# NIKO REPORTS RESULTS FOR THE QUARTER ENDED DECEMBER 31, 2017

Niko Resources Ltd. ("Niko" or the "Company") is pleased to report its operating and financial results for the quarter ended December 31, 2017. The operating results are effective February 14, 2018. All amounts are in US dollars unless otherwise indicated and all amounts are reported using International Financial Reporting Standards unless otherwise indicated.

## CHIEF EXECUTIVE OFFICER'S MESSAGE TO THE SHAREHOLDERS

Major contracts for development of the R-Cluster fields in the D6 Block in India have been awarded with a targeted start-up of production by the second quarter of fiscal 2021. While the Company's efforts to monetize its core assets for the benefit of all its stakeholders continue, the Company's liquidity situation and its ability of fund its share of costs of the D6 Block are critical concerns. The Company has required certain consents from its senior lenders to fund its cash requirements over the past several months and has received these required consents. The Company will require additional consents from its senior lenders and require additional funding over the short term. No assurance can be made that the lenders will provide these consents in the future or that additional funding will be secured in a manner or on a timely basis so as to enhance the Company's cash resources sufficiently to meet its cash requirements.

**William Hornaday** – Chief Executive Officer, Niko Resources Ltd.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Niko Resources Ltd. ("Niko" or the "Company") is a company incorporated in Alberta, Canada. The address of its registered office and principal place of business is Suite 510, 800 - 6 Avenue SW, Calgary, Alberta, T2P 3G3. The Company is engaged in the exploration for and development and production of oil and natural gas, primarily in India and Bangladesh. The Company's common shares are traded on the Toronto Stock Exchange under the symbol "NKO".

The following Management's Discussion and Analysis ("MD&A") of the financial condition, financial performance and cash flows of the Company for the three and nine months ended December 31, 2017 should be read in conjunction with the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017. Additional information relating to the Company, including the Company's Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com and on the Company's website at www.nikoresources.com. This MD&A is dated February 14, 2018.

The MD&A contains forward-looking information and statements. Refer to the end of this MD&A for the Company's advisory on forward-looking information and statements.

## LIQUIDITY AND CAPITAL RESOURCES

*Funding of Projected Cash Requirements of the Company*
The Company's cash flow has been negatively impacted by the failure of Bangladesh Oil, Gas and Mineral Corporation ("Petrobangla") to comply with its legal obligations as outlined below.

In order to fund the Company's cash requirements over the short term, the Company requires certain consents from the Lenders under its amended and restated facilities agreement as well as other sources of funds. To date, the Company has received consents under which the required restricted cash balance under the terms of the amended facilities agreement has been reduced from $7.0 million at December 31, 2017 to $3.3 million as of February 7, 2018, with the cash released for use in funding the Company's requirements. The Company expects that additional consents from the Lenders will be required over the short term. The withholding of such consents by the Lenders during this period will have a material adverse impact on the Company's ability to fund its operations and is therefore likely to have a material adverse impact on all stakeholders.

The Company's cash resources, and therefore its ability to fund its operations, could be positively enhanced by various factors, including the following:

- Receiving payments of amounts due from Petrobangla,
- Executing sale(s) of the Company's interests in its core assets in India and Bangladesh,
- Obtaining financing for planned development projects in the D6 Block, or
- Receiving income tax refunds due from the Government of India ("GOI").

No assurance can be made that appropriate steps will be taken, or goals accomplished, in a manner or on a timely basis so as to enhance the Company's cash resources sufficiently. The failure to enhance the Company's cash resources on a timely basis will have a material adverse impact on the ability of the Company to fund its operations and will therefore have a material adverse impact on all stakeholders.

Major contracts for development of the R-Cluster fields in the D6 Block in India have been awarded with drilling expected to commence in the second quarter of fiscal 2019, towards a targeted start-up of production by the second quarter of fiscal 2021. In addition, field development plans for the Satellite Cluster discoveries and the MJ discovery in the D6 Block have been submitted to the GOI for approval. The Company is pursuing financing options for these projects, but at this time, the Company has not secured funding and, as such, it may not have sufficient funds available to pay cash calls for the D6 production sharing contract ("PSC") in the short term. Under the terms of the joint operating agreement ("JOA") between the participating interest holders in the D6 PSC, if a cash call is not paid, the operator of the D6 PSC could issue a default notice to the defaulting party and during the continuance of a default, the defaulting party shall not have a right to its share of sales proceeds (which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party). In addition, if the defaulting party does not cure a default within sixty days of the default notice, the non-defaulting parties have the option to require the defaulting party to withdraw from the D6 PSC and JOA. If this option were to be exercised, it would have a material adverse impact on the Company and all of its stakeholders.

*Non-payments by Petrobangla of Amounts Due*
Since June 2016, Petrobangla has paid reduced amounts to the operator of the Block 9 PSC for invoiced amounts due for gas and condensate supplied pursuant to the Block 9 gas and condensate sales agreements, with the amounts for March 2016 to December 2017 invoices totalling $48 million to date (equal to the 60 percent share in the Block 9 PSC held by Niko Exploration (Block 9) Limited ("Niko Block 9")). Niko Block 9 has issued notices of dispute and force majeure under the Block 9 PSC and sales agreements to the Government of Bangladesh and Petrobangla and plans to initiate arbitration proceedings for these disputes under the rules

of the International Centre for Settlement of Investment Disputes. As the cash flow that was expected to be generated by the Block 9 PSC was targeted to fund the capital and operating expenditure of the Block 9 PSC as well as other cash requirements of the Company, since late September 2016, Niko Block 9 has not paid cash calls that were due and has been issued default notices by the operator of the Block 9 PSC. Under the terms of the JOA between the participating interest holders in the Block 9 PSC, during the continuance of a default, the defaulting party shall not have a right to its share of gas and condensate sales proceeds, which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party. In addition, if the defaulting party does not cure a default within sixty days of the default notice, the non-defaulting parties have the option to require the defaulting party to withdraw from the PSC and JOA. To date, the non-defaulting parties have not exercised this option. Refer to Note 24(a)(ii) of the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017 for further details on this matter.

*Exploration Subsidiaries*
The Company's exploration subsidiaries that previously owned interests in PSCs in Trinidad and Indonesia have significant accounts payable and accrued liabilities (including PSC obligations) and unfulfilled exploration work commitments reflected on the Company's balance sheet as at December 31, 2017. In May 2017, the Company's indirect subsidiaries received written notices from the Government of the Republic of Trinidad and Tobago terminating the three PSCs. In the Company's view, the parent guarantees for unfulfilled exploration commitments for the three PSCs have expired. Effective with the termination of the PSCs, the Company reclassified the Trinidad segment as discontinued operations in its consolidated financial statements

*Contingent Liabilities*
The Company and its subsidiaries are subject to various claims from other parties, as described in Note 24 of the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017 and are actively defending against these claims. An adverse outcome on one or more of these claims could significantly impact the future cash flows of the Company.

*Ability of the Company to Continue as a Going Concern*
As a result of the foregoing matters (including the ongoing obligations and contingent liabilities of the Company and its subsidiaries), there are material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern.

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS BY REPORTABLE SEGMENT

The Company's financial results for the three and nine months ended December 31, 2017 were impacted by the following significant items:

*Non-payments by Petrobangla of Amounts Due*
As a result of (i) the continued non-payments by Petrobangla of amounts due as outlined above, (ii) Niko Block 9's non-payments of cash calls due to the operator of the Block 9 PSC, and (iii) the default mechanism in the Block 9 JOA, the invoices issued by the operator of the Block 9 PSC for gas and condensate sales to Petrobangla for September 2016 to December, 2017 reflect the non-defaulting parties' entitlement to the sales proceeds and, as such, the Company has not recognized $35 million of net oil and gas revenues that it otherwise would have been entitled to (of which $6 million related to natural gas and condensate sales in the third quarter of fiscal 2018 and $8 million related to natural gas and condensate sales in the third quarter of fiscal 2017). In addition, the Company recognized an impairment of $13 million in the second quarter of fiscal 2017 related to the net revenue receivable from Petrobangla for the months of March 2016 to August 2016.

If the non-defaulting parties to the Block 9 JOA exercise their option to require Niko Block 9 to withdraw from the PSC and JOA and if this results in a loss of Niko Block 9's interest in the PSC and JOA, then a full impairment of the Company's carrying value of the assets and liabilities related to Block 9 could result.

*Minimum Contract Quantities Dispute - India*
As a result of an arbitration award in respect of the Hazira field in India (described in the Company's Management's Discussion and Analysis for the three months ended June 30, 2017 available under the Company's SEDAR profile at www.sedar.com), in the first quarter of fiscal 2018, the Company recognized a liability of $28 million for the awarded amount plus accrued interest.

The Company's results for the three and nine months ended December 31, 2017 are as follows:

**Consolidated**

| (thousands of US Dollars, unless otherwise indicated) | Three months ended December 31, 2017 | 2016 | Nine months ended December 31, 2017 | 2016 |
|---|---|---|---|---|
| Sales volumes (MMcfe/d)[1] | 75 | 84 | 78 | 88 |
| Net oil and natural gas revenue | 6,116 | 6,667 | 16,806 | 36,288 |
| EBITDAX from continuing operations[2] | (1,369) | 771 | (2,523) | 16,528 |
| Net income (loss) from continuing operations | (7,688) | 23,044 | (55,736) | 243,023 |
| Net income (loss) from discontinued operations | 108 | (2,133) | 346 | (2,693) |

(1) Includes volumes in Bangladesh for which revenue has not been recognized since September 2016.
(2) Refer to "Non-IFRS Measures" for details.

Lower natural gas sales volumes for the D6 Block in India, partially offset by increased natural gas and crude oil prices, contributed to lower net oil and natural gas revenue and lower EBITDAX for the Company in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017. In addition, production and operating expenses increased in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017.

Net loss from continuing operations of $(8) million in the third quarter of fiscal 2018 was primarily due to lower EBITDAX, partially offset by lower depletion and depreciation expense. Net income from continuing operations of $23 million for the third quarter of fiscal 2017 primarily resulted from the recognition of a gain on debt modification of $28 million due to the execution in October 2016 of a revised agreement with subsidiaries of Diamond Offshore relating to the settlement of outstanding claims under drilling contracts.

**India**

| (thousands of US Dollars, unless otherwise indicated) | Three months ended December 31, 2017 | 2016 | Nine months ended December 31, 2017 | 2016 |
|---|---|---|---|---|
| Sales volumes (MMcfe/d)[1] | 19 | 28 | 21 | 30 |
| Net oil and natural gas revenue | 6,110 | 6,662 | 16,789 | 25,411 |
| Segment EBITDAX[1] | 1,924 | 3,371 | 6,261 | 13,697 |
| Segment loss | (3,905) | (251) | (42,396) | (417) |

(1) Refer to "Non-IFRS Measures" for details.

Total sales volumes from the D6 Block in the third quarter of fiscal 2018 of 19 MMcfe/d decreased from 26 MMcfe/d in the third quarter of fiscal 2017 primarily due to the impact of natural production declines, underperformance, and water and sand ingress that resulted in the shut-in of wells, partially offset by the impact of incremental production from sidetrack wells brought on-stream in the second half of fiscal 2017.

Net oil and natural gas revenues of $6 million decreased slightly in the third quarter of fiscal 2018 compared to the third quarter of fiscal 2017 primarily due to lower natural gas sales volumes, partially offset by increased natural gas and crude oil prices. The notified price for gas sales from the D6 Block for October 2017 to March 2018 of $2.89 / MMbtu is approximately 16 percent higher than the notified price for October 2016 to March 2017 of $2.50 / MMbtu.

Segment EBITDAX of $2 million in the third quarter of fiscal 2018 decreased compared to the third quarter of fiscal 2017 primarily due to lower net oil and natural gas revenues and increased production and operating expenses.

Segment loss of $(4) million in the third quarter of fiscal 2018 increased compared to the third quarter of fiscal 2017 primarily due to lower segment EBITDAX, partially offset by lower depletion expense.

*Hazira sale*

Subsequent to the end of the third quarter of fiscal 2018, the Government of India approved the assignment of Niko's 33.33 percent interest in the Hazira PSC to a third party. Closing of the sale, effective October 1, 2017, is expected to occur in the fourth quarter of fiscal 2018. Under the Company's operatorship, the Hazira Field was nearing the end of its life with an abandonment program planned for the near future, and the expected sale proceeds, net of closing adjustments, are not forecast to significantly impact the Company's liquidity.

*NEC-25 relinquishment*
As previously disclosed, in the second quarter of fiscal 2016, the Company withdrew from the NEC-25 PSC and relinquished its interest to the remaining interest holders. In the third quarter of fiscal 2018, the GOI approved the assignment of Niko's ten percent interest in the NEC-25 PSC to the remaining interest holders.

**Bangladesh**

| (thousands of US Dollars, unless otherwise indicated) | Three months ended December 31, 2017 | 2016 | Nine months ended December 31, 2017 | 2016 |
|---|---|---|---|---|
| Sales volumes (MMcfe/d)(1) | 57 | 57 | 58 | 58 |
| Net oil and natural gas revenue | - | - | - | 10,867 |
| Segment EBITDAX(1) | (1,728) | (1,017) | (4,440) | 6,280 |
| Segment loss | (2,936) | (2,348) | (8,442) | (10,892) |

(1) Includes volumes for which revenue has not been recognized since September 2016.
(2) Refer to "Non-IFRS Measures" for details.

Total sales volumes from Block 9 in the third quarter of fiscal 2018 were flat compared to the third quarter of fiscal 2017, as the impact of increased delivery pressure requirements of the sales trunkline was virtually offset by the impact of a development well that was brought on-stream in the fourth quarter of fiscal 2017.

Net oil and natural gas revenues have not been recognized since September 2016 due to non-payments by Petrobangla (refer to discussion on *Non-payments by Petrobangla of Amounts Due* in the Liquidity and Capital Resources section).

Segment EBITDAX in the third quarter of fiscal 2018 of $(2) million decreased compared to the third quarter of fiscal 2017 primarily as a result of increased production and operating expenses.

Segment loss of $(3) million in the third quarter in fiscal 2018 increased compared to a segment loss of $(2) million in the third quarter of fiscal 2017 primarily as a result of lower segment EBITDAX.

**Other**

| (thousands of US Dollars, unless otherwise indicated) | Three months ended December 31, 2017 | 2016 | Nine months ended December 31, 2017 | 2016 |
|---|---|---|---|---|
| Segment EBITDAX from continuing operations(1) | (1,565) | (1,583) | (4,344) | (3,448) |
| Segment income (loss) from continuing operations | (847) | 25,643 | (4,898) | 254,332 |
| Net income (loss) from discontinued operations | 108 | (2,133) | 346 | (2,693) |

(1) Refer to "Non-IFRS Measures" for details.

Segment EBITDAX from continuing operations in the third quarter in fiscal 2018 decreased slightly from the third quarter of fiscal 2017, primarily due to lower legal costs associated with the Company's disputes in Bangladesh.

Segment loss from continuing operations of ($1) million in the third quarter in fiscal 2018 decreased from a segment income of $26 million in third quarter of fiscal 2017, primarily resulting for the recognition in the third quarter of fiscal 2017 of a gain on debt modification of $28 million due to the execution in October 2016 of a revised settlement agreement with subsidiaries of Diamond Offshore relating to the settlement of outstanding claims under drilling contracts.

## RECONCILIATION OF NON-IFRS MEASURES

The following tables reconcile the Company's gross revenue to EBITDAX to net income (loss) from continuing operations:

| | Three months ended December 31, 2017 | | | | Three months ended December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollars, unless otherwise indicated) | India | Bangladesh | Other | Total | India | Bangladesh | Other | Total |
| **Sales volume** | | | | | | | | |
| Natural gas (mcf/d) | 16,244 | 56,171 | - | 72,415 | 26,359 | 55,482 | - | 81,841 |
| Oil and condensate (bbl/d) | 382 | 167 | - | 549 | 211 | 172 | - | 383 |
| Natural gas equivalent (mcfe/d) | 18,535 | 57,175 | - | 75,710 | 27,628 | 56,516 | - | 84,144 |
| | | | | | | | | |
| Natural gas revenue | 4,691 | - | - | 4,691 | 6,784 | - | - | 6,784 |
| Crude oil and condensate revenue | 2,091 | - | - | 2,091 | 828 | - | - | 828 |
| Royalties | (600) | - | 6 | (594) | (808) | - | 5 | (803) |
| Profit petroleum | (72) | - | - | (72) | (142) | | - | (142) |
| **Net oil and natural gas revenue** | **6,110** | **-** | **6** | **6,116** | **6,662** | **-** | **5** | **6,667** |
| Production and operating expenses | (4,186) | (1,728) | - | (5,914) | (3,291) | (1,017) | - | (4,308) |
| General and administrative expenses | - | - | (1,323) | (1,323) | - | - | (1,615) | (1,615) |
| Finance and other income | - | - | 31 | 31 | - | - | 44 | 44 |
| Bank charges and other finance costs | - | - | (4) | (4) | - | - | (6) | (6) |
| Realized foreign exchange gain (loss) | - | - | (275) | (275) | - | - | (11) | (11) |
| **EBITDAX from continuing operations(1)** | **1,924** | **(1,728)** | **(1,565)** | **(1,369)** | **3,371** | **(1,017)** | **(1,583)** | **771** |
| Cash interest expense | (385) | - | - | (385) | (309) | - | - | (309) |
| Restructuring costs | - | - | (39) | (39) | - | - | (63) | (63) |
| Depletion and depreciation expenses | (4,862) | (1,089) | - | (5,951) | (5,862) | (1,191) | - | (7,053) |
| Exploration and evaluation expenses | (51) | - | - | (51) | (51) | (32) | - | (83) |
| Asset impairment loss | - | - | - | - | (691) | - | - | (691) |
| Share-based compensation expense | - | - | - | - | - | - | (7) | (7) |
| Accretion expense | (748) | (119) | - | (867) | (691) | (108) | - | (799) |
| Non-cash finance and other income | 217 | - | - | 217 | 401 | - | - | 401 |
| Gain on debt modification | - | - | - | - | - | - | 28,027 | 28,027 |
| Interest due upon repayment | - | - | - | - | - | - | - | - |
| Unrealized foreign exchange gain (loss) | - | - | 757 | 757 | - | - | (731) | (731) |
| Deferred income tax recovery | - | - | - | - | 3,581 | - | - | 3,581 |
| **Net income (loss) from continuing operations(2)** | **(3,905)** | **(2,936)** | **(847)** | **(7,688)** | **(251)** | **(2,348)** | **25,643** | **23,044** |
| **Net income (loss) from discontinued operations(2)** | **-** | **-** | **108** | **108** | **-** | **-** | **(2,133)** | **(2,133)** |
| **Total net income (loss)** | **(3,905)** | **(2,936)** | **(739)** | **(7,580)** | **(251)** | **(2,348)** | **23,510** | **20,911** |

(1) Refer to "Non-IFRS Measures" for details.

(2) Refer to Note 22 of the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017 for detailed segment information.

| | Nine months ended December 31, 2017 | | | | Nine months ended December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollars, unless otherwise indicated) | India | Bangladesh | Other | Total | India | Bangladesh | Other | Total |
| **Sales volume** | | | | | | | | |
| Natural gas (mcf/d) | 19,097 | 56,780 | - | 75,878 | 27,959 | 56,642 | - | 84,601 |
| Oil and condensate (bbl/d) | 265 | 168 | - | 433 | 331 | 171 | - | 502 |
| Natural gas equivalent (mcfe/d) | 20,686 | 57,789 | - | 78,475 | 29,947 | 57,669 | - | 87,616 |
| Natural gas revenue | 15,158 | - | - | 15,158 | 24,422 | 20,532 | - | 44,954 |
| Crude oil and condensate revenue | 3,691 | - | - | 3,691 | 3,963 | 1,083 | - | 5,046 |
| Royalties | (1,825) | - | 17 | (1,808) | (2,637) | - | 10 | (2,627) |
| Profit petroleum | (235) | - | - | (235) | (337) | (10,748) | - | (11,085) |
| **Net oil and natural gas revenue** | **16,789** | **-** | **17** | **16,806** | **25,411** | **10,867** | **10** | **36,288** |
| Production and operating expenses | (10,528) | (4,440) | - | (14,968) | (11,714) | (4,587) | - | (16,301) |
| General and administrative expenses | - | - | (3,800) | (3,800) | - | - | (3,771) | (3,771) |
| Finance and other income | - | - | 543 | 543 | - | - | 97 | 97 |
| Bank charges and other finance costs | - | - | (15) | (15) | - | - | (21) | (21) |
| Realized foreign exchange gain (loss) | - | - | (1,089) | (1,089) | - | - | 237 | 237 |
| **EBITDAX from continuing operations[1]** | **6,261** | **(4,440)** | **(4,344)** | **(2,523)** | **13,697** | **6,280** | **(3,448)** | **16,529** |
| Cash interest expense | (1,181) | (344) | - | (1,525) | (1,499) | - | (16,585) | (18,084) |
| Restructuring costs | - | - | (367) | (367) | - | - | (4,249) | (4,249) |
| Non-cash production and operating expenses | - | - | - | - | (5) | - | - | (5) |
| Depletion and depreciation expenses[3] | (16,851) | (3,302) | - | (20,153) | (18,750) | (3,629) | - | (22,379) |
| Exploration and evaluation expenses | (119) | - | - | (119) | (175) | (209) | - | (384) |
| Asset impairment loss | (1,328) | - | - | (1,328) | (1,327) | (13,010) | - | (14,337) |
| Share-based compensation expense | - | - | - | - | - | - | (23) | (23) |
| Accretion expense | (2,201) | (356) | - | (2,557) | (2,034) | (324) | (825) | (3,183) |
| Non-cash finance and other income | 627 | - | - | 627 | 844 | - | 537 | 1,381 |
| Gain on debt modification | - | - | - | - | - | - | 283,248 | 283,248 |
| Loss on derivative | - | - | - | - | - | - | (36) | (36) |
| Interest due upon repayment | - | - | - | - | - | - | (3,785) | (3,785) |
| Commercial claim expense | (27,604) | - | - | (27,604) | - | - | - | - |
| Unrealized foreign exchange gain (loss) | - | - | (187) | (187) | - | - | (502) | (502) |
| Deferred income tax recovery | - | - | - | - | 8,832 | - | - | 8,832 |
| **Net income (loss) from continuing operations[2]** | **(42,396)** | **(8,442)** | **(4,898)** | **(55,736)** | **(417)** | **(10,892)** | **254,332** | **243,023** |
| **Net income (loss) from discontinued operations[2]** | **-** | **-** | **346** | **346** | **-** | **-** | **(2,693)** | **(2,693)** |
| **Total net income (loss)** | **(42,396)** | **(8,442)** | **(4,552)** | **(55,390)** | **(417)** | **(10,892)** | **251,639** | **240,330** |

(1) Refer to "Non-IFRS Measures" for details.

(2) Refer to Note 22 of the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017 for detailed segment information.

(3) Amounts have been adjusted for the first two quarters of fiscal 2018. Refer to Note 4(b) of the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017.

## SUMMARY OF QUARTERLY RESULTS

| (thousands of US Dollars) | Dec 31, 2017 | Sept 30, 2017 | Jun 30, 2017 | Mar 31, 2017 | Dec 31, 2016 | Sept 30, 2016 | Jun 30, 2016 | Mar 31, 2016 |
|---|---|---|---|---|---|---|---|---|
| **Oil and natural gas revenue**[1] | 6,116 | 4,926 | 5,764 | 8,097 | 6,667 | 13,266 | 16,355 | 20,373 |
| **Net income (loss)**[1][3] | | | | | | | | |
| Continuing operations | (7,688) | (10,837) | (37,209) | 24,144 | 23,044 | 240,811 | (20,831) | 77,599 |
| Discontinuing operations[2] | 108 | 58 | 180 | (56) | (2,133) | 252 | (812) | (337) |
| Total | (7,580) | (10,779) | (37,029) | 24,088 | 20,911 | 241,063 | (21,643) | 77,262 |
| **Earnings (loss) per share - basic**[1][3] | | | | | | | | |
| Continuing operations | (0.08) | (0.11) | (0.40) | 0.26 | 0.24 | 2.56 | (0.22) | 0.82 |
| Discontinuing operations[2] | 0.00 | 0.00 | 0.00 | (0.00) | (0.02) | 0.00 | (0.01) | 0.00 |
| Total | (0.08) | (0.11) | (0.40) | 0.26 | 0.22 | 2.56 | (0.23) | 0.82 |
| **Earnings (loss) per share - diluted**[1][3] | | | | | | | | |
| Continuing operations | (0.08) | (0.11) | (0.40) | 0.23 | 1.33 | 1.33 | (0.22) | 0.82 |
| Discontinuing operations[2] | 0.00 | 0.00 | 0.00 | (0.00) | (0.02) | (0.00) | (0.01) | 0.00 |
| Total | (0.08) | (0.11) | (0.40) | 0.23 | 1.31 | 1.33 | (0.23) | 0.82 |

(1) The results for the eight most recent quarters were prepared in accordance with IFRS and presented in US Dollars.
(2) The Company has discontinued operations in Indonesia, Pakistan and Trinidad. Prior quarters have been restated for comparative purposes.
(3) Net income (loss) has been adjusted for the first two quarters of fiscal 2018. Refer to Note 4(b) of the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017.

Oil and natural gas revenue fluctuated throughout the last eight quarters based on changes in production and price. Production has naturally declined in India, partially offset by development activities in India. Natural gas prices have fluctuated in India reflecting semi-annual price notifications issued by the GOI pursuant to India's Domestic Natural Gas Guidelines (the "Guidelines") issued in October 2014 and effective November 2014, and oil prices in the market have generally decreased since mid-2014. Oil and natural gas revenue for the quarters ended September 30, 2016, December 31, 2016, March 31, 2017, June 30, 2017 and September 30, 2017 decreased significantly compared to prior quarters as a result of the non-recognition of gas and condensate sales in Block 9 (refer to *Non-payments by Petrobangla of Amounts Due* in the Liquidity and Capital Resources section). Net income (loss) fluctuated throughout the last eight quarters primarily reflecting the fluctuations in oil and natural gas revenues, interest and accretion expenses from financial restructuring, asset impairments or reversals based on management's estimate of recoverability on the Company's assets, and recognition of liabilities for unfulfilled exploration commitments. For the quarter ended September 30, 2016, net income from continuing operations of $241 million resulted primarily from recording of gains on debt modification of $255 million as a result of the Amendments executed with the Company's lenders. For the quarter ended December 31, 2016, the Company recognized a $28 million gain on debt modification as a result of the 2016 Settlement Agreement. For the quarter ended June 30, 2017, the Company recognized a liability of $28 million for an arbitration award relating to the minimum contracted quantities dispute in India.

## CONTRACTUAL OBLIGATIONS

The following table represents the Company's contractual obligations and other commitments as at December 31, 2017:

| (thousands of US Dollars) | Face Value | Carrying Value | < 1 year | 1 to 3 years | 3 to 5 years | > 5 years |
|---|---|---|---|---|---|---|
| Term loan facilities[1][2] | 404,462 | 200,748 | - | - | - | 200,748 |
| Convertible notes[1][3] | 111,975 | 10,050 | - | - | - | 10,050 |
| Finance lease obligations[4] | 6,857 | 6,857 | 6,857 | - | - | - |
| Contract settlement obligation[5] | 26,057 | 530 | - | - | - | 530 |
| Deferred obligation[6] | 5,968 | - | - | - | - | - |
| Decommissioning obligations[7] | 74,847 | 50,501 | 393 | - | - | 50,108 |
| Exploration work commitments[8] | 272,399 | 272,399 | 272,399 | - | - | - |
| Total contractual obligations | 902,565 | 541,084 | 279,649 | - | - | 261,435 |

(1) The Company is not required to make interest payments (including interest previously owing) under the term loan facilities agreement or the note indenture governing the convertible notes, other than in connection with a Waterfall Distribution.
(2) The term loan facilities are recorded in the financial statements at fair value.
(3) The convertible notes are recorded in the financial statements at fair value. The face value of the convertible notes as at December 31, 2017 is Cdn$140 million (including accrued interest).

(4) Finance lease obligations are included in the table based on the remaining payments on the charter lease for the floating, production, storage and offloading vessel used in the MA field of the D6 Block.
(5) The contract settlement obligation is recorded in the financial statements at fair value.
(6) The deferred obligation is recorded in the financial statements at fair value.
(7) Decommissioning obligations are included in the table based on the estimated undiscounted future liability of the Company. Site restoration funds totalling $9 million have been set up for certain of these obligations and are reflected in restricted cash.
(8) The total unfulfilled exploration commitment obligation recorded in the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017 is $270 million.

## SUBSEQUENT EVENTS

*Hazira sale*
Subsequent to the end of the third quarter of fiscal 2018, the Government of India approved the assignment of Niko's 33.33 percent interest in the Hazira PSC to a third party. Closing of the sale, effective October 1, 2017, is expected to occur in the fourth quarter of fiscal 2018. Under the Company's operatorship, the Hazira Field was nearing the end of its life with an abandonment program planned for the near future, and the expected sale proceeds, net of closing adjustments, are not forecast to significantly impact the Company's liquidity.

## OUTSTANDING SHARE DATA

Company did not issue any other common shares or securities convertible or exchangeable into common shares. As at February 14, 2018, the Company has 94,049,967 common shares, 1 preferred share, and no stock options outstanding.

## OFF BALANCE SHEET ARRANGEMENTS

The Company had no off balance sheet arrangements in place as at December 31, 2017.

## FINANCIAL INSTRUMENTS

The Company is exposed to credit risk, liquidity risk, foreign currency risk and commodity price risk as a part of normal operations. A detailed description of the Company's financial instruments and risk management is included in Note 15 to the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and the Vice President, Finance and Chief Financial Officer has assessed the design and effectiveness of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") as at December 31, 2017. There have been no significant changes in ICFR during the three and nine months ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, ICFR.

## CHANGES IN ACCOUNTING STANDARDS

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

**IFRS 9 – Financial Instruments**
IFRS 9 includes revised requirements for the classification and measurement of financial liabilities and application of the existing derecognition requirements from IAS 39. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. In December 2011, amendments indicated instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 to IFRS 9 on the basis of the entity's date of adoption and if the entity chooses to restate prior periods. In November 2013, amendments to IFRS 9 incorporated its new general hedge accounting model. The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is currently assessing the impact of adopting this new standard on its consolidated financial statements.

**IFRS 15 – Revenue from Contracts with Customers**
In May 2014, IASB issued IFRS 15 which replaces IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers" and SIC 31 "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 establishes revenue recognition principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is

currently proposed to be effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company has reviewed and analyzed its existing contracts and concluded the standard will not have a material impact on the Company's consolidated financial statements.

**IFRS 16 – Leases**

In January 2016, IASB issued IFRS 16 – Leases, IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The new standard is effective for periods beginning on or after January 1, 2019. The Company is currently identifying, gathering and analyzing contracts impacted by the adoption of the new standard on its audited consolidated financial statements. The Company currently expects that the standard will not have a material impact on the Company's consolidated financial statements.

## 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 condensed interim consolidated financial statements of the Company. The Company used the following critical accounting estimates for the third quarter of fiscal 2018 as consistent with the year ended March 31, 2017:

- Pricing Forecasts
- Oil and Natural Gas Reserves
- Exploration and evaluation assets
- Depletion, Depreciation and Amortization
- Fair Value of Long-Term Debt
- Asset Impairment
- Decommissioning Obligations
- Share-Based Compensation
- Income Taxes
- Contingencies

For a complete discussion of the critical accounting estimates, refer to Note 5 of the audited consolidated financial statements for the year ended March 31, 2017, available on SEDAR at www.sedar.com.

## 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 ability of the Company to continue as a going concern;
- The ability to receive consents from the Lenders for funding of the Company's cash requirements over the upcoming months;
- The ability to execute sale(s) of the Company's interests in its core assets in India and Bangladesh at all or on a timely basis;
- The ability to obtain financing for planned development projects in the D6 Block;
- The ability to receive income tax refunds due from the GOI;
- The Company's ability to comply with the terms under the Term Loan, Convertible Notes, and 2016 Settlement Agreement;
- No assurance that debt or equity financing or cash generated by operations will be sufficient or available to meet obligations for exploration, development, and production of oil and natural gas reserves in the future;
- The Company's ability to meet all of its financing obligations and contractual commitments (including work commitments);
- The Company's ability to fund its operating and capital budgets particularly if the Company is unable to lift a Stay Order issued in Bangladesh pending resolution of certain legal proceedings or otherwise receive amounts due to Niko Block 9 for gas and condensate supplied from the Block 9 PSC;
- The Company's ability to obtain appropriate and timely approvals from government authorities for exploration and development activities;
- Changes in capital markets and uncertainties to the availability and cost of financing;
- Changing governmental policies, social instability and other political, economic or diplomatic developments in the countries in which the Company operates;

- Future oil and natural gas prices are subject to fluctuations in the market including the future long-term natural gas price outlook in India which could result in deferral of development plans, relinquishment of interests and material adverse effect on the Company's operations and financial condition;
- Adverse operating risks associated with the oil and natural gas operations including hazards and injury;
- Credit risk, liquidity risk, foreign currency risk and commodity risk;
- Adverse factors including climate and geographical conditions, weather conditions, environmental and labour disputes;
- Fluctuations in foreign exchange rates that impact the Company's non-US Dollar transactions;
- Changes in taxation policies, taxation laws and interpretations thereof;
- Uncertainties associated with the negotiations with foreign governments and third parties and the possibility of adverse decisions regarding outstanding litigations and arbitration; and
- Environmental regulations and legislations including restriction and prohibitions on the release of emission from oil and gas operations.

Additional information related to the Company and its identified risks is included in the Company's AIF for the year ended March 31, 2017 available on SEDAR at www.sedar.com.

A complete description of the potential effects of the Company's contingencies on the Company as at December 31, 2017 are described in Note 24 of the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017.

## BASIS OF PRESENTATION

The financial data included in this MD&A is in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as at December 31, 2017. Certain prior period amounts have been reclassified to conform to the current presentation. All financial information is presented in thousands of US Dollars unless otherwise indicated.

The term "fiscal 2018" is used throughout the MD&A and in all cases refers to the period from April 1, 2017 through March 31, 2018. The term "fiscal 2017" is used throughout the MD&A and in all cases refers to the period from April 1, 2016 through March 31, 2017.

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. A 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 Mcf plus or minus up to 20 percent, depending on the composition and heating value of the natural gas in question.

## NON-IFRS MEASURES

The selected financial information presented throughout this MD&A is prepared in accordance with IFRS, except for "EBITDAX" and "Segment EBITDAX". These non-IFRS financial measures, which have been derived from the condensed interim consolidated financial statements for the three and nine months ended December 31, 2017 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 under IFRS and therefore may not be comparable to similar measures presented by other issuers. The non-IFRS measures are further defined for use throughout this MD&A as follows:

**EBITDAX and Segment EBITDAX**
The Company utilizes EBITDAX and Segment EBITDAX to assess performance and to help determine its ability to fund future capital projects and to repay debt. EBITDAX is defined 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 debt modification, gain or loss on asset disposal, gain or loss on derivatives, asset impairment, share-based compensation expense, restructuring costs, accretion expense, unfulfilled exploration commitment expense, commercial claim expense and unrealized foreign exchange gain or loss). The most directly comparable measure under IFRS presented in the audited consolidated financial statements to EBITDAX is net income (loss) on the statement of comprehensive income (loss).

## FORWARD LOOKING INFORMATION STATEMENTS

Certain information 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 information". Forward-looking information is frequently characterized by words such as "may", "will", "plans", "expects", "projects", "intends", "believes", "targets", "anticipates", "estimates" "scheduled", "continues", "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), 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 material factors and assumptions which the Company believes to be reasonable, it cannot assure investors that actual results will be consistent with such forward-looking information because of the risks, uncertainties and assumptions inherent in forward-looking information, readers should not place undue reliance on this forward-looking information. Previously disclosed forward looking information are updated for actual results when information is made available or when a withdrawal occurs.

Certain statements in this MD&A constitute forward-looking information. Specifically, this MD&A contains forward looking information relating to the Company's ability to fund its cash requirements over the short term, the ability of the Company to successfully complete its strategic plan on a timely basis, the ability to receive consents from the Lenders for funding of the Company's cash requirements over the upcoming months and the expected closing of the Hazira sale. Such forward-looking information is based on a number of risks, uncertainties and assumptions, which may cause actual results or other expectations to differ materially from those anticipated and which may prove to be incorrect. There can be no assurances that the Company will be able to successfully complete its strategic plan on a timely basis or that the Company will be able to meet the goals and purposes of its business plan (including resolving various disputes against governments and others in its favour) or fund its operations over the short term. The failure to meet or satisfy any of the foregoing is likely to have a material adverse impact on the Company and thereby significantly impair the value of security holders' interest in the Company. Undue reliance should not be placed on forward-looking information. Such forward-looking information reflects the Company's current beliefs and assumptions and is based on information currently available to the Company. This forward-looking information is based on certain key expectations and assumptions, many of which are not within the control of the Company and include expectations and assumptions regarding the future actions of the Company's lenders, the receipt of income tax refunds, non-defaulting parties not seeking to require a subsidiary of the Company to withdraw from the Block 9 PSC or JOA, the ability to satisfy cash calls in respect of the D6 Block, future commodity prices, 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, prevailing 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, the availability and cost of labour and services and general market conditions. The reader is cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Actual results may vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors and such variations may be material. Such risk factors include, but are not limited to: risks related to the ability of the Company to continue as a going concern, risks related to the Company not being able to increase its cash resources (including failure to positively enhance its cash resources by not achieving any of the four matters set out under *Liquidity and Capital Resources* above), the risks associated with the Company meeting its obligations under the amended Facilities Agreement and successfully completing its strategic plan, risks related to the various legal claims against the Company or its subsidiaries, risks related to non-payments by Petrobangla of amounts due to subsidiaries of the Company, as well as 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, costs and expenses, commodity price and exchange rate fluctuations, government regulation, marketing and transportation risks, environmental risks, competition, 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 meeting all of the Company's financing obligations and contractual commitments (including work commitments), the risks discussed under "Risk Factors" in the Company's AIF for the year-ended March 31, 2017 and in the Company's public disclosure documents, and other factors, many of which are beyond the Company's control. Niko makes no representation that the actual results achieved during the forecast period will be the same in whole or in part as those forecasts.

The forward looking information included in this MD&A is expressly qualified in its entirety by this cautionary statement. The forward looking information included herein is made as of the date of this MD&A and Niko assumes no obligation to update or revise any forward looking information to reflect new events or circumstances, except as required by law.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| (unaudited)<br>(thousands of US Dollars) | As at<br>December 31, 2017 | As at<br>March 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | 1,313 | 11,394 |
| Restricted cash (Note 5) | 7,993 | 8,492 |
| Accounts receivable (Note 6) | 4,391 | 6,071 |
| Inventories (Note 8) | 3,811 | 3,655 |
| Current portion of income tax receivable (Note 24(c)) | 13,754 | - |
| | 31,262 | 29,612 |
| Restricted cash (Note 5) | 8,638 | 9,086 |
| Long-term accounts receivable (Note 7) | 6,084 | 6,784 |
| Exploration and evaluation assets (Note 9) | 4,737 | 4,737 |
| Property, plant and equipment (Note 10) | 327,909 | 344,629 |
| Income tax receivable (Note 24(c)) | 18,876 | 31,160 |
| | 397,506 | 426,008 |
| **Liabilities** | | |
| Current liabilities | | |
| Trade payables (Note 11) | 12,161 | 15,344 |
| Other payables (Note 12) | 419,235 | 385,105 |
| Current portion of long-term debt (Note 13) | 6,857 | 9,630 |
| Current portion of decommissioning obligations (Note 14) | 393 | 51 |
| | 438,646 | 410,130 |
| Decommissioning obligations (Note 14) | 50,108 | 47,943 |
| Long-term debt (Note 13) | 211,328 | 215,121 |
| | 700,082 | 673,194 |
| **Shareholders' Deficit** | | |
| Share capital (Note 16) | 1,366,867 | 1,366,867 |
| Contributed surplus | 143,142 | 143,142 |
| Currency translation reserve | 2,147 | 2,147 |
| Deficit | (1,814,732) | (1,759,342) |
| | (302,576) | (247,186) |
| | 397,506 | 426,008 |

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| (unaudited) | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| (thousands of US Dollars) | 2017 | 2016 | 2017 | 2016 |
| Oil and natural gas revenue (Note 17) | 6,116 | 6,667 | 16,806 | 36,288 |
| Production and operating expenses | (5,914) | (4,308) | (14,968) | (16,306) |
| General and administrative expenses | (1,323) | (1,615) | (3,800) | (3,771) |
| Finance and other income | 248 | 445 | 1,170 | 1,478 |
| Finance expense (Note 18) | (1,256) | (1,114) | (4,097) | (25,073) |
| Foreign exchange gain (loss) | 482 | (742) | (1,276) | (265) |
| Depletion and depreciation expenses (Note 10) | (5,951) | (7,053) | (20,153) | (22,379) |
| Exploration and evaluation expenses | (51) | (83) | (119) | (384) |
| Share-based compensation expense | - | (7) | - | (23) |
| Restructuring costs (Note 19) | (39) | (63) | (367) | (4,249) |
| Asset impairment (Notes 6, 7, and 10) | - | (691) | (1,328) | (14,337) |
| Loss on derivative | - | - | - | (36) |
| Gain on debt modification (Note 13) | - | 28,027 | - | 283,248 |
| Commercial claim expense (Note 12) | - | - | (27,604) | - |
| Income (loss) before income tax from continuing operations | (7,688) | 19,463 | (55,736) | 234,191 |
| Deferred income tax recovery | - | 3,581 | - | 8,832 |
| Income tax recovery from continuing operations | - | 3,581 | - | 8,832 |
| Net income (loss) from continuing operations | (7,688) | 23,044 | (55,736) | 243,023 |
| Net income (loss) from discontinued operations (Note 20) | 108 | (2,133) | 346 | (2,693) |
| Total net income (loss) and comprehensive income (loss) | (7,580) | 20,911 | (55,390) | 240,330 |
| Earnings (loss) per share (Note 21) | | | | |
| Basic – continuing operations | (0.08) | 0.24 | (0.59) | 2.58 |
| Basic – discontinued operations | 0.00 | (0.02) | 0.00 | (0.02) |
| Diluted – continuing operations | (0.08) | 1.33 | (0.59) | 1.36 |
| Diluted – discontinued operations | 0.00 | (0.02) | 0.00 | (0.03) |

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT

| (unaudited)<br>(thousands of US Dollars, except number of common shares) | Number of Common shares | Share capital | Contributed surplus | Currency translation reserve | Equity component of convertible notes | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, March 31, 2016 | 94,049,614 | 1,366,867 | 143,114 | 2,147 | 23,182 | (2,023,761) | (488,451) |
| Share-based compensation expense | - | - | 28 | - | - | - | 28 |
| Conversion of convertible notes | 353 | - | - | - | - | | - |
| Derecognition on debt modification (Note 13) | - | - | - | - | (23,182) | - | (23,182) |
| Net income for the period | - | - | - | - | - | 240,330 | 240,330 |
| Balance, December 31, 2016 | 94,049,967 | 1,366,867 | 143,142 | 2,147 | - | (1,783,431) | (271,275) |
| Net income for the period | - | - | - | - | - | 24,089 | 24,089 |
| Balance, March 31, 2017 | 94,049,967 | 1,366,867 | 143,142 | 2,147 | - | (1,759,342) | (247,186) |
| Net loss for the period | - | - | - | - | - | (55,390) | (55,390) |
| Balance, December 31, 2017 | 94,049,967 | 1,366,867 | 143,142 | 2,147 | - | (1,814,732) | (302,576) |

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

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

| (unaudited)<br>(thousands of US Dollars) | Three months ended December 31,<br>2017 | <br>2016 | Nine months ended December 31,<br>2017 | <br>2016 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Net income (loss) from continuing operations | (7,688) | 23,044 | (55,736) | 243,023 |
| Adjustments for: | | | | |
| Depletion and depreciation expenses | 5,951 | 7,053 | 20,153 | 22,379 |
| Accretion expense | 867 | 799 | 2,557 | 3,183 |
| Deferred income tax expense (recovery) | - | (3,581) | - | (8,832) |
| Unrealized foreign exchange loss (gain) | (757) | 731 | 187 | 502 |
| Asset impairment loss | - | 691 | 1,328 | 14,337 |
| Share-based compensation expense | - | 7 | - | 25 |
| Finance and other income | (217) | (174) | (679) | (844) |
| Loss on derivative | - | - | - | 36 |
| Commercial claim expense (Note 12) | - | - | 27,604 | - |
| Gain on debt modification (Note 13) | - | (28,027) | - | (283,248) |
| Interest due upon repayment of term loan facilities (Note 13(b)) | - | - | - | 3,785 |
| Restricted cash contributions | - | - | - | (1,824) |
| Change in non-cash working capital | 4,431 | 6,401 | 5,356 | 12,523 |
| Change in long-term accounts receivable | (14) | (775) | (13) | 69 |
| Cash from operating activities from continuing operations | 2,573 | 6,169 | 757 | 5,114 |
| Cash from (used in) operating activities from discontinued operations (Note 20) | 77 | (11) | 453 | 127 |
| Net cash from operating activities | 2,650 | 6,158 | 1,210 | 5,241 |
| **Cash flows from investing activities:** | | | | |
| Property, plant and equipment expenditures | (2,696) | (12,792) | (3,443) | (28,095) |
| Contribution of restricted cash (Note 5) | - | (8) | (30) | (7) |
| Release of restricted cash (Note 5) | - | - | - | 240 |
| Change in non-cash working capital | 1,055 | 838 | (965) | 10,398 |
| Repayment of contract settlement obligation | - | (3,000) | - | (3,000) |
| Cash used in investing activities from continuing operations | (1,641) | (14,962) | (4,438) | (20,464) |
| **Cash flows from financing activities:** | | | | |
| Repayment of long-term debt (Note 13) | (2,464) | (2,196) | (7,153) | (18,374) |
| Release of restricted cash (Note 5) | 300 | 3,000 | 300 | 12,700 |
| Cash from (used in) financing activities from continuing operations | (2,164) | 804 | (6,853) | (5,674) |
| Change in cash and cash equivalents | (1,155) | (8,000) | (10,081) | (20,897) |
| Cash and cash equivalents, beginning of period | 2,468 | 24,177 | 11,394 | 37,074 |
| Cash and cash equivalents, end of period | 1,313 | 16,177 | 1,313 | 16,177 |

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

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 1. Nature of Business

Niko Resources Ltd. (the "Company") is a company incorporated in Alberta, Canada. The address of its registered office and principal place of business is Suite 510, 800 - 6 Avenue SW, Calgary, Alberta, T2P 3G3. The Company is engaged in the exploration, development and production of oil and natural gas primarily in India and Bangladesh. The Company's common shares are traded on the Toronto Stock Exchange under the symbol "NKO".

## 2. Going Concern

*Funding of Projected Cash Requirements of the Company*

The Company's cash flow has been negatively impacted by the failure of Bangladesh Oil, Gas and Mineral Corporation ("Petrobangla") to comply with its legal obligations as outlined below.

In order to fund the Company's cash requirements over the short term, the Company requires certain consents from the Lenders under its amended and restated facilities agreement as well as other sources of funds. To date, the Company has received consents under which the required restricted cash balance under the terms of the amended facilities agreement has been reduced from $7.0 million at December 31, 2017 to $3.3 million as of February 7, 2018, with the cash released for use in funding the Company's requirements. The Company expects that additional consents from the Lenders will be required over the short term. The withholding of such consents by the Lenders during this period will have a material adverse impact on the Company's ability to fund its operations and is therefore likely to have a material adverse impact on all stakeholders.

The Company's cash resources, and therefore its ability to fund its operations, could be positively enhanced by various factors, including the following:

- Receiving payments of amounts due from Petrobangla,
- Executing sale(s) of the Company's interests in its core assets in India and Bangladesh,
- Obtaining financing for planned development projects in the D6 Block, or
- Receiving income tax refunds due from the Government of India ("GOI").

No assurance can be made that appropriate steps will be taken, or goals accomplished, in a manner or on a timely basis so as to enhance the Company's cash resources sufficiently. The failure to enhance the Company's cash resources on a timely basis will have a material adverse impact on the ability of the Company to fund its operations and will therefore have a material adverse impact on all stakeholders.

Major contracts for development of the R-Cluster fields in the D6 Block in India have been awarded with drilling expected to commence in the second quarter of fiscal 2019, towards a targeted start-up of production by the second quarter of fiscal 2021. In addition, field development plans for the Satellite Cluster discoveries and the MJ discovery in the D6 Block have been submitted to the GOI for approval. The Company is pursuing financing options for these projects, but at this time, the Company has not secured funding and, as such, it may not have sufficient funds available to pay cash calls for the D6 production sharing contract ("PSC") in the short term. Under the terms of the joint operating agreement ("JOA") between the participating interest holders in the D6 PSC, if a cash call is not paid, the operator of the D6 PSC could issue a default notice to the defaulting party and during the continuance of a default, the defaulting party shall not have a right to its share of sales proceeds (which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party). In addition, if the defaulting party does not cure a default within sixty days of the default notice, the non-defaulting parties have the option to require the defaulting party to withdraw from the D6 PSC and JOA. If this option were to be exercised, it would have a material adverse impact on the Company and all of its stakeholders.

*Non-payments by Petrobangla of Amounts Due*

Since June 2016, Petrobangla has paid reduced amounts to the operator of the Block 9 PSC for invoiced amounts due for gas and condensate supplied pursuant to the Block 9 gas and condensate sales agreements, with the amounts for March 2016 to December 2017 invoices totalling $48 million to date (equal to the 60 percent share in the Block 9 PSC held by Niko Exploration (Block 9) Limited ("Niko Block 9")). Niko Block 9 has issued notices of dispute and force majeure under the Block 9 PSC and sales agreements to the Government of Bangladesh and Petrobangla and plans to initiate arbitration proceedings for these disputes under the rules of the International Centre for Settlement of Investment Disputes. As the cash flow that was expected to be generated by the Block 9 PSC was targeted to fund the capital and operating expenditure of the Block 9 PSC as well as other cash requirements of the Company, since late September 2016, Niko Block 9 has not paid cash calls that were due and has been issued default notices by the operator of the Block 9 PSC. Under the terms of the JOA between the participating interest holders in the Block 9 PSC, during the continuance of a default, the defaulting party shall not have a right to its share of gas and condensate sales proceeds, which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party. In addition, if the defaulting party does not cure a default within sixty days of the default notice, the non-defaulting parties have the option to require the defaulting party to withdraw from the PSC and JOA. To date, the non-defaulting parties have not exercised this option. Refer to Note 24(a)(ii) for further details on this matter.

*Exploration Subsidiaries*
The Company's exploration subsidiaries that previously owned interests in PSCs in Trinidad and Indonesia have significant accounts payable and accrued liabilities (including PSC obligations) and unfulfilled exploration work commitments reflected on the Company's balance sheet as at December 31, 2017. In May 2017, the Company's indirect subsidiaries received written notices from the Government of the Republic of Trinidad and Tobago terminating the three PSCs. In the Company's view, the parent guarantees for unfulfilled exploration commitments for the three PSCs have expired. Effective with the termination of the PSCs, the Company reclassified the Trinidad segment as discontinued operations for the three and nine months ended December 31, 2017.

*Contingent Liabilities*
The Company and its subsidiaries are subject to various claims from other parties, as described in Note 24 and are actively defending against these claims. An adverse outcome on one or more of these claims could significantly impact the future cash flows of the Company.

*Ability of the Company to Continue as a Going Concern*
As a result of the foregoing matters (including the ongoing obligations and contingent liabilities of the Company and its subsidiaries), there are material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern.

These condensed interim consolidated financial statements as at and for the three and nine months ended December 31, 2017 do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue as a going concern and therefore be required to realize on its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these condensed interim consolidated financial statements.

**3. Basis of Presentation**

*(a) Statement of compliance*

These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements and notes for the year ended March 31, 2017. The condensed interim consolidated financial statements have been prepared, for all periods presented, following the same accounting policies and methods as described in Note 4 of the audited consolidated financial statements and notes for the year ended March 31, 2017. Certain prior period amounts have been reclassified to conform to the current presentation. These condensed interim consolidated financial statements have not been reviewed by the Company's independent external auditors.

The condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on February 14, 2018.

*(b) Basis of measurement*

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments as described in Note 15.

*(c) Functional and presentation currency*

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

**4. Significant Accounting Policies**

***(a) Accounting Pronouncements***

The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

**IFRS 9 – Financial Instruments**

IFRS 9 includes revised requirements for the classification and measurement of financial liabilities and application of the existing derecognition requirements from IAS 39. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss. In December 2011, amendments indicated instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 to IFRS 9 on the basis of the entity's date of adoption and if the entity chooses to restate prior periods. In November 2013, amendments to IFRS 9 incorporated its new general hedge accounting model. The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Company is currently assessing the impact of adopting this new standard on its consolidated financial statements.

**IFRS 15 – Revenue from Contracts with Customers**

In May 2014, IASB issued IFRS 15 which replaces IAS 11 "Construction Contracts", IAS 18 "Revenue", IFRIC 13 "Customer Loyalty Programmes", IFRIC 15 "Agreements for the Construction of Real Estate", IFRIC 18 "Transfer of Assets from Customers" and SIC 31 "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 establishes revenue recognition principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is currently proposed to be effective for annual periods beginning on or after January 1, 2018, and permits early adoption. The Company has reviewed and analyzed its existing contracts and concluded the standard will not have a material impact on the Company's consolidated financial statements.

**IFRS 16 – Leases**

In January 2016, IASB issued IFRS 16 – Leases, IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The new standard is effective for periods beginning on or after January 1, 2019. The Company is currently identifying, gathering and analyzing contracts impacted by the adoption of the new standard on its audited consolidated financial statements. The Company currently expects that the standard will not have a material impact on the Company's consolidated financial statements.

***(b) Adjustments to the Company's Condensed Interim Consolidated Statements of Comprehensive Income (Loss)***

During the third quarter of fiscal 2018, the Company corrected its calculations of depletion expense for the Company's India segment. Depletion expense has been adjusted for the first two quarters of fiscal 2018 by $3 million per quarter.

The following table reconciles the amounts previously reported in the applicable condensed interim consolidated financial statements to the corresponding revised amounts:

| (thousands of US Dollars) | As previously reported | Adjustment | As Revised |
|---|---|---|---|
| *Three months ended June 30, 2017* | | | |
| Depletion and depreciation expenses | 4,675 | 2,872 | 7,547 |

| (thousands of US Dollars) | As previously reported | Adjustment | As Revised |
|---|---|---|---|
| *Three months ended September 30, 2017* | | | |
| Depletion and depreciation expenses | 3,517 | 3,138 | 6,655 |

## 5. Restricted Cash

| (thousands of US Dollars) | As at December 31, 2017 | As at March 31, 2017 |
|---|---|---|
| *Current portion of restricted cash* | | |
| Term loan facilities reserve account(1) | 7,000 | 7,300 |
| Site restoration(2) | 993 | 562 |
| Performance security guarantee(3) | - | 630 |
| | 7,993 | 8,492 |
| *Non-current portion of restricted cash* | | |
| Site restoration(2) | 8,638 | 9,086 |
| | 16,631 | 17,578 |

(1) Under the terms of the Fourth Amendment of the Term Loan, the required minimum cash balance of the reserve accounts is $7.0 million as at December 31, 2017. Refer to Note 13(b). In February 2018, the required minimum cash balance was subsequently reduced to $3.3 million with lender consents. Refer to Note 2.

(2) In accordance with the provisions of certain of the Company's PSCs, funds are required to be deposited in separate accounts restricted to funding of future decommissioning obligations. The funds may be used for site restoration on the expiry or termination of an agreement or relinquishment of part of the contract area. As at December 31, 2017, $0.6 million of the current portion of site restoration funds relates to the Surat PSC in India

that has been fully restored, with any excess amount of these funds subject to release upon approval of the GOI.

(3) The Company was required to provide funds to support performance security guarantees related to the exploration commitments for certain exploration blocks in Indonesia. In the third quarter of fiscal 2018, the performance security guarantees had expired and the funds supporting the guarantee have been claimed by the Government of Indonesia.

## 6. Accounts Receivable

| (thousands of US Dollars) | As at December 31, 2017 | As at March 31, 2017 |
|---|---|---|
| Oil and gas revenues receivable[(1)] | 1,694 | 2,118 |
| Receivable from joint operators | - | 636 |
| Advances to vendors | 1,246 | 1,305 |
| Prepaid expenses and deposits | 1,071 | 1,671 |
| VAT receivable | 122 | 178 |
| Other receivables | 258 | 163 |
| | 4,391 | 6,071 |

(1) Oil and gas revenues receivable from Petrobangla of $13 million were impaired in fiscal 2017 as a result of uncertainty in the collection of amounts withheld by Petrobangla equal to Niko Block 9's share of net natural gas and condensate sales revenue from the Block 9 PSC in Bangladesh for March 2016 to August 2016. Refer to Notes 2 and 24(a)(ii).

## 7. Long-term Receivable

| (thousands of US Dollars) | As at December 31, 2017 | As at March 31, 2017 |
|---|---|---|
| Long term receivable | 85 | 85 |
| Gas pool account receivable[(1)] | 5,999 | 6,699 |
| | 6,084 | 6,784 |

(1) Effective November 2014, the D6 contractor group has been paid the earlier price of $4.20 / MMBtu net calorific value ("NCV") for the production in the D1 D3 fields in the D6 Block and the difference between the higher of the revised price and the $4.20 / MMBtu NCV has been deposited into a gas pool account. Refer to the cost recovery dispute described in Note 24(b)(i). In fiscal 2017 and fiscal 2018, the Company recognized impairments of the gas pool account receivable due to the uncertainty of timing regarding resolutions of the cost recovery dispute. For the nine months ended December 31, 2017, the Company recorded interest income of $0.6 million related to the gas pool account receivable.

## 8. Inventories

| (thousands of US Dollars) | As at December 31, 2017 | As at March 31, 2017 |
|---|---|---|
| Stock, spares and consumables | 3,517 | 3,348 |
| Oil and condensate inventories | 294 | 307 |
| | 3,811 | 3,655 |

## 9. Exploration and Evaluation Assets

| (thousands of US Dollars) | Nine months ended December 31, 2017 | Year ended March 31, 2017 |
|---|---|---|
| Opening balance | 4,737 | 4,768 |
| Additions | - | 379 |
| Transfers | - | (149) |
| Expensed | - | (261) |
| Closing balance | 4,737 | 4,737 |

## 10. Property, Plant and Equipment

*(a) Development and producing assets*

| (thousands of US Dollars) | Nine months ended December 31, 2017 | Year ended March 31, 2017 |
|---|---|---|
| *Cost* | | |
| Opening balance | 1,232,407 | 1,201,207 |
| Additions | 3,340 | 30,687 |
| Transfers and/or adjustments | - | 513 |
| Closing balance | 1,235,747 | 1,232,407 |
| *Accumulated depletion* | | |
| Opening balance | (903,527) | (873,866) |
| Additions(1) | (19,600) | (29,661) |
| Closing balance | (923,127) | (903,527) |
| Net development and producing assets | 312,620 | 328,880 |

(1) Depletion expense has been adjusted for the first two quarters of fiscal 2018. Refer to Note 4(b).

*(b) Other property, plant and equipment*

| (thousands of US Dollars) | Land and buildings | Vehicles, helicopters and aircraft | Office equipment, furniture and fittings | Pipelines | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| Balance, March 31, 2017 | 18,480 | 2,924 | 3,580 | 10,868 | 35,852 |
| Additions | - | - | - | - | - |
| Disposals | - | - | - | (3) | (3) |
| Balance, December 31, 2017 | 18,480 | 2,924 | 3,580 | 10,865 | 35,849 |
| *Accumulated depreciation* | | | | | |
| Balance, March 31, 2017 | (11,769) | (2,178) | (3,551) | (10,553) | (28,051) |
| Additions | (281) | (78) | (4) | (190) | (553) |
| Balance, December 31, 2017 | (12,050) | (2,256) | (3,555) | (10,743) | (28,604) |
| | | | | | |
| Net book value, December 31, 2017 | 6,430 | 668 | 25 | 122 | 7,245 |

| (thousands of US Dollars) | Land and buildings | Vehicles, helicopters and aircraft | Office equipment, furniture and fittings | Pipelines | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| Balance, March 31, 2016 | 18,479 | 2,924 | 3,577 | 10,778 | 35,758 |
| Additions | 1 | - | 3 | 90 | 94 |
| Balance, March 31, 2017 | 18,480 | 2,924 | 3,580 | 10,868 | 35,852 |
| *Accumulated depreciation* | | | | | |
| Balance, March 31, 2016 | (11,353) | (1,913) | (3,538) | (10,013) | (26,817) |
| Additions | (416) | (265) | (13) | (540) | (1,234) |
| Balance, March 31, 2017 | (11,769) | (2,178) | (3,551) | (10,553) | (28,051) |
| | | | | | |
| Net book value, March 31, 2017 | 6,711 | 746 | 29 | 315 | 7,801 |

*(c) Capital work-in-progress*

| (thousands of US Dollars) | Nine months ended December 31, 2017 | Year ended March 31, 2017 |
|---|---|---|
| Opening balance | 7,948 | 10,057 |
| Additions | 105 | 172 |
| Transfers | (9) | (2,281) |
| Closing balance | 8,044 | 7,948 |

**11. Trade Payables**

| (thousands of US Dollars) | As at December 31, 2017 | As at March 31, 2017 |
|---|---|---|
| India | 11,550 | 13,186 |
| Bangladesh | 178 | 1,263 |
| Other | 433 | 895 |
| | 12,161 | 15,344 |

**12. Other Payables**

| (thousands of US Dollars) | As at December 31, 2017 | As at March 31, 2017 |
|---|---|---|
| Provision for unfulfilled exploration commitment obligation | 269,399 | 270,029 |
| Other payables from discontinued operations | 86,280 | 86,202 |
| Provision for minimum contract quantities dispute | 27,604 | - |
| Other accrued liabilities | 34,731 | 27,653 |
| Income tax payable | 1,221 | 1,221 |
| | 419,235 | 385,105 |

The provision for unfulfilled exploration commitment obligation relates to Indonesia and Trinidad. Refer to Note 23(a).

Other payables from discontinued operations of $86 million as at December 31, 2017, primarily relates to trade payables and other accrued liabilities for Trinidad, Indonesia and Pakistan.

The Company accrued a liability of $28 million related to the minimum contracted quantities dispute in India. In accordance with previous contracts for natural gas sales from the Hazira field in India, the Company had committed to deliver certain minimum quantities. For the period ended December 31, 2007, the Company was unable to deliver the minimum quantities to certain customers and the Company's joint operating partner in the Hazira field delivered the shortfall volumes from other gas sources. The Company's joint operating partner has filed claims for losses incurred as a result of the delivery of these shortfall volumes. In June 2017, the arbitration tribunal issued an award in favour of the Company's joint operating partner in an amount of approximately $17.8 million along with the interest thereon at the rate of 10 percent per annum from 2012 to the date of award plus further interest at 10 percent per annum from the date of the award until payment. The Company has appealed the award in the Indian court system under the rules governing Indian arbitration.

As at December 31, 2017, other accrued liabilities primarily relates to $18 million owed to the operator of the Block 9 PSC (refer to Notes 2 and 24(a)(ii) for details), and $15 million of disputed liabilities related to the D6 Block in India.

**13. Long-term Debt**

***(a) Finance Lease Obligation***

| (thousands of US Dollars) | Nine months ended December 31, 2017 | Year ended March 31, 2017 |
|---|---|---|
| Opening balance | 14,010 | 22,586 |
| Repayments | (7,153) | (8,576) |
| Closing balance | 6,857 | 14,010 |
| Current portion | 6,857 | 9,630 |
| Long-term portion | - | 4,380 |

The Company recognized a finance lease for the floating, production, storage and offloading vessel ("FPSO") used in the D6 Block in

India. The finance lease asset is included in producing properties within property, plant and equipment. The lease has an initial charter period of 3,650 days maturing in August 2018, which is cancellable by paying exit costs. The lease has an option to purchase the leased asset.

***(b) Term Loan Facilities***

| (thousands of US Dollars) | Nine months ended December 31, 2017 | Year ended March 31, 2017 |
|---|---|---|
| Opening balance | 200,748 | 274,079 |
| Interest transferred from accounts payable and accrued liabilities | - | 56,972 |
| Interest due upon repayment | - | 3,785 |
| Repayment | - | (12,000) |
| Gain on debt modification | - | (122,088) |
| Closing balance | 200,748 | 200,748 |
| Current portion | - | - |
| Long-term portion | 200,748 | 200,748 |

In December 2013, the Company entered into a Facilities Agreement with certain institutional investors providing for senior secured Term Loan facilities.

In July 2016, the Company executed the Fourth Amendment that amended the terms of the Facilities Agreement. The key terms of the Fourth Amendment are described in the audited consolidated financial statements for the year ended March 31, 2017. As a result of the Fourth Amendment, the Company is not required to make interest payments (including interest previously owing) on the Term Loan, other than in connection with the Waterfall Distribution.

As a result of the Fourth Amendment, the value of the Term Loan obligation is now primarily dependent of the net proceeds that would be distributed in the future under the Waterfall Distribution mechanism to the Term Loan lenders upon the sale of the assets of the Company and other events, and is therefore highly uncertain.

On the date of the Fourth Amendment, the future cash flows related to the Term Loan were estimated to be substantially less than the carrying value of the Term Loan and related interest payable of a combined $323 million and therefore the Company derecognized the previous carrying value of the Term loan and related interest payable, net of debt closing costs and recognized the Term Loan obligation at its estimated fair value of $201 million, resulting in a gain on debt modification of $122 million in fiscal 2017. The estimated fair value of the Term Loan was determined using various factors including the estimated fair value of the Convertible Notes (refer to Note 13(c)), estimated discount rates and the corresponding net proceeds that may be payable to the Term Loan lenders under the Waterfall Distribution mechanism.

***(c) Convertible Notes***

| (thousands of US Dollars) | Nine months ended December 31, 2017 | Year ended March 31, 2017 |
|---|---|---|
| Opening balance | 9,463 | 88,362 |
| Interest transferred from account payable and accrued liabilities | - | 9,927 |
| Foreign currency translation | 587 | (335) |
| Gain on debt modification | - | (88,491) |
| Closing balance | 10,050 | 9,463 |
| Current portion | - | - |
| Long-term portion | 10,050 | 9,463 |

In December 2012, under the original Indenture agreement, the Company issued Cdn$115 million principal amount of convertible unsecured notes that matured on December 31, 2017 and bore interest at 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.

In July 2016, the Company executed the Indenture Amendment that amended the terms of the Convertible Notes. The key terms of the Indenture Amendment and Intercreditor Agreement are described in the audited consolidated financial statements for the year ended March 31, 2017. As a result of the Indenture Amendment, the Company is not required to make interest payments (including interest previously owing) on the Convertible Notes, other than in connection with the Waterfall Distribution as described in Note 13(b).

As a result of the Indenture Amendment and the Intercreditor Agreement, the value of Convertible Notes obligation is now primarily dependent of the net proceeds that would be distributed in the future under the Waterfall Distribution mechanism to the holders of the Convertible Notes upon the sale of the assets of the Company and other events, and is therefore highly uncertain.

On the date of the Indenture Amendment, the future cash flows related to the Convertible Notes were estimated to be substantially less than the carrying value of the Convertible Notes and related interest payable of a combined $98 million and therefore the Company derecognized the previous carrying value of the Convertible Notes and related interest payable, net of debt closing costs and recognized the Convertible Notes obligation at its estimated fair value of $10 million, resulting in a gain on debt modification of $88 million in fiscal 2017. The gain on debt modification also included $23 million related to the amount included in equity pertaining to the conversion feature on the debt in fiscal 2017. The estimated fair value of the conversion feature on modification was nil. The estimated fair value of the Convertible Notes was determined based on the active trading price of Cdn$11.00 per $100 of Convertible Notes on the date of the Indenture Amendment.

***(d) Contract Settlement Obligation***

| (thousands of US Dollars) | Nine months ended December 31, 2017 | Year ended March 31, 2017 |
|---|---|---|
| Opening balance | 530 | 30,982 |
| Additions | - | 573 |
| Repayments | - | (3,000) |
| Gain on debt modification | - | (28,025) |
| Closing balance | 530 | 530 |
| Current portion | - | - |
| Long-term portion | 530 | 530 |

In October 2016, the Company executed the 2016 Settlement Agreement with subsidiaries of Diamond relating to the settlement of outstanding claims under drilling contracts and the 2013 Settlement Agreement (including related judgements granted by courts in Texas and Alberta), in compliance with the terms of the Fourth Amendment. The key terms of the 2016 Settlement Agreement are described in the audited consolidated financial statements for the year ended March 31, 2017.

On the date of the execution of the 2016 Settlement Agreement, the future cash flows were estimated to be substantially less than the carrying value of the contract settlement obligation and related interest payable of a combined $32 million and therefore the Company derecognized the previous carrying value of the contract settlement obligation and related interest payable, net of cash settlement payments and recognized the contract settlement obligation at its estimated fair value of $0.5 million, resulting in a gain on debt modification of $28 million in fiscal 2017. The estimated fair value of the contract settlement obligation was determined using various factors including the estimated fair value of the Convertible Notes (refer to Note 13(c)), estimated discount rates and the corresponding net proceeds that may be payable to Diamond under the Waterfall Distribution mechanism.

## 14. Decommissioning Obligations

| (thousands of US Dollars) | Nine months ended December 31, 2017 | Year ended March 31, 2017 |
|---|---|---|
| Opening balance | 47,993 | 45,001 |
| Change in estimate during the period | (49) | (167) |
| Settlement during the period | - | (73) |
| Accretion | 2,557 | 3,233 |
| Closing balance | 50,501 | 47,994 |
| Current portion | 393 | 51 |
| Long-term portion | 50,108 | 47,943 |

The Company's decommissioning obligations are expected to be settled over a period of approximately one to fifteen years and discounted using a weighted average discount rate of 6 or 10 percent, depending on the block. The Company has estimated the net present value of the decommissioning obligations to be $51 million as at December 31, 2017 (2016 - $48 million) based on an undiscounted total future liability of $75 million (2016 - $75 million).

In accordance with provisions of its PSCs, funds are required to be deposited in separate accounts for funding of future decommissioning obligations of Hazira, Surat and Block 9. Refer to Note 5.

## 15. Financial Instruments and Risk Management

### *(a) Financial Instruments*

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts receivable, income tax receivable, accounts payable and accrued liabilities, and long-term debt. The fair values of cash and cash equivalents, restricted cash, accounts receivable, income tax receivable, accounts payable and accrued liabilities, approximate their carrying value, unless otherwise noted due to the short-term maturity of these instruments.

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).

As a result of the Amendments executed, the Company determined that the estimated fair value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation were substantially less than the carrying value of these obligations at that date and the difference between the fair value and the carrying value of these was recognized on the statement of comprehensive income (loss) as a gain on debt modification.

The Convertible Notes is classified as a Level 1 financial instrument and the estimated fair value of the Convertible Notes on the date of Indenture Amendment was determined based on the quoted trading price.

The Term Loan is classified as a Level 3 financial instrument and the estimated fair value of the Term Loan on the date of the Fourth Amendment was determined using the estimated fair value of the Convertible Notes, estimated discount rates and the corresponding net proceeds that may be payable to the Term Loan lenders under the Waterfall Distribution mechanism.

The deferred obligation and contract settlement obligation are classified as a Level 3 financial instrument and the estimated fair values of these amounts were determined based on the priority of payments under the Waterfall Distribution mechanism.

The following table compares the face value and fair value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation as at December 31, 2017:

| (thousands of US Dollars) | Face Value(1) | Fair Value |
|---|---|---|
| Term loan (Note 13(b)) | 404,462 | 200,748 |
| Convertible notes (Note 13(c)) | 111,975 | 10,050 |
| Deferred obligation(2) | 5,968 | - |
| Contract settlement obligation (Note 13(d)) | 26,057 | 530 |
| | 548,462 | 211,328 |

(1) Includes accrued interest and other amounts owing as at December 31, 2017.

(2) Refer to the audited consolidated financial statements for the year ended March 31, 2017 for discussion of the deferred obligation.

### (*b*) *Credit Risk*

Credit risk is the risk of financial loss if a partner or counterparty to a product sales contract or financial instrument fails to meet its contractual obligation. The Company is exposed to credit risk with respect to its oil and gas receivables with its joint operating partners and purchasers of the Company's production. The Company manages credit risk by entering into sales contract with established creditworthy counterparties and limiting exposure to any one counterparty. The Company is currently subject to credit risk in Bangladesh due to amounts withheld by Petrobangla equal to the Company's share of gas and condensate supplied from the Block 9 PSC. Refer to Notes 2, 6 and 24(a)(ii). As at December 31, 2017, the carrying amount of accounts receivable represents the maximum credit exposure.

### *(c) Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages and mitigates its exposure to liquidity risk though its management of cash, debt and capital program by the use of cash flow forecasts.

The carrying values of the financial liabilities as at December 31, 2017 are as follows:

| (thousands of US Dollars) | Carrying amount | < 1 year | > 1 year |
|---|---|---|---|
| Trade payables | 12,160 | 12,160 | - |
| Other payables | 419,235 | 419,235 | - |
| Long-term debt | | | |
| Finance lease obligations[1] | 6,857 | 6,857 | - |
| Term loan[2] | 200,748 | - | 200,748 |
| Convertible notes[2] | 10,050 | - | 10,050 |
| Contract settlement obligation[2] | 530 | - | 530 |
| Decommissioning obligations | 50,501 | 393 | 50,108 |

(1) The carrying value of the finance lease obligation is the fair value of $7 million. The lease payments are $7 million (including principal and interest) until August 2018.

(2) The carrying value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation approximately equals the fair value as at December 31, 2017.

*(d) Foreign Currency Risk*

Foreign currency risk is the risk that future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company holds the majority of its cash balances in US Dollars which is the Company's functional currency. The Company's revenues and majority of capital expenditures are denominated in US Dollars. The Company is exposed to fluctuations between the Indian Rupee against the US Dollar on Indian Rupee denominated financial instruments including cash and cash equivalents, accounts receivable, income tax receivable, accounts payable and deferred tax liability. In addition, the Company is subject to fluctuations in the value of the Euro compared to the US Dollar, as applicable to certain vendor payables for its subsidiary in India. The Company's corporate operations is exposed to fluctuations in the value of the Canadian Dollar against the US Dollar on Canadian denominated financial instrument including cash and cash equivalents, accounts payable and accrued liabilities and Convertible Notes. As at December 31, 2017, the Company does not have forward exchange rate contracts in place to mitigate foreign currency risk.

In respect of financial instruments existing at December 31, 2017, a 1 percent strengthening or weakening of the Indian Rupee against the US Dollar with all other variables assumed constant, would have resulted in a decrease or increase, respectively, of $0.5 million in the statement of comprehensive loss for the three and nine months ended December 31, 2017. In respect of financial instruments existing at December 31, 2017, a 1 percent strengthening or weakening of the Canadian Dollar against the US Dollar with all other variables assumed constant, would have resulted in a decrease or increase, respectively, of $0.1 million in the statement of comprehensive loss for the three and nine months ended December 31, 2017.

*(e) Commodity Price Risk*

Commodity price risk is the risk that the fair value of future cash flows may have potential adverse impact due to changes in commodity prices. Commodity prices for oil and natural gas are impacted by global economic events that dictate the level of supply and demand as well as the relationship between the Canadian and US Dollar. Crude oil prices are subject to fluctuation and volatility as evident in today's market. A US$10.00/bbl increase or decrease in crude oil would respectively increase or decrease net cash flow for the three and nine months ended December 31, 2017 by $0.3 million and $0.6 million, respectively, net of the impact on royalty and profit petroleum as applicable.

As per the natural gas pricing formula, the gas price on currently producing fields in the D6 Block are determined on a semi-annual basis. Prices are calculated based on a volume weighted average of prices in the US, Canada, Europe and Russia based on the twelve month trailing average price with a lag of three months, with deductions for transportation and treatment charges. A US$0.10/mcf increase or decrease in natural gas in the D6 Block would respectively increase or decrease net cash flow for the three and nine months ended December 31, 2017 by $0.1 million and $0.5 million, respectively, net of the impact on royalty and profit petroleum as applicable.

As at December 31, 2017, the Company has not entered into any contracts to hedge against commodity price risk.

*(f) Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has minimum exposure to interest rates. As at December 31, 2017, the Company has not entered into any contracts to hedge against interest rate risk.

## 16. 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.

*(b) Share options granted under the employee share option plan*

Under the Company's share option plan, the Company has reserved 9,404,997 common shares for granting stock options to directors, officers, and employees. From the date of grant, the options vest immediately to five years and expire from one to nine years. All stock options are settled in equity.

Stock option transactions for the respective periods were as follows:

| | Nine months ended December 31, 2017 | | Year ended March 31, 2017 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (Cdn$) | Number of options | Weighted average exercise price (Cdn$) |
| Opening balance | 134,038 | 7.78 | 1,199,067 | 20.20 |
| Forfeited | (500) | 15.64 | (3,749) | 26.88 |
| Expired | (83,538) | 10.86 | (1,061,280) | 21.74 |
| Closing balance | 50,000 | 2.56 | 134,038 | 7.78 |
| Exercisable | 50,000 | 2.56 | 134,038 | 7.78 |

## 17. Revenue

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| (thousands of US Dollars) | 2017 | 2016 | 2017 | 2016 |
| Natural gas sales | 4,691 | 6,784 | 15,158 | 44,954 |
| Oil and condensate sales | 2,091 | 828 | 3,691 | 5,046 |
| Less: | | | | |
| Royalties | (594) | (803) | (1,807) | (2,627) |
| Government's share of profit petroleum | (72) | (142) | (236) | (11,085) |
| Net oil and natural gas revenue | 6,116 | 6,667 | 16,806 | 36,288 |

Since late September 2016, Niko Block 9 has not paid cash calls that were due and has been issued default notices by the operator of the Block 9 PSC. Under the terms of the JOA between the participating interest holders in the Block 9 PSC, during the continuance of a default, the defaulting party shall not have a right to its share of gas and condensate sales proceeds, which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party. As a result, the Company has not recognized $35 million of net oil and gas revenue that it otherwise would have been entitled to from September 2016 to December 31, 2017. Refer to Notes 2 and 24(a)(ii) for further discussion of non-payments by Petrobangla of amounts due.

For the nine months ended December 31, 2017, significant natural gas customers in India were Nagarjuna Fertilizers and Chemicals Limited (24%), Indian Farmers Fertilizers Cooperative (14%) and Rashtriya Chemicals and Fertilizers Limited (12%), and a significant crude oil customer in India was Chennai Petroleum Corporation Ltd. (17%), of total natural gas and crude oil revenue.

## 18. Finance Expense

| | Three months ended December 31, | | Nine months ended December 31, | |
|---|---|---|---|---|
| (thousands of US Dollars) | 2017 | 2016 | 2017 | 2016 |
| Interest expense | 385 | 309 | 1,526 | 21,869 |
| Accretion expense | 867 | 799 | 2,557 | 3,183 |
| Bank charges | 4 | 6 | 14 | 21 |
| Finance expense | 1,256 | 1,114 | 4,097 | 25,073 |

## 19. Restructuring Costs

| (thousands of US Dollars) | Three months ended December 31, 2017 | 2016 | Nine months ended December 31, 2017 | 2016 |
|---|---|---|---|---|
| Severance | 10 | 7 | 308 | 1,824 |
| Advisory costs | 29 | 51 | 57 | 1,852 |
| Other | - | 5 | 2 | 573 |
| Restructuring costs | 39 | 63 | 367 | 4,249 |

## 20. Discontinued Operations

Discontinued operations include the Company's Indonesia, Pakistan and Trinidad segments. In fiscal 2018, the Company reclassified the Trinidad segment as discontinued operations upon termination of the PSCs in May 2017. Net income (loss) from discontinued operations for the three and nine months ended December 31, 2017 and 2016 is as follows:

| (thousands of US Dollars) | Three months ended December 31, 2017 | 2016 | Nine months ended December 31, 2017 | 2016 |
|---|---|---|---|---|
| Other income | 164 | 10 | 518 | 376 |
| Expenses | | | | |
| Foreign exchange gain (loss) | - | 17 | - | (27) |
| Exploration and evaluation expenses | - | (60) | - | (374) |
| Restructuring recovery (costs) | (56) | 4 | (172) | (32) |
| Asset impairment recovery (loss) | - | (2) | - | (495) |
| Unfulfilled exploration commitment expense | - | (2,102) | - | (2,102) |
| Other expenses | - | - | - | (39) |
| Net income (loss) from discontinued operations | 108 | (2,133) | 346 | (2,693) |

Discontinued operations reported in the condensed interim consolidated statements of cash flows are as follows:

| | Three months ended December 31, 2017 | 2016 | Nine months ended December 31, 2017 | 2016 |
|---|---|---|---|---|
| Cash flow from (used in) operating activities | 77 | (11) | 453 | 127 |
| Cash flow from investing activities | - | - | - | - |
| Cash flow from financing activities | - | - | - | - |

## 21. Per Share Amounts

| (thousands of US Dollars, except number of common shares) | Three months ended December 31, 2017 | 2016 | Nine months ended December 31 2017 | 2016 |
|---|---|---|---|---|
| **Continuing Operations** | | | | |
| Basic | | | | |
| Net income (loss) | (7,688) | 23,044 | (55,736) | 243,023 |
| Weighted average number of common shares | 94,049,967 | 94,049,967 | 94,049,967 | 94,049,629 |
| Net income (loss) per share | (0.08) | 0.24 | (0.59) | 2.58 |
| Diluted | | | | |
| Net income (loss)[2] | (7,688) | 139,066 | (55,736) | 141,277 |
| Weighted average number of common shares[1] | 104,192,445 | 104,192,445 | 104,192,445 | 104,192,107 |
| Net income (loss) per share | (0.08) | 1.33 | (0.59) | 1.36 |
| **Discontinued Operations** | | | | |
| Basic | | | | |
| Net income (loss) | 108 | (2,133) | 346 | (2,693) |
| Weighted average number of common shares | 94,049,967 | 94,049,967 | 94,049,967 | 94,049,629 |
| Net income (loss) per share | 0.00 | (0.02) | 0.00 | (0.02) |
| Diluted | | | | |
| Net income (loss) | 108 | (2,133) | 346 | (2,693) |
| Weighted average number of common shares[1] | 104,192,445 | 104,192,445 | 104,192,445 | 104,192,107 |
| Net income (loss) per share | 0.00 | (0.02) | 0.00 | (0.03) |

(1) As at December 31, 2017, the total outstanding Convertible Notes of $114,610,000 are convertible into 10,142,478 shares and were considered dilutive.

(2) The gain on debt modification relating to the Convertible Notes has been adjusted in net income.

(3) For the three and nine months ended December 31, 2017 and 2016, stock options were excluded from the earnings per share calculation of diluted earnings as these options were anti-dilutive.

## 22. Segmented Information

*(a) Revenues from reportable segments*

| (thousands of US Dollars) | Three months ended December 31, 2017 | 2016 | Nine months ended December 31 2017 | 2016 |
|---|---|---|---|---|
| Natural gas sales | | | | |
| India | 4,691 | 6,784 | 15,158 | 24,422 |
| Bangladesh | - | | - | 20,532 |
| Oil and condensate sales | | | | |
| India | 2,091 | 828 | 3,691 | 3,963 |
| Bangladesh | - | | - | 1,083 |
| Total oil and natural gas revenue | 6,782 | 7,612 | 18,849 | 50,000 |

*(b) Capital additions from reportable segments*

| (thousands of US Dollars) | Nine months ended December 31, 2017 | | Year ended March 31, 2017 | |
|---|---|---|---|---|
| Continuing Segments | Exploration and evaluation assets | Property, plant and equipment | Exploration and evaluation assets | Property, plant and equipment |
| Bangladesh | - | 1,684 | - | 12,369 |
| India | - | 1,759 | - | 18,584 |
| Total | - | 3,443 | - | 30,953 |

*(c) Segmented assets*

| (thousands of US Dollars) | As at December 31, 2017 | | | As at March 31, 2017 | | |
|---|---|---|---|---|---|---|
| Segment | Total Exploration and evaluation assets | Total Property, plant and equipment | Total Assets | Total Exploration and evaluation assets | Total Property, plant and equipment | Total Assets |
| Bangladesh | 4,737 | 27,121 | 33,475 | 4,737 | 28,740 | 35,327 |
| India | - | 300,788 | 363,018 | - | 315,889 | 378,537 |
| Other | - | - | 1,013 | - | - | 11,463 |
| | 4,737 | 327,909 | 397,506 | 4,737 | 344,629 | 425,327 |
| Discontinued | - | - | - | - | - | 681 |
| Total | 4,737 | 327,909 | 397,506 | 4,737 | 344,629 | 426,008 |

*(d) Segment income (loss) from reportable segments*

| | Three months ended December 31, 2017 | | | | Three months ended December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollar) | India | Bangladesh | Other | Total | India | Bangladesh | Other | Total |
| Natural gas revenue | 4,691 | - | - | 4,691 | 6,784 | - | - | 6,784 |
| Crude oil and condensate revenue | 2,091 | - | - | 2,091 | 828 | - | - | 828 |
| Royalties | (600) | - | 6 | (594) | (808) | - | 5 | (803) |
| Profit petroleum | (72) | - | - | (72) | (142) | - | - | (142) |
| **Net oil and natural gas revenue** | **6,110** | **-** | **6** | **6,116** | **6,662** | **-** | **5** | **6,667** |
| Production and operating expenses | (4,186) | (1,728) | - | (5,914) | (3,291) | (1,017) | - | (4,308) |
| General and administrative expenses | - | - | (1,323) | (1,323) | - | - | (1,615) | (1,615) |
| Finance and other income | 217 | - | 31 | 248 | 401 | - | 44 | 445 |
| Finance expense | (1,133) | (119) | (4) | (1,256) | (1,000) | (108) | (6) | (1,114) |
| Foreign exchange gain (loss) | - | - | 482 | 482 | - | - | (742) | (742) |
| Depletion and depreciation expenses | (4,862) | (1,089) | - | (5,951) | (5,862) | (1,191) | - | (7,053) |
| Exploration and evaluation expenses | (51) | - | - | (51) | (51) | (32) | - | (83) |
| Share-based compensation expense | - | - | - | - | - | - | (7) | (7) |
| Restructuring costs | - | - | (39) | (39) | - | - | (63) | (63) |
| Asset impairment loss | - | - | - | - | (691) | - | - | (691) |
| Gain on debt modification | - | - | - | - | - | - | 28,027 | 28,027 |
| Deferred income tax recovery | - | - | - | - | 3,581 | - | - | 3,581 |
| **Net segment income (loss) from continuing operations** | **(3,905)** | **(2,936)** | **(847)** | **(7,688)** | **(251)** | **(2,348)** | **25,643** | **23,044** |
| **Net segment income (loss) from discontinued operations** | **-** | **-** | **108** | **108** | **-** | **-** | **(2,133)** | **(2,133)** |
| **Total net income (loss) and comprehensive income (loss)** | **(3,905)** | **(2,936)** | **(739)** | **(7,580)** | **(251)** | **(2,348)** | **23,510** | **20,911** |

| | Nine months ended December 31, 2017 | | | | Nine months ended December 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| (thousands of US Dollar) | India | Bangladesh | Other | Total | India | Bangladesh | Other | Total |
| Natural gas revenue | 15,158 | - | - | 15,158 | 24,422 | 20,532 | - | 44,954 |
| Crude oil and condensate revenue | 3,691 | - | - | 3,691 | 3,963 | 1,083 | - | 5,046 |
| Royalties | (1,824) | - | 17 | (1,807) | (2,637) | - | 10 | (2,627) |
| Profit petroleum | (236) | - | - | (236) | (337) | (10,748) | - | (11,085) |
| **Net oil and natural gas revenue** | **16,789** | **-** | **17** | **16,806** | **25,411** | **10,867** | **10** | **36,288** |
| Production and operating expenses | (10,528) | (4,440) | - | (14,968) | (11,719) | (4,587) | - | (16,306) |
| General and administrative expenses | - | - | (3,800) | (3,800) | - | - | (3,771) | (3,771) |
| Finance and other income | 627 | - | 543 | 1,170 | 844 | - | 634 | 1,478 |
| Finance expense | (3,382) | (700) | (15) | (4,097) | (3,533) | (324) | (21,216) | (25,073) |
| Foreign exchange gain (loss) | - | - | (1,276) | (1,276) | - | - | (265) | (265) |
| Depletion and depreciation expenses | (16,851) | (3,302) | - | (20,153) | (18,750) | (3,629) | - | (22,379) |
| Exploration and evaluation expenses | (119) | - | - | (119) | (175) | (209) | - | (384) |
| Share-based compensation expense | - | - | - | - | - | - | (23) | (23) |
| Restructuring costs | - | - | (367) | (367) | - | - | (4,249) | (4,249) |
| Asset impairment loss | (1,328) | - | - | (1,328) | (1,327) | (13,010) | - | (14,337) |
| Loss on derivative | - | - | - | - | - | - | (36) | (36) |
| Gain on debt modification | - | - | - | - | - | - | 283,248 | 283,248 |
| Commercial claim expense | (27,604) | - | - | (27,604) | - | - | - | - |
| Deferred income tax recovery | - | - | - | - | 8,832 | - | - | 8,832 |
| **Net segment income (loss) from continuing operations** | **(42,396)** | **(8,442)** | **(4,898)** | **(55,736)** | **(417)** | **(10,892)** | **254,332** | **243,023** |
| **Net segment income (loss) from discontinued operations** | **-** | **-** | **346** | **346** | **-** | **-** | **(2,693)** | **(2,693)** |
| **Total net income (loss) and comprehensive income (loss)** | **(42,396)** | **(8,442)** | **(4,552)** | **(55,390)** | **(417)** | **(10,892)** | **251,639** | **240,330** |

## 23. Commitments and contractual obligations

*(a) Exploration commitments*

| (thousands of US Dollar) | As at December 31, 2017 |
|---|---|
| Indonesia(1) | 140,579 |
| Trinidad(1)(2) | 128,820 |
| Brazil(3) | 3,000 |
| | 272,399 |

(1) Amounts have been recognized as unfulfilled exploration commitments as at December 31, 2017. Refer to Note 12.

(2) In May 2017, the Company's indirect subsidiaries received written notices from the GORTT terminating three PSCs in Trinidad. In the Company's view, the parent company guarantees for unfulfilled exploration commitments for the three PSCs have expired.

(3) Exploration commitments in Brazil are backed by parent company guarantees.

*(b) Finance lease obligation*

The future minimum lease payments of the Company's FPSO finance lease used in the D6 Block in India are as follows. Refer to Note 13(a) for details.

| (thousands of US Dollar) | As at December 31, 2017 |
|---|---|
| <1 year | 7,161 |
| Imputed interest | (304) |
| Carrying value | 6,857 |

## 24. Contingent liabilities

*(a)* (i) *ICSID Arbitration Disputes - Bangladesh*

NRBL is a party to two arbitration disputes to be decided upon by Tribunals constituted under the rules of ICSID.

1. "Payment Claim": Dispute over payment for gas delivered from the Feni field from November 2004 to April 2010 under the Feni GPSA with Petrobangla.
2. "Compensation Claim": Dispute over compensation claims arising from the uncontrolled flow problems that occurred in Chattak field in January and June 2005.

For the Payment Claim, i) in September 2014, the Tribunals decided that Petrobangla owed NRBL for the gas delivered and accrued interest, ii) in September 2015, the Tribunals decided that Petrobangla shall pay the amounts owed into escrow accounts, and iii) in May 2016, the Tribunals decided that Petrobangla shall pay the amounts owed to NRBL forthwith and free of any restrictions. The amounts owed to date total approximately $37 million. There is no assurance that Petrobangla will comply with the decision of the Tribunals. As such, no amounts have been recorded in these condensed interim consolidated financial statements.

For the Compensation Claim, the Company's position is that it is not liable for any compensation claims. In March 2016, Bapex filed a memorial with the Tribunals that included a request that the Tribunals declare the JVA null and void based on the premise that the JVA was procured through corruption and dismiss all claims of NRBL in arbitration. In addition, Bapex requested compensation of $118 million for Bapex's losses and approximately $905 million for the GOB's losses and other expenses. A hearing on the corruption claim was held in April 2017 with a decision from the Tribunal expected to be delivered before the end of fiscal 2018.

(ii) *Lawsuits in Local Courts - Bangladesh*

NRBL is named as a defendant in three lawsuits filed in local courts in Bangladesh.

The first lawsuit (the Money Suit) was filed during fiscal 2006 by the GOB and Petrobangla, claiming approximately $105 million in damages related to the same issues under dispute in the Compensation Claim described above.

In May 2016, a writ petition was filed before the Supreme Court of Bangladesh, High Court Division (the "Court") by a citizen of Bangladesh against (i) the GOB, (ii) Petrobangla, (iii) Bapex, (iv) NRBL and (v) the Company. The writ petition relates to the Feni GPSA and the JVA for the Feni and Chattak fields in Bangladesh. Pending resolution of the writ petition, the Court issued a Stay Order for a period of one month on any kind of benefit given by the GOB, Petrobangla or Bapex to NRBL or Niko or any of its affiliates or subsidiaries, including payments made for gas supplied from the Block 9 PSC. The Court subsequently extended the Stay Order.

In August 2017, the presiding judge of the Court announced its decision in favor of the Petitioner and declared:

- the Feni GSPA and the JVA to be without legal authority and of no legal effect; and
- the assets of NRBL and Niko, including its shareholding in the indirect subsidiary that holds a 60 percent interest in the Block 9 production sharing contract ("Block 9 PSC"), are seized to provide adequate compensation for the blowouts that occurred in 2005 in the Chattak field in Bangladesh.

In November 2017, the full written judgement of the Court was received and in December 2017, NRBL and the Company filed an appeal in the Appellate Division of the Supreme Court against the decision of the Court.

In June 2016, another writ petition has been filed before the Supreme Court of Bangladesh, High Court Division (the "Court") in Dhaka by a citizen of Bangladesh against (i) the Government of Bangladesh (ii) Petrobangla, (iii) Bapex, (iv) Niko Exploration (Block 9) Ltd. ("Niko Block 9"), an indirect subsidiary of the Company, (iv) Niko Resources (Cayman) Ltd. ("Niko Cayman"), a direct subsidiary of the Company and (v) the Company. The writ petition relates to the October 2004 approval by Petrobangla of the acquisition by Niko Cayman of Niko Block 9 (previously Chevron International Bangladesh Limited) from Chevron Corporation. Niko Block 9 owns a 60 percent interest in the Block 9 production sharing contract ("Block 9 PSC"). Pending resolution of the writ petition, the Court has issued a stay order until September 2016 against all direct and indirect payments to Niko Block 9, Niko Cayman or Niko under the Block 9 PSC or the Block 9 joint operating agreement including payments made for gas supplied from the Block 9 PSC. The Court subsequently extended the Stay Order.

The Company believes that ICSID have exclusive jurisdiction to decide all disputes relating to Feni GPSA and the JVA and the Block 9 PSC provides for ICSID arbitration as the default dispute resolution mechanism to decide disputes relating to the Block 9 PSC. In addition, the Company believes that Petrobangla's withholding of funds related to invoiced amounts due for gas and condensate supplied from the Block 9 PSC constitutes breaches of the purchase and sales agreements governing gas and condensate supplied from the Block 9 PSC as well as a breach of the Block 9 PSC.

The Company continues to vigorously pursue its rights in these matters. In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(b)* (i) *Cost Recovery Dispute – India*

The contractor group of the D6 PSC in India is party to an arbitration dispute with the GOI relating to the calculation of cost recovery and profit petroleum for the D6 PSC. In November 2011, after unsuccessful attempts to resolve the dispute, the operator of the D6 Block, on behalf of the contractor group, commenced an arbitration proceeding against the GOI. It is the GOI's position that the contractor group is in breach of the PSC for the D6 Block due to the failure to drill all of the wells and attain production levels contemplated in the Addendum to the Initial Development Plan ("AIDP") for the Dhirubhai 1 and 3 fields and therefore, the GOI asserts that certain costs should be disallowed for cost recovery. The contractor group is of the view that the disallowance of recovery of costs incurred by the joint operation has no basis in the terms of the PSC and that there are strong grounds to challenge the positions of the GOI.

Since May 2012, the GOI has issued various letters disallowing the recovery of certain costs and demanding payment for its share of profit petroleum based on the GOI's calculation of the costs that should be disallowed for cost recovery and other adjustments. The GOI has also requested compensation to be assessed at a later date for its share of profit petroleum and royalties on the difference in the value of the gas quantities contemplated in the AIDP and the gas quantities actually produced.

In October 2014, the Cabinet Committee of Economic Affairs of the GOI approved the new domestic gas pricing policy for India, effective November 1, 2014. Since November 2014 the D6 contractor group has been paid the earlier price of $4.20 / MMbtu NCV for gas sales from the Dhirubhai 1 and 3 fields and the difference between the revised price and the $4.20 / MMbtu NCV has been deposited to a gas pool account and "whether the amount so collected is payable or not to the contractors of this block would be dependent on the outcome of the award of the pending arbitration and any attendant legal proceedings". Deposits to the gas pool account for natural gas sales from the D1-D3 fields from November 2014 to March 2016 totaled $82 million (Niko share $8.2 million), of which $4 million (Niko share $0.4 million) of royalties was paid to the GOI out of the gas pool account. Commencing April 2016 and thereafter to date, the revised gas price under the Guidelines was below the $4.20 / MMbtu NCV and deposits were not required to be made to the gas pool account.

(ii) *Alleged Migration of Natural Gas Dispute – India*

In the third quarter of fiscal 2016, an international reservoir engineering firm (commissioned by the operator of the D6 Block and the operator of two adjoining blocks, and under the supervision of the Director General of Hydrocarbons of the GOI) issued a third party report stating that their analysis indicated connectivity and continuity of the reservoirs across the D6 Block and the adjoining blocks and that, in their opinion, a portion of the natural gas produced from the D1 D3 facilities in the D6 Block had likely migrated from the adjoining blocks. In the Company's opinion, the operator of the D6 Block has acted in accordance with the provisions of the D6 PSC, with all wells drilled within the block boundaries as per the development plan approved by the relevant authorities under the PSC.

In November 2016, the contractor group of the D6 Block received a letter from the GOI in which the GOI made a total claim of $1.55 billion (Niko share $155 million) against the contractor group in respect of gas said to have migrated from neighboring blocks to the D6 Block. This claim reflected the GOI's estimate of the gas migrated from neighboring blocks and produced and sold by the contractor group up to March 31, 2016 multiplied by the prevailing price, a deduction for royalties already paid, the addition of interest, and without deduction for any capital and operating expenditures incurred by the contractor group. In addition, the GOI updated its estimate of the costs that should be disallowed for cost recovery as at March 31, 2016 to $3.02 billion (Niko share $302 million) and its demand for payment for additional profit petroleum to $175 million (Niko share $17.5 million).

Later in November 2016, the operator of the D6 Block invoked the dispute resolution mechanism in the PSC on behalf of the contractor group and issued a Notice of Arbitration to the GOI, with the arbitration process currently underway. In September 2017, the GOI updated its base claim to $1.45 billion (Niko share $145 million) for its estimate of the gas migrated from neighboring blocks and produced and sold by the contractor group up to June 30, 2017 multiplied by the prevailing price, a deduction for royalties already paid, and without deduction for any capital and operating expenditures incurred by the contractor group, and also included an unquantified claim for interest. Niko believes the contractor group is not liable for the amount claimed by the GOI and is working with the contractor group to defend against the claim through the dispute resolution mechanism in the PSC.

In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(c) Tax Holiday Disputes - India*

The Company is claiming tax holiday deductions under the India Income Tax Act ('Act') for eligible undertakings related to the Hazira and Surat fields. The tax department has contended 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. With respect to undertakings eligible for the tax holiday deduction, the Act was retrospectively 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.

In March 2015, the High Court of Gujarat in India issued a favorable judgment on the retrospective application of the definition of undertakings and whether or not mineral oil includes natural gas for the purposes of the income tax holiday claims for the Company's fields in India. The judgment states that the GOI's retrospective application of the definition of undertakings as "all blocks licensed under a single contract shall be treated as a single undertaking" is clearly unconstitutional and has been struck down. As such, the Company's position that an undertaking can be defined as a well or cluster of wells has been upheld for the purposes of the tax holiday provisions in the Act. The judgement also states that the term "mineral oil" for the purposes of the tax holiday provisions in the Act takes within its purview both petroleum products and natural gas.

Based on the ruling of the High Court, the accounting treatment of considering the advance tax payment of $18 million made by the Company related to tax holiday as income tax receivables is appropriate.

In October 2015, the GOI filed a petition in the Supreme Court of India to challenge the favorable tax judgment issued by the High Court of Gujarat. Should the Supreme Court overturn the ruling of the High Court, the Company would have to change its tax position and record a tax expense of approximately $49 million (comprised of additional taxes of $31 million and write off approximately $18 million of income tax receivable). In addition, the Company could be obligated to pay interest on taxes for the past periods.

The Company received similar unfavorable tax assessments relating to the tax holiday deduction claimed by the Company's subsidiary that owns its interest in the D6 Block. The Company filed appeals against these tax assessments and in the third quarter of fiscal 2018, the Company received favorable decisions allowing the tax holiday deductions for certain fiscal years. As a result, the Company has reflected the US$ equivalent of $14 million as current income tax receivable.

In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(d) Unfulfilled Commitments Disputes – India*

The Cauvery and D4 blocks in India are under relinquishment. The Company believes it has fulfilled all commitments for the Cauvery and D4 blocks while the GOI contends that the Company has unfulfilled commitments of $7 million. In the Company's opinion, it is more likely than not that the above noted disputes will not result in an outflow of resources embodying economic benefits from the Company.

*(e) Other Claims*

Various other claims have been filed against the Company for incidents arising in the ordinary course of business. In the Company's opinion, the possibility of outflow for these claims is remote or will not be material to the Company's operations.

## 25. Subsequent Event

*Hazira sale*

Subsequent to the end of the third quarter of fiscal 2018, the Government of India approved the assignment of Niko's 33.33 percent interest in the Hazira PSC to a third party. Closing of the sale, effective October 1, 2017, is expected to occur in the fourth quarter of fiscal 2018. Under the Company's operatorship, the Hazira Field was nearing the end of its life with an abandonment program planned for the near future, and the expected sale proceeds, net of closing adjustments, are not forecast to significantly impact the Company's liquidity.