012	Sept. 30, 2012
Oil and natural gas revenue [1]	74,789	71,434	55,099	58,080
Net income (loss)	(40,405)	(183,324)	(92,121)	(28,573)
Per share				
Basic and diluted ($)	(0.78)	(3.55)	(1.78)	(0.55)

[1] Oil and natural gas revenue is oil and natural gas sales less royalties and profit petroleum expense.

Net income in the quarters was affected by:

- Over the quarters, oil and natural gas revenue from the D6 Block has declined due to anticipated natural declines and reservoir management activities.
- In each quarter, the Company expenses a portion of its exploration and evaluation costs and the level of activity has varied over the periods.
- 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. However in current quarter, the Company impaired the value of both, short term and long term investments.
- In the quarter ended March 31, 2013, the Company recognized a $102 million reversal of asset impairment related to the D6 Block in India. The reversal of the impairment resulted from the impact of increased reserve volumes assigned to the D6 Block as at March 31, 2013 by an independent reservoir engineering firm. Management's estimate of value in use for the block was determined using forecasted cash flows using escalated prices and estimates of future production, capital and operating expenses. The prices used were based on gas pricing formula approved by the Government of India in June 2013, which is expected to increase natural gas sales price from the current price of $4.20/MMBtu to an estimated $8.40/MMbtu, effective April 1, 2014.
- In the quarter ended March 31, 2013, the Company recorded a minimum alternative tax recovery of $6 million due to adjustment of D6 reserves in March 2013 reserve report, calculated accordingly to Indian GAAP.
- In the quarter ended December 31, 2012, there was a deferred tax recovery of $7 million due to the issuance of the convertible notes.
- In the quarter ended September 30, 2012, there was a deferred tax recovery of $22 million, due to a reduction in exploration and evaluation assets related to proceeds from a farm out and from a former partner in exchange for assuming the partner's obligation for future drilling commitments.
- In the quarter ended June 30, 2012, the Company recorded an additional $6 million of the government share of profit petroleum for the Hazira Field, reducing oil and natural gas revenue. The adjustment to the government share of profit petroleum was the result of a court ruling finding that the 36-inch natural gas sales pipeline that Niko and GSPC constructed to connect the Hazira Field to the local industrial area was not eligible for cost recovery.

- In the quarter ended March 31, 2012, depletion expense increased as a result of revisions to the reserves and estimated future costs to develop the reserves.
- In the quarter ended March 31, 2012, the Company impaired assets of $133 million and long term receivables of $23 million, in the quarter ended June 30, 2012, the Company impaired assets of $39 million, in the quarter ended December 31, 2012, the Company impaired assets of $29 million and in the quarter ended September 30, 2013, the Company impaired assets of $21 million.
- In the quarter ended March 31, 2012, there was a deferred income tax recovery related to the revision of the reserve estimate, which increased the value of the tax holiday for the D6 Block. 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.

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 estimated fair value.

SUBSEQUENT EVENTS

(a) On November 14, 2013 the Company entered into a non-binding term sheet with sophisticated institutional investors to provide the majority of the funding for a senior secured credit facility of up to $340 million (the "Proposed Credit Facility") that would provide funds to refinance certain of its existing debt obligations, to fund the Company's investment in the D6 Block and otherwise for general corporate and working capital purposes. The Proposed Credit Facility would be secured on a first priority basis, subject to certain permitted liens, by substantially all of the assets of the Company and its subsidiaries and would have terms that are customary for debt financings of this type for similarly situated borrowers. The Proposed Credit Facility would provide for quarterly interest payments as well as a certain royalty payment by the Company to the lenders in respect of revenues received from the D6 Block, and is to be repaid in four years, with prepayment options after two years with certain premium considerations. The Proposed Credit Facility is to be funded by lenders that are willing to lend to companies whose credit standing is considered high risk. As a result, the proposed terms are very high cost with significant restrictions on the Company's uses of its cash inflows.

(b) On November 14, 2013 the Company signed a letter of intent with Diamond Offshore relating to a settlement of the Company's payment obligations and other commitments under drilling contracts for the semisubmersible drilling rigs Ocean Lexington and Ocean Monarch. The settlement agreement is expected to be executed upon completion of negotiations and concurrently with the Company's proposed financing transaction.

FINANCIAL INSTRUMENTS

A detailed summary of the Company's financial instrument is included in note 12 to the unaudited interim consolidated financial statements for the six months ended September 30, 2013.

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.

The critical accounting estimates include oil and natural gas reserves, depletion, depreciation and amortization expense, asset impairment, decommissioning obligations, the amount and likelihood of contingent liabilities and income taxes. The critical accounting estimates are based on variable inputs including:

- estimation of recoverable oil and natural gas reserves and future cash flows from the reserves;
- geological interpretations, exploration activities and success or failure, and the Company's plans with respect to the property and financial ability to hold the property;
- risk-free interest rates;
- estimation of future abandonment costs;
- facts and circumstances supporting the likelihood and amount of contingent liabilities; and
- interpretation of income tax laws.

A change in a critical accounting estimate can have a significant effect on net earnings as a result of their impact on the depletion rate, decommissioning obligations, asset impairments, losses and income taxes. A change in a critical accounting estimate can have a significant effect on the value of property, plant and equipment, decommissioning obligations and accounts payable.

For a complete discussion of the critical accounting estimates, please refer to the MD&A for the Company's fiscal year ended March 31, 2013, available at www.sedar.com.

ACCOUNTING STANDARDS ADOPTED

The Company applied certain standards and amendments of the previous financial statements for the first time in 2013. The nature and material impact of adopted standards and/or amendments are described in note 3 of the unaudited consolidated financial statements for the six months ended September 30, 2013.

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision 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 period ended September 30, 2013.

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;
- There can be no assurance that debt or equity financing or cash generated by operations will be sufficient or available meet development, rehabilitation, production and acquisition of oil and natural gas reserves in the future;
- Changes in capital markets and uncertainties as to the availability and cost of financing;
- The Company's ability to meet all of its financing obligations and contractual commitments in fiscal 2014 and 2015;
- 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
- Future oil and natural gas prices are subject to large fluctuations in the market;
- Environmental regulations and legislations including restriction and prohibitions on the release of emission from oil and gas operations.

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 September 30, 2013. 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 November 14, 2013, the Company had the following outstanding shares:

	Number	Cdn$[1]
Common shares	70,215,911	1,477,585,000
Preferred shares	Nil	Nil
Stock options	4,782,389	-

[1] Equals the amount received in Canadian dollars for common shares issued. The U.S. dollar equivalent at November 14, 2013 is $1,324,234,000.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited) (thousands of U.S. dollars)	As at September 30, 2013	As at March 31, 2013
Assets		
Current assets		
Cash and cash equivalents	55,009	56,393
Restricted cash	16,650	1,416
Accounts receivable (note 4)	66,848	84,834
Inventories (note 5)	10,689	10,100
Short-term investment	-	92
	149,196	152,835
Restricted cash	10,211	14,029
Long-term investment	-	1,270
Long-term accounts receivable	4,668	1,528
Exploration and evaluation assets (note 6)	655,330	695,624
Property, plant and equipment (note 7)	564,997	594,166
Income tax receivable	29,708	34,355
	1,414,110	1,493,807
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	200,935	177,576
Current tax payable	1,267	1,272
Unsecured notes payable (note 11)	50,077	-
Current portion of finance lease obligation	6,418	6,057
	258,697	184,905
Credit facility borrowings (note 8)	80,000	90,000
Finance lease obligation	33,708	37,024
Convertible notes payable (note 9)	81,076	79,785
Secured loan (note 10)	52,546	-
Decommissioning obligations	42,686	41,177
Deferred tax liabilities	185,821	185,109
	734,534	618,000
Shareholders' Equity		
Share capital (note 13)	1,324,234	1,324,234
Contributed surplus	147,519	139,137
Equity component of convertible notes	23,232	23,232
Currency translation reserve	341	(2,757)
Deficit	(815,750)	(608,039)
	679,576	875,807
	1,414,110	1,493,807

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)	Three months ended September 30,		Six months ended September 30,	
(thousands of U.S. dollars, except per share amounts)	2013	2012	2013	2012
Oil and natural gas revenue (note 14)	36,388	58,080	64,430	113,179
Production and operating expenses	(14,373)	(10,026)	(22,620)	(18,211)
Depletion and depreciation expenses (note 7)	(28,506)	(39,204)	(58,693)	(81,616)
Exploration and evaluation expenses (note 15)	(121,704)	(52,879)	(151,936)	(89,300)
Loss on investments	(453)	(32)	(1,342)	(276)
Asset impairment	(21,097)	181	(21,097)	(38,919)
Other income	18,052	311	18,052	311
Share-based compensation expense (note 13)	(2,444)	(3,342)	(5,130)	(6,902)
General and administrative expenses	(2,262)	(2,266)	(3,597)	(4,323)
	(136,399)	(49,177)	(181,933)	(126,057)
Finance income	229	610	369	853
Finance expense (note 16)	(11,044)	(8,853)	(17,723)	(17,176)
Foreign exchange gain (loss)	272	3,824	(7,702)	(968)
	(10,543)	(4,419)	(25,056)	(17,291)
Loss before income tax	(146,942)	(53,596)	(206,989)	(143,348)
Current income tax reduction (expense)	(6)	(285)	(10)	2,091
Minimum alternate tax (expense)	-	(3,125)	-	(4,410)
Deferred income tax reduction (expense)	(1,593)	28,433	(712)	24,971
Income tax reduction (expense)	(1,599)	25,023	(722)	22,652
Net loss	(148,541)	(28,573)	(207,711)	(120,696)
Foreign currency translation gain (loss)	(2,214)	(9,635)	3,098	(4,483)
Comprehensive loss	(150,755)	(38,208)	(204,613)	(125,179)
Loss per share: (note 17)				
Basic and diluted	$(2.12)	$(0.55)	$(2.96)	$(2.34)

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited) (thousands of U.S. dollars, except number of common shares)	Common shares (#)	Share capital	Contributed surplus	Currency translation reserve	Equity component of convertible notes	Deficit	Total
Balance, March 31, 2012	51,641,845	1,171,439	104,964	(2,094)	14,765	(388,526)	900,548
Share-based compensation expense	-	-	11,469	-	-	-	11,469
Net loss for the period	-	-	-	-	-	(120,696)	(120,696)
Payment of dividends[1]	-	-	-	-	-	(3,017)	(3,017)
Foreign currency translation	-	-	-	(4,483)	-	-	(4,483)
Balance, September 30, 2012	51,641,845	1,171,439	116,433	(6,577)	14,765	(512,239)	783,821
Share-based compensation expense	-	-	7,939	-	-	-	7,939
Issuance of common shares	18,570,350	152,752	-	-	-	-	152,752
Issuance of convertible notes	-	-	-	-	30,724	-	30,724
Deferred tax	-	-	-	-	(7,492)	-	(7,492)
Repayment of convertible debentures	3,716	43	14,765	-	(14,765)	-	43
Net loss for the period	-	-	-	-	-	(95,800)	(95,800)
Foreign currency translation	-	-	-	3,820	-	-	3,820
Balance, March 31, 2013	70,215,911	1,324,234	139,137	(2,757)	23,232	(608,039)	875,807
Share-based compensation expense	-	-	8,382	-	-	-	8,382
Net loss for the period	-	-	-	-	-	(207,711)	(207,711)
Foreign currency translation	-	-	-	3,098	-	-	3,098
Balance, September 30, 2013	70,215,911	1,324,234	147,519	341	23,232	(815,750)	679,576

[1] The Company paid dividends of $0.06 per share in the six months ended September 30, 2012.

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASHFLOWS

(unaudited)	Three months ended September 30,		Six months ended September 30,	
(thousands of U.S. dollars, except per share amounts)	2013	2012	2013	2012
Cash flows from operating activities:				
Net loss	(148,541)	(28,573)	(207,711)	(120,696)
Adjustments for:				
Depletion and depreciation expenses	28,506	39,204	58,693	81,616
Accretion expense	4,587	2,162	6,773	4,158
Deferred income tax expense (reduction)	1,593	(28,433)	712	(24,972)
Unrealized foreign exchange (gain) loss	(388)	(6,650)	8,542	(1,514)
Loss on investments	453	32	1,342	276
Asset impairment	21,097	(181)	21,097	38,919
Exploration and evaluation write-off (note 6)	67,890	37,015	82,873	49,482
Share-based compensation expense	3,889	5,533	7,985	10,935
Change in non-cash working capital	(16,229)	(1,333)	(14,104)	4,307
Change in long-term accounts receivable	(2,424)	10,401	(3,140)	8,619
Net cash (used in) from operating activities	(39,567)	29,177	(36,938)	51,130
Cash flows from investing activities:				
Exploration and evaluation expenditures	(53,538)	(60,155)	(79,655)	(93,053)
Property, plant and equipment expenditures	(14,083)	(7,866)	(30,160)	(11,060)
Proceeds from farm-outs and other arrangements	640	45,203	5,008	45,203
Disposition of exploration and evaluation assets	-	-	14,917	-
Restricted cash contributions	(15,870)	(900)	(15,870)	(3,102)
Release of restricted cash	2,045	1,300	3,461	3,319
Change in non-cash working capital	106,684	43,028	51,171	30,813
Net cash from (used in) investing activities	25,878	20,610	(51,128)	(27,880)
Cash flows from financing activities:				
Proceeds from issuance of unsecured notes, net of issuance costs	-	-	58,370	-
Repayment of unsecured notes	(10,583)	-	(10,583)	-
Proceeds from issuance of secured loan, net of issuance costs	51,861	-	51,861	-
Change in borrowings	-	-	(10,000)	16,000
Reduction in finance lease obligation	(1,514)	(1,350)	(2,955)	(2,633)
Dividends paid	-	-	-	(3,017)
Net cash from financing activities	39,764	(1,350)	86,693	10,350
Change in cash and cash equivalents	26,075	48,437	(1,373)	33,600
Effect of translation on foreign currency cash	5	36	(11)	(35)
Cash and cash equivalents, beginning of period	28,929	49,587	56,393	64,495
Cash and cash equivalents, end of period	55,009	98,060	55,009	98,060

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

NOTES TO THE CONDENSED INTERIM 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, T2P 4H2. The Company is engaged in the exploration for and development and production of oil and natural gas in the countries listed in note 18. The Company's common shares are traded on the Toronto Stock Exchange.

2. Basis of presentation and going concern

The condensed interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. The majority of the exploration, development and production activities of the Company are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities. The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS").

The condensed interim consolidated financial statements have been prepared following the same accounting policies and methods of application as the audited consolidated financial statements for the fiscal year ended March 31, 2013. The disclosures provided herein are incremental to those included with the annual consolidated financial statements and the notes thereto for the year ended March 31, 2013. The condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended March 31, 2013.

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

These condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

The Company has been engaged in active pursuit of a comprehensive financing arrangement since the beginning of the fiscal year. To date it has secured funds through two short term "bridge" financing with net proceeds of $110 million and has received proceeds from its program of farm-outs, asset sales and other arrangements of $61 million. However the Company has not been able to obtain the totality of funds required to completely reset its capital structure from conventional sources in the capital markets. As a result it has been necessary to look for funds from lenders that are willing to lend to companies whose credit standing is considered to be high risk.

During the second quarter of fiscal 2014, the Company shifted its strategic focus to developing and appraising the assets in the D6 Block in India, while maintaining optionality of the balance of its exploration portfolio. To provide the financial capacity to implement this strategy, the Company has entered into a non-binding term sheet with sophisticated institutional investors to provide the majority of the funding for a senior secured credit facility of up to $340 million (the "Proposed Credit Facility") that would provide funds to refinance certain of its existing debt obligations, to fund the Company's investment in the D6 Block and otherwise for general corporate and working capital purposes. The Proposed Credit Facility would be secured on a first priority basis, subject to certain permitted liens, by substantially all of the assets of the Company and its subsidiaries and would have terms that are customary for debt financings of this type for similarly situated borrowers. The Proposed Credit Facility would provide for quarterly interest payments as well as a certain royalty payment by the Company to the lenders in respect of revenues received from the D6 Block, and is to be repaid in four years, with prepayment options after two years with certain premium considerations. The Proposed Credit Facility is to be funded by lenders that are willing to lend to companies whose credit standing is considered high risk. As a result, the proposed terms are very high cost with significant restrictions on the Company's uses of its cash inflows. See note 21.

In addition, the Company has signed a letter of intent with Diamond Offshore relating to a settlement of the Company's payment obligations and other commitments under drilling contracts for the semisubmersible drilling rigs Ocean Lexington and Ocean Monarch. The settlement agreement is expected to be executed upon completion of negotiations and concurrently with the Company's proposed financing transaction. See notes 19 and 21.

The consummation of the Proposed Credit Facility is subject to a number of closing conditions, including, without limitation, execution of the settlement agreement with Diamond Offshore, satisfaction of the Company's unsecured notes obligation from sources other than the Proposed Credit Facility, the completion of the lenders' due diligence, and the execution and delivery of certain definitive documentation.

The Company has engaged Credit Suisse and another global investment bank to arrange the proposed financing transactions.

There can be no assurance, however, that the Company will be able to obtain the Proposed Credit Facility or execute the settlement agreement with Diamond Offshore on the terms described above or at all.

The Company is also finalizing its plans for the remainder of the portfolio and have engaged Citi to act as its financial advisor in connection with the sale of certain of its non-core assets in India and Trinidad. Sale of these assets could provide proceeds that could be used to fund the Company's future capital programs or pay down the Proposed Credit Facility. In addition, the Company is working on farming out portions of its interests in many of its exploration production sharing contracts and rescheduling its exploration commitments. See note 6.

As at September 30, 2013, the Company had a working capital deficiency of $110 million. The Company's unrestricted cash and cash equivalents balance of $55 million at September 30, 2013 and anticipated revenues from its operating assets are expected to be sufficient to satisfy the anticipated cash requirements of its operating subsidiaries for the foreseeable future, but are not expected to be sufficient to satisfy its current liabilities and meet its current exploration and drilling rig commitments. The Company has negotiated extended payment terms with many of its suppliers of drilling and related services to its exploration subsidiaries.

The Company's current credit facilities are reserve based lending facilities that are not expected to provide sufficient borrowing base capacity for funding of the Company's planned activities. As at September 30, 2013, the availability under the facilities is $80 million and the facilities are fully drawn. The Company is working with the syndicate banks on a deferral from October 31 to November 29, 2013 for the date of the re-determination of the borrowing base under the current credit facility and from November 29 to December 31, 2013 for the date of any required repayment to reflect the new borrowing base. As at September 30, 2013, the Company had placed $15 million in escrow for the benefit of its credit facility lenders and a further $18 million received by the Company in October was placed in escrow, with these funds to be used, if required, to fund any reduction in outstanding borrowings. The Company has received a waiver from the syndicate banks of a provision in a previous consent agreement regarding a restriction on the use of cash balances, with similar waivers potentially required in future months. See note 8.

There is uncertainty regarding whether the Company can complete all or a portion of the above efforts and whether the Company's contingent liabilities materialize (see note 20), raising significant doubt about the Company's ability to continue as a going concern.

These condensed interim consolidated statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. If the going concern was not appropriate for these condensed interim consolidated financial statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the balance sheet classifications used, and the reported revenue and expenses. The appropriateness of the going concern is dependent upon the events and circumstances outlined above.

These financial statements were authorized for issue by the Board of Directors on November 14, 2013.

3. New standards adopted

The Company adopted the following new and amended standards as of April 1, 2013.

IFRS 10 – Consolidated Financial Statements

IFRS 10 establishes a single control definition that applies to all entities including special purpose entities. The standard replaces parts of the previously existing IAS 27 Consolidated and Separate Financial Statements. IFRS 10 defines control such that an investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. To meet the definition of control, all three of the following criteria must be met: (a) an investor has power over an investee; (b) the investor has exposure or rights to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. The adoption of this standard did not impact these interim consolidated financial statements.

IFRS 11 – Joint Arrangements

IFRS 11 replaces IAS 31 "Interests in Joint Ventures" and IAS 28 "Investment in Associates". IFRS 11, "Joint Arrangements", requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. A joint venture is accounted for using the equity method of accounting whereas for a joint operation is accounted for by recording the entities share of the assets, liabilities, revenue and expenses in the joint operation. The adoption of this standard did not impact these interim consolidated financial statements.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosure requires information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements. The adoption of this standard did not impact these interim consolidated financial statements.

IFRS 13 – Fair Value Measurement and IFRS 7 "Financial Instruments: Disclosures"

IFRS 13 provides a common definition of fair value within IFRS. The new standard provides measurement and disclosure guidance and applies when IFRS requires or permits the item to be measured at fair value, with limited exceptions. The adoption of these standards had no impact on the amounts recorded in these interim consolidated financial statements but did result in additional disclosures as provided in note 12.

4. Accounts receivable

(thousands of U.S. dollars)	As at September 30, 2013	As at March 31, 2013
Oil and gas revenues receivable	23,741	17,804
Receivable from joint venture partners	26,044	39,170
Advances to vendors	4,156	1,618
Prepaid expenses and deposits	2,320	3,860
VAT receivable	6,388	18,505
Other receivables	4,199	3,877
	66,848	84,834

5. Inventories

(thousands of U.S. dollars)	As at September 30, 2013	As at March 31, 2013
Stock, spares and consumables	9,877	9,617
Oil and condensate inventories	812	483
	10,689	10,100

6. Exploration and evaluation assets

(thousands of U.S. dollars)	Six months ended September 30, 2013	Year ended March 31, 2013
Opening balance	695,624	856,880
Additions	80,053	174,242
Disposals and other arrangements	(17,056)	(70,697)
Transfers	6,331	(102,766)
Expensed	(87,875)	(94,089)
Asset impairment	(20,949)	(66,896)
Foreign currency translation	(798)	(1,050)
Closing balance	655,330	695,624

The Company expensed $88 million of exploration costs related to unsuccessful exploration wells in Indonesia. The Company recognized an impairment of $21 million related to Indonesia and Trinidad exploration and evaluation assets. During the second quarter of fiscal 2014 the Company shifted its focus to developing and appraising its assets in the D6 block in India while striving to maintain optionality on its exploration and evaluation assets. As part of implementation of this strategy, the Company's interest in exploration and evaluation properties may be farmed down, sold or relinquished which could result in the Company impairing the book value of certain exploration and evaluation assets (see note 2).

7. Property, plant and equipment

a. *Development assets*

(thousands of U.S. dollars)	Six months ended September 30, 2013	Year ended March 31, 2013
Opening balance	129,822	16,988
Additions	10,901	10,044
Transfers from/to other asset categories	16	102,790
Asset impairment	(2)	-
Closing balance	140,737	129,822

b. *Producing assets*

(thousands of U.S. dollars)	Six months ended September 30, 2013	Year ended March 31, 2013
Cost		
Opening balance	1,039,208	1,042,869
Additions	-	134
Transfers from other asset categories/adjustments	-	(40)
Disposals	-	(3,711)
Foreign currency translation	(34)	(44)
Closing balance	1,039,174	1,039,208
Accumulated depletion		
Opening balance	(627,883)	(587,372)
Additions	(57,427)	(142,099)
Foreign currency translation	34	44
Closing balance	(685,276)	(729,427)
Impairment	-	101,544
Net producing assets	353,898	411,325

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
Cost					
Balance, March 31, 2013	18,234	2,346	9,353	10,762	40,695
Additions	1	(1)	150	5	155
Disposals / Impairment	-	-	(145)	-	(145)
Foreign currency translation	-	-	(49)	-	(49)
Balance, September 30, 2013	18,235	2,345	9,309	10,767	40,656
Accumulated depreciation					
Balance, March 31, 2013	(7,161)	(1,654)	(5,755)	(7,852)	(22,422)
Additions	(451)	(68)	(537)	(210)	(1,266)
Foreign currency translation	-	-	36	-	36
Balance, September 30, 2013	(7,612)	(1,722)	(6,256)	(8,062)	(23,652)
Net book value, September 30, 2013	10,623	623	3,053	2,705	17,004

(thousands of U.S. dollars)	Land and buildings	Vehicles, helicopters and aircraft	Office equipment, furniture and fittings	Pipelines	Total
Cost					
Balance, March 31, 2012	18,346	2,376	8,754	10,772	40,248
Additions	(112)	(3)	1,196	(10)	1,071
Disposals	-	(27)	(535)	-	(562)
Foreign currency translation loss	-	-	(62)	-	(62)
Balance, March 31, 2013	18,234	2,346	9,353	10,762	40,695
Accumulated depreciation					
Balance, March 31, 2012	(6,127)	(1,482)	(4,449)	(7,341)	(19,399)
Additions	(1,034)	(172)	(1,344)	(511)	(3,061)
Foreign currency translation gain	-	-	38	-	38
Balance, March 31, 2013	(7,161)	(1,654)	(5,755)	(7,852)	(22,422)
Net book value, March 31, 2013	11,073	692	3,598	2,910	18,273

d. *Capital work-in-progress*

(thousands of U.S. dollars)	As at September 30, 2013	As at March 31, 2013
Capital work-in-progress	53,358	34,746

As a result of shift in focus as stated above under exploration and evaluation assets could result in the Company impairing the book value of capital inventory.

8. Credit facility borrowings

The Company has a three year, extendible, revolving credit facility and a three year, extendible, operating facility pursuant to a credit agreement with a syndicate of banks and financial institutions. The maximum available credit under the credit agreement is subject to review based on, among other things, updates to the Company's reserves. As at September 30, 2013, the availability under the facilities is $80 million and the facilities are fully drawn. The Company is working with the syndicate banks on a deferral from October 31 to November 29, 2013 for the date of the re-determination of the borrowing base under the current credit facility and from November 29 to December 31, 2013 for the date of any required repayment to reflect the new borrowing base. As at September 30, 2013, the Company had placed $15 million in escrow for the benefit of its credit facility lenders and a further $18 million received by the Company in October was placed in escrow, with these funds to be used, if required, to fund any reduction in outstanding borrowings. The Company has received a waiver from the syndicate banks of a provision in a previous consent agreement regarding a restriction on the use of cash balances, with similar waivers potentially required in future months. The facility is secured by a corporate guarantee, demand debentures providing first priority security over personal property and pledges of shares of certain subsidiaries.

9. Convertible notes payable

(thousands of U.S. dollars)	As at September 30, 2013	As at March 31, 2013
Opening balance	79,785	-
Additions	-	80,168
Accretion expense	2,285	1,527
Foreign currency translation	(994)	(1,868)
Repaid	-	(42)
Closing balance	81,076	79,785

In December 2012, the Company issued Cdn$115 million principal amount of convertible senior unsecured notes of which Cdn$32 million (less issuance costs of Cdn$1 million) was allocated to the conversion option and classified in the equity section on the Statement of Financial Position. The equity portion is recorded net of a Cdn$7 million deferred tax liability which results from temporary difference between the carrying amount and the tax value of the notes. The liability portion of the convertible notes is carried net of issuance costs of Cdn$4 million. The issuance costs were allocated pro-rata between the debt and equity portion of the convertible notes based on the valuation of the gross proceeds.

The convertible notes mature on December 31, 2017 and bear interest a rate of 7 percent, with interest payable semi-annually in arrears on June 30 and December 31 of each year, commencing June 30, 2013. The convertible notes are convertible at the option of the holders into common shares at a conversion price of Cdn$11.30 per share. After December 31, 2015, the convertible notes are redeemable by the Company, in whole or in part from time to time, provided that the market price of the Company's common shares (defined as the weighted average trading price of the common shares for the twenty consecutive trading days ending five trading days prior to the issue of the notice of redemption) is at least 130% of the conversion price. The Company has the right to use common shares to satisfy some or all of its obligations for the convertible notes.

The convertible notes are guaranteed on an unsecured basis by the Company's subsidiaries, Niko Resources (Cayman) Ltd., Niko (NECO) Ltd. and Niko Exploration (Block 9) Ltd. Each guarantor guarantees that the notes shall be paid in accordance with the agreement terms.

10. Secured loan

(thousands of U.S. dollars)	As at September 30, 2013	As at March 31, 2013
Opening balance	-	-
Additions	51,860	-
Accretion expense	686	-
Closing balance	52,546	-

In July, 2013, the Company entered into an agreement for a US$60 million secured loan funded by a group of institutional investors. The secured loan bears interest at 7.00% per annum, payable quarterly, and will mature on July 17, 2015 with no scheduled amortization. The Company has the right to prepay the secured loan after one year without penalty. The secured loan is secured by pledges of the shares of the Company's subsidiaries that own the Company's interests in the NEC-25 Block in India and two blocks in Indonesia and is guaranteed on an unsecured basis by the Company's subsidiaries that directly or indirectly own the Company's interests in the D6 Block in India. The net proceeds from the secured loan were approximately $52 million, after deducting the original issue discount and the related expenses payable by the Company. Under the terms of the secured loan, the net proceeds can be used for funding of working capital requirements, from drawdowns that occurred in separate tranches in July 2013.

In connection with the loan agreement, the Company has also signed exploration option agreements granting farm-in options to the investors' nominee to (i) receive a five percent working interest in each of the two blocks in Indonesia, after payment of five percent of the costs incurred in the applicable block(s) or (ii) receive a specified cash payment if a commercial discovery is made with the initial well(s) drilled in the applicable block(s) and the optionee elects not to exercise its farm-in option in the applicable block(s).

11. Unsecured notes payable

(thousands of U.S. dollars)	As at September 30, 2013	As at March 31, 2013
Opening balance	-	-
Additions	58,370	-
Accretion expense	2,291	-
Repaid	(10,584)	
Closing balance	50,077	-

In June 2013, the Company issued US$63.5 million of senior unsecured notes. The notes bear interest at 7.00% per annum, payable monthly, and will be repaid through twelve equal monthly principal payments commencing August 13, 2013. Principal and interest payments are payable in cash or, at the Company's option, in common shares of the Company. If the Company elects to make any portion of a payment in common shares of the Company, the number of shares to be issued will be determined by dividing the amount to be paid in stock by 94.5% of the lower of the volume weighted average price of the shares for the fifteen day period prior to the payment date and the volume weighted average price of the shares for the five day period prior to the payment date, subject to certain restrictions. The issuance cost of $5.1 million will be accreted over the tenure of the notes. The unsecured notes are secured by the Company's subsidiaries, Niko Resources (Cayman) Ltd., and Niko (NECO) Ltd., whereby each guarantor guarantees timely performance and repayment of notes when due of interest, premium, if any, and principal, in accordance with the agreement terms. Under the terms of the notes, the net proceeds are available for general corporate purposes.

12. 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 debt as follows:

(thousands of U.S. dollars)	As at September 30, 2013	As at March 31, 2013
Credit facility borrowings	80,000	90,000
Convertible notes	81,076	79,785
Secured loan	52,546	-
Unsecured notes payable	50,077	-
Shareholders' equity	679,576	875,807

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.

Given the Company's current financial position, the Company suspended its previous method to manage capital on a rolling three-year projection. To manage capital, the Company now uses a weekly liquidity forecast models in addition to quarterly and long-term forecast models. These forecast models provide 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 forecast models regularly. The regular reviews help ensure that the Company has the ability to fulfill its obligations and to fund ongoing operations.

b. Fair value measurements

The Company classifies fair value measurements using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

The Company's investments as at September 30, 2013 and March 31, 2013 have been assessed on the fair value hierarchy described above and have been classified as Level 1. The fair value of the investments was based on publicly quoted market values. The current year to date period includes $0.9 million loss (2012 – $0.2 million) on recognizing at their fair value.

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[1] as at September 30, 2013 was:

(thousands of U.S. dollars)	As at September 30, 2013
0—30 days [2]	53,662
30—60 days	-
60—365 days[3]	322
	53,984

[1] Includes accrued receivables that have not yet been invoiced and excludes loans and advances, prepaid expenses, and VAT receivables which are not past due.

[2] All receivables are current and not due as at September 30, 2013.

[3] Accounts receivables are past due but not impaired as at September 30, 2013.

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 manages its exposure to this risk by preparing cash flow forecasts to assess whether additional funds are required (see note 2).

The Company has the following financial liabilities and due dates as at September 30, 2013:

(thousands of U.S. dollars)	Carrying amount	< 1 year	> 1 year
Accounts payable and accrued liabilities[6]	200,935	200,935	-
Finance lease obligations[1][5]	40,126	6,418	33,708
Repayment of convertible notes[2] [5]	81,076	-	81,076
Repayment of secured loan[3][5]	52,546	4,567	47,979
Repayment of unsecured notes payable[4][5]	50,077	45,832	4,245

[1] The amount of lease payments is $10.8 million per year (including interest) until August 2018. The above $40 million represents the carrying value of the liability.

[2] The carrying amount of the convertible notes is the fair value of $81 million. The amount that will be required to be repaid assuming that the notes are not converted or repaid in common shares is Cdn$115 million. The convertible notes will mature on December 31, 2017.

[3] The carrying amount of the secured loan is the fair value of $52 million. The amount that will be required to be repaid is US$60

million. The secured loan will mature on July 17, 2015.

(4) The carrying amount of the unsecured notes is the fair value of $50 million. The amount that will be required to be repaid is US$53 million which can be paid in cash or in common shares. The unsecured notes will mature on July 13, 2014.

(5) The amount due relates to only the principal portion and excludes interest.

(6) The amount includes $35 million payable to Diamond Offshore Group of Companies.

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 notes. 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 September 30, 2013, which is based on historical movements in the foreign exchange rates, would have respectively decreased or increased the net loss by $1.8 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 3 percent strengthening or a 3 percent weakening of the Canadian dollar against the U.S. dollar at September 30, 2013, which is based on historical movement in foreign exchange rates, would have respectively increased or decreased other comprehensive loss by $1.7 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 market prices would not have impacted the net loss for the period ended September 30, 2013. 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.

13. 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 7,021,591 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:

	Six months ended September 30, 2013		Year ended March 31, 2013	
	Number of options	Weighted average exercise price (Cdn$)	Number of options	Weighted average exercise price (Cdn$)
Opening balance	4,953,145	45.04	3,978,003	75.62
Granted	214,077	8.33	2,193,622	10.70
Forfeited	(100,250)	39.11	(282,481)	76.12
Expired	(212,500)	90.89	(935,999)	85.14
Closing balance	4,854,472	41.54	4,953,145	45.04
Exercisable	1,889,071	39.91	1,029,945	68.20

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2013:

	Outstanding Options			Exercisable Options	
Exercise Price	Options	Remaining life (years)	Weighted average exercise price (Cdn$)	Options	Weighted average exercise price (Cdn$)
7.65 – 9.99	2,106,569	1.7	8.69	843,002	8.50
10.00 – 19.99	115,588	3.3	13.47	10,500	10.33
20.00 – 29.99	-	-	-	-	-
30.00 – 39.99	83,000	2.5	36.94	4,250	36.09
40.00 – 49.99	978,191	1.2	47.47	563,194	48.59
50.00 – 59.99	239,375	2.4	51.93	2,000	53.71
60.00 – 69.99	170,375	2.1	63.68	47,125	63.20
70.00 – 79.99	60,000	1.5	73.00	36,000	72.60
80.00 – 89.99	277,375	1.1	83.41	146,500	80.94
90.00 – 99.99	538,000	1.0	96.19	203,750	96.10
100.00 – 109.99	266,124	1.8	103.45	28,375	104.71
110.00 – 112.64	19,875	1.4	111.05	4,375	111.30
	4,854,472	1.6	41.54	1,889,071	39.91

The weighted average share price during the six months ended September 30, 2013 was $6.33 (2012 - $21.17).

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)	Three months ended September 30, 2013	Three months ended September 30, 2012	Six months ended September 30, 2013	Six months ended September 30, 2012
Grant-date fair value	Cdn$3.76	Cdn$5.04	Cdn$3.76	Cdn$8.55
Market price per share	Cdn$8.33	Cdn$13.92	Cdn$8.33	Cdn$26.16
Exercise price per option	Cdn$8.33	Cdn$13.92	Cdn$8.33	Cdn$26.16
Expected volatility	75%	51%	75%	47%
Expected life (years)	2.5	4.1	2.5	3.9
Expected dividend rate	0%	1.7%	0%	1.1%
Risk-free interest rate	1.1%	1.2%	1.1%	1.3%
Expected forfeiture rate	8.6%	9.5%	8.6%	9.2%

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 *d.* below for categorization of share-based payment expense during the period.

d. Share-based compensation 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)	Three months ended September 30, 2013	Three months ended September 30, 2012	Six months ended September 30, 2013	Six months ended September 30, 2012
Share-based compensation expense included in:				
Exploration and evaluation assets	174	268	398	534
Production and operating expenses	193	330	343	637
Exploration and evaluation expenses	1,252	1,861	2,511	3,397
Share-based compensation expense	2,444	3,342	5,130	6,902
Total	4,063	5,801	8,382	11,470

14. Revenue

(thousands of U.S. dollars)	Three months ended September 30, 2013	Three months ended September 30, 2012	Six months ended September 30, 2013	Six months ended September 30, 2012
Natural gas sales	30,760	52,444	61,968	110,262
Oil and condensate sales	11,762	14,090	14,492	26,497
Less:				
Royalties	(1,276)	(2,602)	(2,648)	(5,450)
Government's share of profit petroleum	(4,858)	(5,852)	(9,382)	(18,130)
Oil and natural gas revenue	36,388	58,080	64,430	113,179

Revenues from oil and gas sales to Petrobangla comprised 32 percent of natural gas, oil and condensate sales for the three months ended September 30, 2013 (2012 - 21 percent) and 33 percent for the six months ended September 30, 2013 (2012 – 21 percent).

15. Exploration and evaluation expenses

(thousands of U.S. dollars)	Three months ended September 30, 2013	Three months ended September 30, 2012	Six months ended September 30, 2013	Six months ended September 30, 2012
Geological and geophysical	6,427	6,555	11,621	18,274
Exploration and evaluation	106,548	37,448	121,570	49,592
General and administrative	4,502	3,835	9,741	8,672
Production sharing contract annual payments	2,874	1,797	6,303	6,492
New ventures	101	1,383	190	2,873
Share-based compensation	1,252	1,861	2,511	3,397
Exploration and evaluation	121,704	52,879	151,936	89,300

16. Finance expense

(thousands of U.S. dollars)	Three months ended September 30, 2013	Three months ended September 30, 2012	Six months ended September 30, 2013	Six months ended September 30, 2012
Interest expense on financing lease obligation	1,197	1,360	2,435	2,759
Interest expense on credit facility borrowings	1,123	753	2,071	1,781
Interest expense on convertible debentures	1,727	3,894	3,687	7,729
Interest expense on unsecured notes payable	1,054	-	1,261	-
Interest expense on secured loan payable	814	-	814	-
Accretion expense on convertible debentures	1,121	1,459	2,285	2,765
Accretion expense on decommissioning obligations	864	703	1,511	1,393
Accretion expense on unsecured notes payable	1,916	-	2,291	-
Accretion expense on secured loan payable	686	-	686	-
Bank charges and other finance costs	542	684	682	749
Finance expense	11,044	8,853	17,723	17,176

17. Earnings per share

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

(thousands of U.S. dollars)	Three months ended September 30, 2013	Three months ended September 30, 2012	Six months ended September 30, 2013	Six months ended September 30, 2012
Net loss	(148,541)	(28,573)	(207,711)	(120,696)

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)	Three months ended September 30, 2013	Three months ended September 30, 2012	Six months ended September 30, 2013	Six months ended September 30, 2012
Weighted average number of common shares used in the calculation of basic and diluted earnings per share	70,215,911	51,641,845	70,215,911	51,641,845

As a result of the net loss in the periods ended September 30, 2013 and 2012, the outstanding stock options and shares issuable upon conversion of the outstanding notes as at September 30, 2013 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 periods was based on quoted market prices for the periods that the options were outstanding. See note 9 for details of the conversion of the convertible notes payable.

18. 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 32 percent of sales during the three months ended September 30, 2013 and 33 percent of sales during the six months ended September 30, 2013.

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

(thousands of U.S. dollars)	Six months ended September 30, 2013		Year ended March 31, 2013	
	Additions to:			
Segment	Exploration and evaluation assets (E&E)	Property, plant and equipment (PP&E)	Exploration and evaluation assets	Property, plant and equipment
Bangladesh	-	5,464	-	2,231
Brazil	298	16	-	90
India	7,947	5,444	723	7,952
Indonesia	64,654	15,638	133,980	11,021
Kurdistan	183	-	537	(184)
Madagascar	11	-	-	-
Pakistan	-	-	-	-
Trinidad	6,960	3,516	39,002	11,041
All other	-	82	-	597
Total	80,053	30,160	174,242	32,748

(thousands of U.S. dollars)	As at September 30, 2013			As at March 31, 2013		
Segment	Total E&E	Total PP&E	Total Assets	Total E&E	Total PP&E	Total Assets
Bangladesh	4,737	24,784	39,327	4,737	22,916	35,918
Brazil	298	72	979	-	67	661
India	94,956	442,415	611,840	86,997	492,073	653,584
Indonesia	464,834	28,110	542,636	497,579	12,741	577,311
Kurdistan	-	-	14	11,866	-	15,024
Madagascar	560	20	19,884	1,200	30	1,412
Pakistan	-	10	75	-	12	87
Trinidad	89,945	68,812	167,696	93,245	65,377	169,591
All other	-	774	31,659	-	951	40,219
Total	655,330	564,997	1,414,110	695,624	594,167	1,493,807

(thousands of U.S. dollars)

Three months ended September 30, 2013

Segment	Natural gas, condensate and oil sales	Government share of profit petroleum	Royalty expense	Production and operating expenses	Depletion and depreciation expenses	Exploration and evaluation expenses	Other income / Loss on investments	Share-based compensation	Asset impairment	General and administrative expenses	Finance income	Finance expense and foreign exchange (loss) gain	Income tax reduction / (expense)	Segment profit (loss)
Bangladesh	13,412	(4,537)	-	(6,430)	(1,909)	-	-	-	-	-	-	-	-	536
Brazil	-	-	-	-	(6)	(2,950)	-	-	-	-	-	-	-	(2,956)
India	28,974	(321)	(1,272)	(7,852)	(26,323)	(13)	-	-	-	-	-	-	(4,321)	(11,128)
Indonesia	-	-	-	-	(97)	(106,407)	-	-	(13,830)	-	-	-	2,728	(117,606)
Kurdistan	-	-	-	-	-	(1)	-	-	-	-	-	-	-	(1)
Madagascar	-	-	-	-	(4)	(277)	18,052	-	-	-	-	-	-	17,771
Pakistan	-	-	-	-	(1)	(46)	-	-	-	-	-	-	-	(47)
Trinidad	-	-	-	-	(30)	(11,669)	-	-	(7,267)	-	-	-	-	(18,966)
Canada	136	-	(4)	(43)	(136)	(307)	-	-	-	-	-	-	(6)	(360)
All other	-	-	-	(48)	-	(34)	(453)	(2,444)	-	(2,262)	229	(10,772)	-	(15,784)
Total	42,522	(4,858)	(1,276)	(14,373)	(28,506)	(121,704)	17,599	(2,444)	(21,097)	(2,262)	229	(10,772)	(1,599)	(148,541)

(thousands of U.S. dollars)

Three months ended September 30, 2012

Segment	Natural gas, condensate and oil sales	Government share of profit petroleum	Royalty expense	Production and operating expenses	Depletion and depreciation expenses	Exploration and evaluation expenses	Other income / Loss on investments	Share-based compensation	Asset impairment	General and administrative expenses	Finance income	Finance expense and foreign exchange (loss) gain	Income tax reduction / (expense)	Segment profit (loss)
Bangladesh	14,292	(4,836)	-	(2,641)	(3,715)	-	-	-	-	-	-	-	-	3,100
Brazil	-	-	-	-	-	-	-	-	-	-	-	-	-	-
India	52,132	(1,016)	(2,601)	(7,318)	(35,163)	(414)	311	-	-	-	-	-	5,003	10,623
Indonesia	-	-	-	-	(56)	(25,089)	-	-	-	-	-	-	20,025	(4,809)
Kurdistan	-	-	-	-	5	(1,281)	-	-	181	-	-	-	-	(1,095)
Madagascar	-	-	-	-	(7)	(330)	-	-	-	-	-	-	-	(337)
Pakistan	-	-	-	-	(1)	(99)	-	-	-	-	-	-	-	(100)
Trinidad	-	-	-	-	(24)	(24,940)	-	-	-	-	-	-	-	(24,964)
Canada	109	-	-	(67)	(247)	(726)	-	-	-	-	-	-	(5)	(936)
All other	-	-	-	-	4	-	(32)	(3,342)	-	(2,266)	610	(5,029)	-	(10,055)
Total	66,533	(5,852)	(2,601)	(10,026)	(39,204)	(52,879)	279	(3,342)	181	(2,266)	610	(5,029)	25,023	(28,573)

(thousands of U.S. dollars)

Six months ended September 30, 2013

Segment	Natural gas, condensate and oil sales	Government share of profit petroleum	Royalty expense	Production and operating expenses	Depletion and depreciation expenses	Exploration and evaluation expenses	Other income / Loss on investments	Share-based compensation	Asset impairment	General and administrative expenses	Finance income	Finance expense and foreign exchange (loss) gain	Income tax reduction / (expense)	Segment profit (loss)
Bangladesh	25,124	(8,496)	-	(11,021)	(3,595)	(180)	-	-	-	-	-	-	-	1,832
Brazil	-	-	-	-	(11)	(4,516)	-	-	-	-	-	-	-	(4,527)
India	51,086	(886)	(2,647)	(11,418)	(54,609)	(49)	-	-	-	-	-	-	(3,866)	(22,389)
Indonesia	-	-	-	-	(144)	(129,314)	-	-	(13,829)	-	-	-	3,151	(140,136)
Kurdistan	-	-	-	-	-	(1)	-	-	-	-	-	-	-	(1)
Madagascar	-	-	-	-	(9)	(544)	18,052	-	-	-	-	-	-	17,499
Pakistan	-	-	-	-	(2)	(96)	-	-	-	-	-	-	-	(98)
Trinidad	-	-	-	-	(61)	(16,646)	-	-	(7,268)	-	-	-	-	(23,975)
Canada	250	-	(1)	(74)	(262)	(556)	-	-	-	-	-	-	(7)	(650)
All other	-	-	-	(107)	-	(34)	(1,342)	(5,130)	-	(3,597)	369	(25,425)	-	(35,266)
Total	76,460	(9,382)	(2,648)	(22,620)	(58,693)	(151,936)	16,710	(5,130)	(21,097)	(3,597)	369	(25,425)	(722)	(207,711)

(thousands of U.S. dollars)

Six months ended September 30, 2012

Segment	Natural gas, condensate and oil sales	Government share of profit petroleum	Royalty expense	Production and operating expenses	Depletion and depreciation expenses	Exploration and evaluation expenses	Other income / Loss on investments	Share-based compensation	Asset impairment	General and administrative expenses	Finance income	Finance expense and foreign exchange (loss) gain	Income tax reduction / (expense)	Segment profit (loss)
Bangladesh	28,927	(9,792)	-	(4,649)	(7,509)	(180)	-	-	-	-	-	-	-	6,797
Brazil	-	-	-	-	-	-	-	-	-	-	-	-	-	-
India	107,577	(8,338)	(5,456)	(13,404)	(73,465)	(354)	311	-	-	-	-	-	1,601	8,161
Indonesia	-	-	-	-	(104)	(48,426)	-	-	-	-	-	-	21,058	(27,161)
Kurdistan	-	-	-	-	-	(2,185)	-	-	(38,919)	-	-	-	-	(41,104)
Madagascar	-	-	-	-	(14)	(701)	-	-	-	-	-	-	-	(715)
Pakistan	-	-	-	-	(3)	(191)	-	-	-	-	-	-	-	(194)
Trinidad	-	-	-	-	(47)	(36,052)	-	-	-	-	-	-	-	(36,099)
Canada	255	-	6	(158)	(474)	(1,210)	-	-	-	-	-	-	(7)	(1,588)
All other	-	-	-	-	-	(1)	(276)	(6,902)	-	(4,323)	-	(17,291)	-	(28,793)
Total	136,759	(18,130)	(5,450)	(18,211)	(81,616)	(89,300)	35	(6,902)	(38,919)	(4,323)	-	(17,291)	22,652	(120,696)

19. Commitments and contractual obligations

(a) *Exploration commitments*

The Company has 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 (see note 2). The estimated cost of the minimum work commitments is as follows:

Property	Estimated Spending (thousands of U.S. dollars)	Exploration period
Indonesia	109,000	Various[1]
Trinidad and Tobago	166,920	Various[2]
Madagascar	3,333	September 2015
Brazil	3,313	September 2018
Total	282,566	

(1) The deadlines for fulfilling the work commitments in Indonesia are: $3 million by November 2013; $20 million by May 2014; $67 million by November 2014; $1 million by December 2014 and $18 million by May 2015. The Company has applied or plans to apply for extensions to commitment deadlines if it is unable to fulfill the commitment by the deadline.

(2) The deadlines for fulfilling the work commitments in Trinidad and Tobago are: $20 million by July 2014; $18 million by September 2014, $64 million by April 2015, $54 million by April 2016 and $11 million by December 2015.

(b) *Finance lease obligation*

The Company has recognized a finance lease for the floating, production, storage and offloading vessel (FPSO) used in the D6 Block in India. The fair value of $40 million for the finance lease 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 $32 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	42,142
> 5 years	-
Subtotal	52,899
Imputed interest	(12,773)
Carrying value	40,126

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.

(c) *Operating lease*

The Company has a contract in Indonesia for a drilling rig for a four-year term, with an additional year at the option of the Company. The contract commenced on October 2, 2012 and based on the daily operating rate of $385,000 per day specified in the contract. In addition the Company also has a contract in Trinidad for a drilling rig which has a maximum commitment for 477 days for the consortium partners with the Company's share being a maximum of 158 days and based on the daily operating rate of $300,000 per day. The gross future minimum lease payments, before reimbursement from partners, to be as follows:

(thousands of U.S. dollars)	Lease payments
<1 year	187,925
1 - 5 years	281,435
Total	469,360

Under the terms of the Indonesian contract, the Company has the right to assign the rig contract to third parties. In the case of termination of the contract, the total payable to Diamond is $312 million based on a termination rate of $285,000 per day multiplied by the number of days remaining in the contract. Under the terms of the Trinidad contract, the total payable will be reduced by the number of days in case the consortium partners overuse their allotted share of days.

On November 14, 2013 the Company signed a letter of intent with Diamond Offshore relating to a settlement of the Company's payment obligations and other commitments under drilling contracts for the semisubmersible drilling rigs Ocean Lexington and Ocean Monarch. The settlement agreement is expected to be executed upon completion of negotiations and concurrently with the Company's proposed financing transaction.

20. Contingent liabilities

a. The Company's indirect subsidiary, Niko Resources (Bangladesh) Ltd. ("NRBL"), is a party to two arbitration disputes to be decided upon by a tribunal panel under the International Centre for Settlement of Investment Disputes ("ICSID"). These disputes are related to its joint venture agreement ("JVA") with Bangladesh Petroleum Exploration & Production Company Limited ("BAPEX") for the Feni and Chattak fields in Bangladesh and to its Feni Gas Purchase and Sales Agreement ("GPSA") with Bangladesh Oil, Gas and Mineral Corporation ("Petrobangla"):

1. Dispute over compensation claims arising from the uncontrolled flow problems that occurred in Chattak field in January and June 2005, including the claims raised in the pleadings filed in the Money Suit discussed below.
2. Dispute over payment for gas delivered from the Feni field from and after November 2, 2004 under the Feni GPSA with Petrobangla, NRBL's share of the gas sales proceeds under dispute is $27 million.

In August 2013, the ICSID Tribunal delivered its decision that ICSID does have jurisdiction over the two arbitrations.

In September 2013, NRBL filed its memorials with the ICSID Tribunal in respects to the merits of each of the arbitration disputes. It is anticipated that the ICSID process could reach conclusion over the next two to three years, prior to the Money Suit (discussed below) which could provide substantial grounds for resolution of the Money Suit on the grounds that the issues have already been adjudicated by a competent arbitration tribunal under ICSID which is binding on the Government of Bangladesh.

During the year ended March 31, 2006, NRBL received a letter from Petrobangla demanding compensation related to the uncontrolled flow problems that occurred in the Chattak field in January and June 2005, and in June 2008, NRBL was named as a defendant in a lawsuit (the "Money Suit") that was filed in Bangladesh by the GOB and Petrobangla, demanding compensation as follows:

i. $5.3 million for 3 Bcf of free natural gas delivered from the Feni field as compensation for the burnt natural gas;
ii. $10.3 million for 5.89 Bcf of free natural gas delivered from the Feni field as compensation for the subsurface loss;
iii. Bangladesh Taka 845.58 million ($11.1 million) for environmental damages, an amount subject to be increased upon further assessment;
iv. Bank guarantee for $78.8 million for 45 Bcf of natural gas as compensation for further subsurface loss to be finally determined on the basis of production data and analysis; and
v. any other claims that arise from time to time.

Various court dates for the Money Suit have been set at which the proceedings have been adjourned. At a hearing in September 2013, NRBL's counsel filed applications requesting the proceedings be removed from the ex parte hearing list and applying for a stay of the proceeding in view of the arbitration proceedings described above and on other grounds.
If NRBL were to lose the ICSID arbitration and/or the Money Suit, the Company may lose its rights to the assets of NRBL (including the receivable for gas sales supplied under the GPSA). The Company believes that the outcome of the ICSID arbitration and/or the Money Suit 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.

b. 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'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 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 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 sub judice in a court of law. The Company believes that the outcome is not determinable.

c. The calculation of the government share of profit petroleum for Hazira field has been made based on the assumption that all expenditures incurred and claimed by the Hazira joint venture would be allowable for cost recovery. The audited accounts with details of expenditure incurred in excess of the budgeted expenditure have been submitted, where applicable, up to the year 2011-2012. Approval has been received for cost overruns till fiscal year 2009-2010. Some of the cost overruns have not been approved by the GOI. Necessary clarifications have been provided by the Company on the issues disputed by the GOI. If expenditures in excess of the previously approved expenditures are disallowed by the GOI, the GOI's share of profit petroleum for the Hazira field would increase by approximately $1 million, with interest due of approximately $1 million. In addition, GOI has disputed the methodology of calculation of royalties due to the GOI on natural gas sales in Hazira, with the Company's share of the disputed amounts totaling approximately $1 million, along with interest of approximately $1 million. The disputed amounts have been paid to the GOI and recorded as long-term receivables. The Company believes that the outcome of the disputes is not determinable. If the Company is unsuccessful on these disputes, the long-term receivables will be written off.

d. In a May 2012 letter, the GOI alleged that the joint venture partners in the D6 Block are in breach of the PSC for the D6 Block as they failed to drill all of the wells and attain production levels contemplated in the Addendum to the Initial Development Plan for the Dhirubhai 1 and 3 fields. The GOI has further asserted that joint venture costs totaling $1.797 billion (the Company's share totaling $179.7 million) are therefore disallowed for cost recovery. The joint venture partners are of the view that the disallowance of recovery of costs incurred by the joint venture has no basis in the terms of the PSC and that there are strong grounds to challenge the action of the GOI. Reliance Industries Ltd. (Reliance) has commenced arbitration proceedings against the GOI challenging the allegations and the disallowance of cost recovery on behalf of the partners. To the extent that any amount of joint venture costs are disallowed, such amount would be treated as profit petroleum in the future, a portion of which would be payable to the GOI under the PSC. Because profit petroleum percentages for the joint venture partners and the GOI change as the joint venture partners recover specified percentages of their investments, the potential impact on the Company's future profit petroleum expense (which represents the GOI's share of profit petroleum) is dependent on the future revenue and expenditures in the block and cannot be precisely determined at this time. The arbitral tribunal is in the process of being constituted with Reliance and the GOI having nominated two of the three arbitrators. The presiding arbitrator appointment is pending in Supreme Court. The outcome of these proceedings is not determinable at September 30, 2013.

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 unfavorable tax assessments related to taxation years 1998 through 2009. 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. The taxation years 2010 and later have not yet been assessed by the tax authorities. The Company has appealed the tax assessments and has received favorable rulings at the second level of four possible levels of appeals, the Tribunal Court. This decision has been appealed by the Indian tax department to the third level of appeals, the High Court. The fourth level of appeals is the Supreme Court.

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 Company was granted an interim relief by the High Court on instructing the tax Department to not give effect to the "explanation" referred to above retrospectively until the matter is clarified in the courts.

The decision regarding retrospective application of the definition of undertaking and whether or not mineral oil includes natural gas for purposes of tax holiday claim is currently pending with the High Court.

Based on the circumstances described above, the Company continued to calculate its income tax provision in accordance with its earlier practice of treating a single well / cluster of wells as a single undertaking and considering the production of natural gas as eligible for the tax holiday claim. However, to avoid interest and penalties, the Company post amendment of the Income tax act has paid its income tax excluding the tax holiday deduction and has filed its income tax return without tax holiday deduction so as not deemed to be in violation of the current legislation.

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 $50 million (comprised of additional taxes of $32 million and write off of approximately $18 million of the net income tax receivable). In addition, the Company could be obligated to pay interest on taxes for the past periods.

f. 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.

g. 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.

21. Subsequent Events

a. On November 14, 2013 the Company entered into a non-binding term sheet with sophisticated institutional investors to provide the majority of the funding for a senior secured credit facility of up to $340 million (the "Proposed Credit Facility") that would provide funds to refinance certain of its existing debt obligations, to fund the Company's investment in the D6 Block and otherwise for general corporate and working capital purposes. The Proposed Credit Facility would be secured on a first priority basis, subject to certain permitted liens, by substantially all of the assets of the Company and its subsidiaries and would have terms that are customary for debt financings of this type for similarly situated borrowers. The Proposed Credit Facility would provide for quarterly interest payments as well as a certain royalty payment by the Company to the lenders in respect of revenues received from the D6 Block, and is to be repaid in four years, with prepayment options after two years with certain premium considerations. The Proposed Credit Facility is to be funded by lenders that are willing to lend to companies whose credit standing is considered high risk. As a result, the proposed terms are very high cost with significant restrictions on the Company's uses of its cash inflows.

b. On November 14, 2013 the Company signed a letter of intent with Diamond Offshore relating to a settlement of the Company's payment obligations and other commitments under drilling contracts for the semisubmersible drilling rigs Ocean Lexington and Ocean Monarch. The settlement agreement is expected to be executed upon completion of negotiations and concurrently with the Company's proposed financing transaction.