

## **NIKO REPORTS RESULTS FOR THE YEAR ENDED MARCH 31, 2018**

Niko Resources Ltd. ("Niko" or the "Company") is pleased to report its operating and financial results for the quarter and year ended March 31, 2018. The operating results are effective June 20, 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**

Development continues on the R-Cluster project in the D6 block with production projected to commence within 24 months. Progress also continues on the Satellite Cluster and MJ development projects that are projected to result in additional production commencing in 2021 and 2022, respectively. This progress, coupled with reduced capital costs and increased confidence in future commodity prices, have resulted in a substantial increase in the discounted net present value of future net revenues for the D6 Block as evaluated by our third-party reserves consultant as at March 31, 2018. Niko's share of the funding requirement for development of these projects is estimated at approximately \$200 million between mid-2018 and mid-2020, after which time the future net operating revenues from the D6 Block are forecast to be sufficient to fund the development capital expenditures to complete the projects. Niko continues to meet its funding requirements for its share of the D6 Block expenditures at the present time but the Company's cash resources and projected internally generally cash flows are expected to be insufficient to meet the estimated total funding requirement of \$200 million.

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

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

The improvements in value as noted above, progress on the development of the R-Cluster fields, and an expected favourable decision on or before 31 July 2018 by the arbitration tribunal on the alleged migration of gas dispute with the Government of India could enhance the potential to successfully monetize Niko's interest in the D6 Block. In parallel, the Company is pursuing financing options for the R-Cluster, Satellite Cluster and MJ development projects in the D6 Block in India to allow Niko to meet the funding requirements for D6. However, no assurance can be made that additional funding will be secured in a manner or on a timely basis so as to enable the Company to meet its funding obligations. See "Liquidity and Capital Resources" below.

The Board, Management and employees of Niko are totally focused and engaged on these objectives for the benefit of all of its stakeholders.

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

## ESTIMATED RESERVES AND ESTIMATED AFTER-TAX NET PRESENT VALUE OF FUTURE NET REVENUE

### INDIA

#### Estimated Reserves - India

Gross <sup>(1)</sup> (Bcfe)	As at March 31,	
	2018	2017
Proved	190	232
Proved plus Probable	314	362

(1) 'Gross' reserves are defined as those accruing to the Company's working interest share before deduction of royalties and government share of profit petroleum, and are reflected on a gas equivalent basis.

Deloitte LLP ("Deloitte"), an independent petroleum engineering firm, has prepared its reserves evaluation ("Reserves Evaluation") for the Company's interest in the D6 Block in India. The Reserves Evaluation has been prepared in accordance with National Instrument 51-101 - *Standards of Disclosure for Oil and Gas Activities* and the Canadian Oil and Gas Evaluation Handbook, with an effective date of March 31, 2018.

Deloitte has evaluated the reserves for the Company's interest in the D6 Block in India using its forecast of commodity prices and the Indian natural gas pricing formulas in effect for producing fields and for undeveloped discoveries in deepwater areas. For the decade of the 2020's, the natural gas price for currently undeveloped discoveries in the D6 Block is forecast to average approximately \$10 / mmbtu assuming an estimated average Brent crude oil price of approximately \$80 / barrel.

#### Estimated Net Present Values of Future Net Revenue - India

As at March 31, 2018  (millions of U.S. dollars)	Before Deducting Income Taxes Discounted at					After Deducting Income Taxes Discounted at				
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%
	Proved	1,164	806	565	398	281	753	510	346	234
Proved plus Probable	2,077	1,404	972	686	489	1,286	857	581	399	274

The future net revenue numbers presented in the Reserves Evaluation, whether calculated without discount or using a discount rate, are estimated values and do not represent fair market value. It should not be assumed that the net present values of future net revenues presented in the table above are representative of the fair market value of the reserves. There is no assurance that the price and cost assumptions will be attained and variances could be material.

#### Currently Producing Fields - India

Deloitte evaluated the economic viability of the technically proved developed producing and proved developed reserves in the currently producing D1-D3 and MA fields in the D6 Block and concluded that future production of these technically proved developed producing and proved developed reserves is sub-commercial at this time, mainly due to relatively low domestic natural gas prices applicable to these fields, the decline in production rates, and the significant fixed operating costs for the block facilities and the floating, production, storage and offloading ("FPSO") vessel currently under contract until September 2018. Therefore, Deloitte has not recognized any proved developed producing or proved developed reserves for the D1-D3 and MA fields in the D6 Block in its Reserves Evaluation as at March 31, 2018. From an operational standpoint, the block facilities are expected to remain in operation during the period prior to the forecast start-up of the R Cluster fields in mid-2020, with revenues from D1-D3 and MA fields partly offsetting block facilities and FPSO costs during this period. In recognition of this fact, the remaining revenues and costs associated with production from the D1-D3 and MA fields have been reflected in the evaluation of the total proved and total proved plus probable reserves for the D6 Block.

### BANGLADESH

#### Estimated Reserves - Bangladesh

As previously disclosed, from June 2016, Petrobangla withheld all payments for Niko's share of gas and condensate sales from the Block 9 production sharing contract ("PSC") due to legal disputes between Niko and the Government of Bangladesh, Petrobangla and Bangladesh Petroleum Exploration Co. (a wholly owned subsidiary of Petrobangla). As a result, as at March 31, 2017 and March 31, 2018, it has been the opinion of both Deloitte and Niko that reserves associated with Niko's interest in Block 9 should not be recognized. If the situation in Bangladesh can be resolved such that payments for the Company's share of Block 9 gas and condensate sales resume on an economic basis, then reserves for Block 9 could again be recognized.

Complete details of the Company's reserves and future net revenues attributable thereto will be contained in its Annual Information Form for the year ended March 31, 2018 which will be available on SEDAR at [www.sedar.com](http://www.sedar.com) on or before June 30, 2018.

## 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 1500, 205 – 5th Avenue SW, Calgary, Alberta, T2P 2V7. 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 year ended March 31, 2018 should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2018. Additional information relating to the Company, including the Company's Annual Information Form ("AIF"), is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.nikoresources.com](http://www.nikoresources.com). This MD&A is dated June 20, 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

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 fiscal 2018, the Company received certain consents under its amended and restated facilities agreement whereby the required restricted cash balance under this agreement was reduced from \$7.3 million at March 31, 2017 to nil at March 31, 2018, with the cash released for use in funding the Company's requirements.

As at March 31, 2018, the Company's unrestricted cash balances totalled \$2.8 million. In May 2018, an indirect subsidiary of the Company received income tax refunds from the Government of India ("GOI") totalling the Indian Rupee equivalent of approximately \$15.5 million (including interest).

#### *Funding of Projected Future Cash Requirements of the Company*

Major contracts for development of the R-Cluster fields in the D6 Block in India have been awarded with drilling expected to commence mid-2018, towards a targeted start-up of production by mid-2020. In addition, field development plans for the Satellite Cluster discoveries and the MJ discovery in the D6 Block have been approved by the GOI, with start-up of these projects projected for 2021 and 2022, respectively. Based on Deloitte's Reserve Evaluation as at March 31, 2018, Niko's share of the funding requirement for development of these projects is estimated at approximately \$200 million between mid-2018 and mid-2020, after which time the future net operating revenues from the D6 Block are forecast to be sufficient to fund the development capital expenditures to complete the projects.

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

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

The Company is pursuing financing options for the R-Cluster, Satellite Cluster and MJ development projects in the D6 Block in India, 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") after drilling for the R-Cluster development project commences. 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.

The Company is also continuing its efforts to monetize its interest in the D6 Block in India for the benefit of all of its stakeholders.

No assurance can be made that the Company will be able to enhance the Company's cash resources on a timely basis or at all, so as to meet its funding requirements under the D6 PSC or its other obligations. 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 of its stakeholders.

#### *Non-payments by Petrobangla of Amounts Due*

From June 2016 to March 2018, Petrobangla 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 March 2018 invoices totalling \$53 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 issued notices of dispute and force majeure under the Block 9 PSC and sales agreements to the Government of Bangladesh and Petrobangla and intends 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 totalling \$19 million that were due, and the operator of the Block 9 PSC has issued default notices.

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.

Subsequent to March 31, 2018, the Company was notified by the operator of the Block 9 PSC that Petrobangla had paid funds to the operator of the Block 9 for recovery of costs incurred by the operator related to Niko Block 9's interest. The impact on the Company's position in Block 9 of Petrobangla's actions is currently under evaluation.

Refer to Notes 30(a)(ii) and 31 of the audited consolidated financial statements for the year ended March 31, 2018 for further details on this matter.

#### *Claim from the Government of India in Alleged Migration of Natural Gas Dispute*

In November 2016, the contractor group of the D6 Block in India received a letter from the GOI, in which the GOI made claims against the contractor group in respect of gas said to have migrated from neighboring blocks to the D6 Block. 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 March 2018, the GOI updated its base claim to \$1.46 billion (Niko share \$146 million) for its estimate of the gas migrated from neighboring blocks and produced and sold by the contractor group up to December 31, 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. The GOI also included a claim for interest to December 31, 2017 of \$245 million (Niko's share \$24.5 million). Niko believes the contractor group is not liable for the amounts claimed by the GOI and has worked with the contractor group to defend against the claims through the arbitration process. A decision of the arbitration panel is expected by the end of July 2018.

#### *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 March 31, 2018. 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 30 of the audited consolidated financial statements for the year ended March 31, 2018 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 results for the fourth quarter and year ended March 31, 2018 are as follows:

### Consolidated

(thousands of US Dollars, unless otherwise indicated)	Three months ended March 31,		Year ended March 31,	
	2018	2017	2018	2017
Sales volumes (MMcfe/d) <sup>(1)</sup>	69	87	76	88
Net oil and natural gas revenue	3,545	8,097	20,351	44,385
EBITDAX from continuing operations <sup>(2)</sup>	(2,003)	520	(4,526)	17,587
Net income (loss) from continuing operations	(25,881)	24,142	(81,617)	267,166
Net income (loss) from discontinued operations	-	(54)	346	(2,747)

(1) Includes volumes in Bangladesh for which revenue has not been recognized since September 2016.

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

### Highlights for the fourth quarter ended March 31, 2018:

Lower sales volumes from 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 fourth quarter of fiscal 2018 compared to the fourth quarter of fiscal 2017.

Net loss from continuing operations of \$(26) million in the fourth quarter of fiscal 2018 decreased from net income from continuing operations of \$24 million in the fourth quarter of fiscal 2017, primarily due to the impact of lower EBITDAX, higher depletion expense resulting from negative revisions to proved reserves for the D1 D3 and MA fields as at March 31, 2018, and a deferred income tax recovery in the fourth quarter of fiscal 2017.

### Highlights for the year ended March 31, 2018:

Lower sales volumes from the D6 Block in India and the non-recognition of net revenue for Block 9 in Bangladesh since September 2016 contributed to lower net oil and gas revenue and lower EBITDAX for the Company for fiscal 2018 compared to fiscal 2017.

Net loss from continuing operations of \$(82) million in fiscal 2018 decreased from net income from continuing operations of \$267 million in fiscal 2017, primarily due to lower EBITDAX and higher depletion expense for the D6 Block in India in fiscal 2018. Net income from continuing operations in fiscal 2018 also reflected recognition of commercial contract expense in India of \$29 million as a result of an arbitration award in respect of the Hazira field in India (described in Note 14 of the audited consolidated financial statements for the year ended March 31, 2018). Net income from continuing operations in fiscal 2017 also reflected recognition of gains on debt modification totalling \$283 million, deferred income tax recovery in India of \$40 million, and interest expense prior to modification of Company's senior debt facilities and convertible notes of \$21 million.

### Highlights by segment for the year ended March 31, 2018:

#### India

(thousands of US Dollars, unless otherwise indicated)	Three months ended March 31,		Year ended March 31,	
	2018	2017	2018	2017
Sales volumes (MMcfe/d) <sup>(1)</sup>	14	29	19	30
Net oil and natural gas revenue	3,537	8,093	20,326	33,504
Segment EBITDAX <sup>(1)</sup>	(230)	2,972	6,031	16,669
Segment income (loss)	(22,872)	25,864	(65,268)	25,447

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

Total sales volumes in fiscal 2018 of 19 MMcfe/d decreased from 30 MMcfe/d in fiscal 2017 primarily due to lower sales volumes from the D6 Block in India, reflecting 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 and segment EBITDAX in fiscal 2018 decreased from fiscal 2017 primarily due to lower sales volumes and lower natural gas prices, partially offset by higher crude oil prices.

Segment loss of \$(65) million in fiscal 2018 decreased compared to segment income of \$25 million of fiscal 2017 primarily due to lower segment EBITDAX, higher depletion expense resulting from negative revisions to proved reserves for the D1 D3 and MA fields as at March 31, 2018, commercial claim expense of \$28 million in fiscal 2018, and a deferred income tax recovery of \$40 million in fiscal 2017.

#### *Hazira sale*

The sale of Niko's 33.33 percent interest in the Hazira PSC closed 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 receipt of sale proceeds, net of closing adjustments, did not significantly impact the Company's liquidity.

#### **Bangladesh**

(thousands of US Dollars, unless otherwise indicated)	Three months ended March 31,		Year ended March 31,	
	2018	2017	2018	2017
Sales volumes (MMcfe/d) <sup>(1)</sup>	54	58	57	58
Net oil and natural gas revenue	-	-	-	10,867
Segment EBITDAX <sup>(1)</sup>	(1,071)	(1,297)	(5,511)	4,983
Segment loss	(2,029)	(2,605)	(10,471)	(13,497)

(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 fiscal 2018 were relatively flat compared to fiscal 2017, as the impact of increased delivery pressure requirements of the sales trunkline nearly 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), impacting reported segment net oil and gas revenue, EBITDAX and loss in fiscal 2018. Segment loss in fiscal 2017 also reflected the impairment of net oil and gas revenue recognized prior to September 2016.

#### **Other**

(thousands of US Dollars, unless otherwise indicated)	Three months ended March 31,		Year ended March 31,	
	2018	2017	2018	2017
Segment EBITDAX from continuing operations <sup>(1)</sup>	(702)	(1,151)	(5,046)	(4,065)
Segment income (loss) from continuing operations	(980)	883	(5,878)	255,216
Net income (loss) from discontinued operations	-	(54)	346	(2,747)

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

Segment loss from continuing operations of (\$6) million in fiscal 2018 decreased from segment income from continuing operations of \$255 million in fiscal 2017, primarily due to the recognition of gains on debt modification of \$283 million arising from the Amendments and 2016 Settlement Agreement in fiscal 2017, partially offset by lower finance expenses due to the Amendments in July 2016.

Net loss from discontinued operations in fiscal 2018 decreased from \$(3) million in fiscal 2017 primarily due to recognition of liabilities of \$2 million of unfulfilled exploration commitment in Indonesia in fiscal 2017.

## 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 March 31, 2018				Three months ended March 31, 2017			
(thousands of US Dollars, unless otherwise indicated)	India	Bangladesh	Other	Total	India	Bangladesh	Other	Total
<b>Sales volume</b>								
Natural gas (mcf/d)	14,113	53,353	-	67,466	25,948	57,130	-	83,078
Oil and condensate (bbl/d)	13	163	-	176	531	168	-	699
Natural gas equivalent (mcf/d)	14,189	54,333	-	68,522	29,136	58,135	-	87,271
Natural gas revenue	4,006	-	-	4,006	6,591	-	-	6,591
Crude oil and condensate revenue	76	-	-	76	2,360	-	-	2,360
Royalties	(505)	-	8	(4987)	(815)	-	4	(811)
Profit petroleum	(40)	-	-	(40)	(43)	-	-	(43)
<b>Net oil and natural gas revenue</b>	<b>3,537</b>	<b>-</b>	<b>8</b>	<b>3,545</b>	<b>8,093</b>	<b>-</b>	<b>4</b>	<b>8,097</b>
Production and operating expenses	(3,767)	(1,071)	-	(4,838)	(5,121)	(1,297)	-	(6,418)
General and administrative expenses	-	-	(681)	(681)	-	-	(1,668)	(1,668)
Finance and other income	-	-	76	76	-	-	1,260	1,260
Bank charges and other finance costs	-	-	(2)	(2)	-	-	(11)	(11)
Realized foreign exchange loss	-	-	(103)	(103)	-	-	(740)	(740)
<b>EBITDAX from continuing operations<sup>(1)</sup></b>	<b>(230)</b>	<b>(1,071)</b>	<b>(702)</b>	<b>(2,003)</b>	<b>2,972</b>	<b>(1,297)</b>	<b>(1,155)</b>	<b>520</b>
Cash interest expense	(308)	344	(2)	34	(449)	-	-	(449)
Restructuring costs	-	-	(6)	(6)	-	-	(41)	(41)
Depletion and depreciation expenses	(21,177)	(1,115)	-	(22,292)	(7,426)	(1,090)	-	(8,516)
Exploration and evaluation expenses	(66)	-	-	(66)	73	(48)	-	25
Asset impairment recovery	-	-	-	-	1	-	-	1
Accretion expense	(763)	(187)	-	(950)	(705)	(170)	-	(875)
Non-cash finance and other income	1,008	-	-	1,008	239	-	-	239
Commercial claim expense	(1,336)	-	-	(1,336)	-	-	-	-
Unrealized foreign exchange gain (loss)	-	-	(270)	(270)	-	-	2,079	2,079
Deferred income tax recovery	-	-	-	-	31,159	-	-	31,159
<b>Net income (loss) from continuing operations<sup>(2)</sup></b>	<b>(22,872)</b>	<b>(2,029)</b>	<b>(980)</b>	<b>(25,881)</b>	<b>25,864</b>	<b>(2,605)</b>	<b>883</b>	<b>24,142</b>
<b>Net loss from discontinued operations<sup>(2)</sup></b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(54)</b>	<b>(54)</b>
<b>Total net income (loss)</b>	<b>(22,872)</b>	<b>(2,029)</b>	<b>(980)</b>	<b>(25,881)</b>	<b>25,864</b>	<b>(2,605)</b>	<b>829</b>	<b>24,088</b>

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

(2) Refer to Note 27 of the audited consolidated financial statements for the year ended March 31, 2018 for detailed segment information.

	Year ended March 31, 2018				Year ended March 31, 2017			
(thousands of US Dollars, unless otherwise indicated)	India	Bangladesh	Other	Total	India	Bangladesh	Other	Total
<b>Sales volume</b>								
Natural gas (mcf/d)	17,868	55,935	-	73,803	27,463	56,762	-	84,225
Oil and condensate (bbl/d)	203	167	-	370	381	170	-	551
Natural gas equivalent (mcf/d)	19,084	56,937	-	76,021	29,747	57,784	-	87,531
Natural gas revenue	19,164	-	-	19,164	31,013	20,532	-	51,545
Crude oil and condensate revenue	3,767	-	-	3,767	6,323	1,083	-	7,406
Royalties	(2,330)	-	25	(2,305)	(3,452)	-	14	(3,438)
Profit petroleum	(275)	-	-	(275)	(380)	(10,748)	-	(11,128)
<b>Net oil and natural gas revenue</b>	<b>20,326</b>	<b>-</b>	<b>25</b>	<b>20,351</b>	<b>33,504</b>	<b>10,867</b>	<b>14</b>	<b>44,385</b>
Production and operating expenses	(14,295)	(5,511)	-	(19,806)	(16,835)	(5,884)	-	(22,719)
General and administrative expenses	-	-	(4,481)	(4,481)	-	-	(5,439)	(5,439)
Finance and other income	-	-	619	619	-	-	1,897	1,897
Bank charges and other finance costs	-	-	(17)	(17)	-	-	(32)	(32)
Realized foreign exchange gain (loss)	-	-	(1,192)	(1,192)	-	-	(505)	(505)
<b>EBITDAX from continuing operations<sup>(1)</sup></b>	<b>6,031</b>	<b>(5,511)</b>	<b>(5,046)</b>	<b>(4,526)</b>	<b>16,669</b>	<b>4,983</b>	<b>(4,065)</b>	<b>17,587</b>
Cash interest expense	(1,489)	-	(2)	(1,491)	(1,949)	-	(16,584)	(18,533)
Restructuring costs	-	-	(373)	(373)	-	-	(4,290)	(4,290)
Non-cash production and operating expenses	-	-	-	-	(5)	-	-	(5)
Depletion and depreciation expenses <sup>(3)</sup>	(38,028)	(4,417)	-	(42,445)	(26,176)	(4,719)	-	(30,895)
Exploration and evaluation expenses	(185)	-	-	(185)	(102)	(257)	-	(359)
Asset impairment loss	(1,328)	-	-	(1,328)	(1,326)	(13,010)	-	(14,336)
Share-based compensation expense	-	-	-	-	-	-	(23)	(23)
Accretion expense	(2,964)	(543)	-	(3,507)	(2,739)	(494)	(826)	(4,059)
Non-cash finance and other income	1,635	-	-	1,635	1,083	-	-	1,083
Gain on debt modification	-	-	-	-	-	-	283,248	283,248
Loss on derivative	-	-	-	-	-	-	(36)	(36)
Interest due upon repayment	-	-	-	-	-	-	(3,785)	(3,785)
Commercial claim expense	(28,940)	-	-	(28,940)	-	-	-	-
Unrealized foreign exchange gain (loss)	-	-	(457)	(457)	-	-	1,577	1,577
Deferred income tax recovery	-	-	-	-	39,992	-	-	39,992
<b>Net income (loss) from continuing operations<sup>(2)</sup></b>	<b>(65,268)</b>	<b>(10,471)</b>	<b>(5,878)</b>	<b>(81,617)</b>	<b>25,447</b>	<b>(13,497)</b>	<b>255,216</b>	<b>267,166</b>
<b>Net income (loss) from discontinued operations<sup>(2)</sup></b>	<b>-</b>	<b>-</b>	<b>346</b>	<b>346</b>	<b>-</b>	<b>-</b>	<b>(2,747)</b>	<b>(2,747)</b>
<b>Total net income (loss)</b>	<b>(65,268)</b>	<b>(10,471)</b>	<b>(5,532)</b>	<b>(81,271)</b>	<b>25,447</b>	<b>(13,497)</b>	<b>252,469</b>	<b>264,419</b>

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

(2) Refer to Note 27 of the audited consolidated financial statements for the year ended March 31, 2018 for detailed segment information.



## SELECTED ANNUAL INFORMATION

The selected annual information provides comparatives for the three most recently completed financial years:

(thousands of US Dollars)	Year ended March 31,		
	2018	2017	2016
<b>Continuing Operations<sup>(1)(2)</sup></b>			
Basic			
Net income (loss)	(81,617)	267,166	4,198
Weighted average number of common shares	94,049,967	94,049,713	94,037,970
Basic net income (loss) per share	\$ (0.87)	\$ 2.84	\$ 0.04
Diluted			
Net income (loss) <sup>(3)</sup>	(81,617)	165,420	4,198
Weighted average number of common shares <sup>(3)</sup>	94,049,967	104,192,191	94,037,970
Diluted net income (loss) per share	\$ (0.87)	\$ 1.59	\$ 0.04
<b>Discontinued Operations<sup>(1)(2)</sup></b>			
Basic			
Net income (loss)	346	(2,747)	(90,000)
Weighted average number of common shares	94,049,967	94,049,713	94,037,970
Basic net loss per share	\$ 0.00	\$ (0.03)	\$ (0.96)
Diluted			
Net income (loss)	346	(2,747)	(90,000)
Weighted average number of common shares <sup>(3)</sup>	94,049,967	104,192,191	94,037,970
Diluted net loss per share	\$ 0.00	\$ (0.03)	\$ (0.96)
<b>Total Assets<sup>(1)</sup></b>	363,219	426,008	475,326
<b>Total Current Liabilities<sup>(1)</sup></b>	435,665	410,130	847,824
<b>Total Long-term Liabilities<sup>(1)</sup></b>	256,011	263,064	115,953

(1) The results for the three most recently completed financial years 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) In fiscal 2018 and fiscal 2016, the Convertible Notes and stock options were considered anti-dilutive. For the year ended March 31, 2017, the gain on debt modification relating to the Convertible Notes was excluded and the total outstanding Convertible Notes of \$114,610,000 (convertible into 10,142,478 shares) were included in the diluted earnings per share calculation as the Convertible Notes were dilutive.

Net loss from continuing operations of \$(82) million in fiscal 2018 decreased from net income from continuing operations of \$267 million in fiscal 2017, primarily due to lower EBITDAX and higher depletion expense for the D6 Block in India in fiscal 2018. Net income from continuing operations in fiscal 2018 also reflected recognition of commercial contract expense in India of \$29 million as a result of an arbitration award in respect of the Hazira field in India. Net income from continuing operations in fiscal 2017 also reflected recognition of gains on debt modification totalling \$283 million, deferred income tax recovery in India of \$40 million, and interest expense prior to modification of Company's senior debt facilities and convertible notes of \$21 million. In fiscal 2016, the Company recognized a reversal of impairment of \$120 million for development and producing assets in the D6 Block which was primarily offset by higher deferred tax expenses.

The net loss from discontinued operations in fiscal 2016 was primarily related to the recognition of liabilities of \$22 million and \$54 million for unfulfilled exploration commitments in Indonesia and Trinidad, respectively.

Higher than normal decline in total assets in fiscal 2018 as compared to fiscal 2017 is a result of higher depletion and depreciation expense recognized in the D6 Block in India resulting from negative revisions to proved reserves for D1 D3 and MA fields in D6 block.

Current liabilities in the past three years reflected the recognition of unfulfilled exploration commitments in Indonesia and Trinidad. In fiscal 2018, a liability for \$29 million was recognised pertaining to an arbitration award in India relating to the minimum quantities. As a result of executing the Amendments and the 2016 Settlement Agreement in fiscal 2017, the Term Loan, Convertible Notes, deferred obligation and contract settlement obligation were revalued to fair value as at March 31, 2017 resulting in a significant reduction to the carrying value and a reclassification from current to long-term liabilities.

## SUMMARY OF QUARTERLY RESULTS

(thousands of US Dollars)	Mar 31, 2018	Dec 31, 2017	Sept 30, 2017	Jun 30, 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016	Jun 30, 2016
<b>Oil and natural gas revenue<sup>(1)</sup></b>	3,547	6,116	4,926	5,764	8,097	6,667	13,266	16,355
<b>Net income (loss)<sup>(1)(3)</sup></b>								
Continuing operations	(25,881)	(7,688)	(10,837)	(37,209)	24,142	23,044	240,811	(20,831)
Discontinuing operations <sup>(2)</sup>	-	108	58	180	(54)	(2,133)	252	(812)
Total	(25,881)	(7,580)	(10,779)	(37,029)	24,088	20,911	241,063	(21,643)
<b>Earnings (loss) per share - basic<sup>(1)(3)</sup></b>								
Continuing operations	(0.28)	(0.08)	(0.11)	(0.40)	0.26	0.24	2.56	(0.22)
Discontinuing operations <sup>(2)</sup>	0.00	0.00	0.00	0.00	(0.00)	(0.02)	0.00	(0.01)
Total	(0.28)	(0.08)	(0.11)	(0.40)	0.26	0.22	2.56	(0.23)
<b>Earnings (loss) per share - diluted<sup>(1)(3)</sup></b>								
Continuing operations	(0.28)	(0.08)	(0.11)	(0.40)	0.23	1.33	1.33	(0.22)
Discontinuing operations <sup>(2)</sup>	0.00	0.00	0.00	0.00	(0.00)	(0.02)	(0.00)	(0.01)
Total	(0.28)	(0.08)	(0.11)	(0.40)	0.23	1.31	1.33	(0.23)

(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.

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. 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") effective November 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.

### Fourth Quarter Analysis

Net loss from continuing operations of \$(26) million in the fourth quarter of fiscal 2018 is primarily due to the impact of lower EBITDAX and higher depletion expense resulting from negative revisions to proved reserves for the D1 D3 and MA fields as at March 31, 2018.

Refer to the Company's previously issued annual and interim MD&A's, available on SEDAR at [www.sedar.com](http://www.sedar.com) for further information regarding changes in the prior quarters.

## CONTRACTUAL OBLIGATIONS

The following table represents the Company's contractual obligations and other commitments as at March 31, 2018:

(thousands of US Dollars)	Face Value	Carrying Value	< 1 year	1 to 3 years	3 to 5 years	> 5 years
Term loan facilities <sup>(1)(2)</sup>	416,513	200,748	-	-	-	200,748
Convertible notes <sup>(1)(3)</sup>	110,651	9,777	-	-	-	9,777
Finance lease obligations <sup>(4)</sup>	4,380	4,380	4,380	-	-	-
Contract settlement obligation <sup>(5)</sup>	26,057	530	-	-	-	530
Deferred obligation <sup>(6)</sup>	6,247	-	-	-	-	-
Decommissioning obligations <sup>(7)</sup>	68,353	44,955	-	-	-	44,955
Exploration work commitments <sup>(8)</sup>	272,399	272,399	272,399	-	-	-
<b>Total contractual obligations</b>	<b>904,600</b>	<b>532,789</b>	<b>276,779</b>	<b>-</b>	<b>-</b>	<b>256,010</b>

- (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 March 31, 2018 is Cdn\$143 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 \$2 million have been set up for certain of these obligations and are reflected in restricted cash.
- (8) The total unfulfilled exploration commitment obligation includes \$270 million related to dormant subsidiaries recorded in the audited consolidated financial statements for year ended March 31, 2018.

## SUBSEQUENT EVENTS

- (a) Subsequent to March 31, 2018, the Company was notified by the operator of the Block 9 PSC that Petrobangla had paid funds to the operator of the Block 9 for recovery of costs incurred by the operator related to Niko Block 9's interest. The impact on the Company's situation in Block 9 of Petrobangla's actions is currently under evaluation.
- (b) In May 2018, Niko NECO received income tax refunds from the GOI totaling the Indian Rupee equivalent of \$15.5 million (including interest).

## OUTSTANDING SHARE DATA

In fiscal 2018, the Company did not issue any common shares or securities convertible or exchangeable into common shares. As at June 20, 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 March 31, 2018.

## RELATED PARTY TRANSACTIONS

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

Key management compensation includes the following:

(thousands of US Dollars)	Year ended March 31, 2018	Year ended March 31, 2017
Annual fees for non-management directors <sup>(1)</sup>	381	479
Executive officers – salaries and other benefits <sup>(1)</sup>	629	869
	<b>1,010</b>	<b>1,348</b>

- (1) Amounts are based on cash payments made during the year ended March 31, 2018 and March 31, 2017 respectively. No bonuses or share-based payments were made during the years ended March 31, 2018 or March 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 17 to the audited consolidated financial statements for the year ended March 31, 2018.

## 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 March 31, 2018. There have been no significant changes in ICFR during the three and twelve months ended March 31, 2018 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 "Financial Instruments" was amended in July 2014 with respect to its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The standard now includes three categories for financial assets, as compared to five categories under IAS 39, including amortized cost, fair value through profit or loss, and fair value through other comprehensive income. IFRS 9 removes the loans and receivables and held for trading categories previously included under IAS 39. 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 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 is currently assessing the impact of adopting this new standard on its 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 audited consolidated financial statements of the Company. In the past financial years, changes to the Indian natural gas pricing formula have materially impacted accounting estimates used in pricing forecasts of oil and natural gas reserves in the D6 Block and asset impairment calculations for the D6 cash generating unit ("CGU").

Significant estimates and judgements made by management are described below.

### Pricing Forecasts

The Company uses forecasted commodity prices for the assumptions in evaluating oil and gas reserves, asset impairment, fair value of long-term debt and derivatives on deferred obligations. Forecasted commodity prices are based on estimates from reserve evaluators in addition to current applicable gas prices. The gas prices for currently producing fields in the D6 Block in India are to be determined on a semi-annual basis and will be 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.

In March 2016, the GOI approved a proposal to grant marketing freedom to producers including pricing freedom for the gas to be produced from discoveries in high pressure-high temperature, deepwater and ultra-deepwater areas. The New Guidelines apply to future discoveries as well as existing discoveries which had yet to commence commercial production as of January 1, 2016 (such as existing undeveloped discoveries in the D6 Block in India). The marketing freedom so granted would be capped by a ceiling price arrived at on the basis of landed price of alternative fuels. The landed price-based ceiling will be calculated every six months and applied prospectively for the next six months. The price data used for the calculation of the ceiling price shall be the trailing four quarters data with one quarter lag. The notified ceiling price for the period of April 1, 2017 to September 30, 2017 for gas produced from discoveries in high temperature-high pressure, deepwater, and ultra-deepwater areas that had not commenced production as of January 1, 2017 was \$5.56 / MMBtu GCV. The notified gas price ceiling for October 1, 2017 to March 31, 2018 is \$6.30 / MMBtu GCV.

The following commodity price estimates were used for the Company's oil and gas reserves:

<b>Year ending March 31<sup>(2)</sup></b>	<b>Brent Crude (\$/bbl)</b>	<b>India Crude Oil (\$/bbl)<sup>(1)</sup></b>	<b>India NGL (\$/bbl)<sup>(1)</sup></b>	<b>India Natural Gas – Producing Fields (\$/MMbtu)</b>	<b>India Natural Gas – Undeveloped Discoveries (\$/MMbtu)</b>
2019	64.33	63.43	49.03	3.12	7.23
2020	65.75	64.85	50.45	3.26	8.13
2021	68.10	67.20	52.80	3.47	8.27
2022	72.14	71.24	56.84	3.77	8.56
2023	76.31	75.41	61.01	4.04	9.07
2024	79.90	79.00	64.60	4.26	9.60
Thereafter	2%	2%	2%	6%	2%

(1) Crude oil and condensate prices used for India evaluations are benchmarked to the world Brent crude prices.

(2) Block 9 reserves are excluded from the Company's total oil and gas reserves as at March 31, 2018 due to the non-recognition of oil and gas revenues during the fiscal year (refer to discussion on *Non-payments by Petrobangla of Amounts Due* under Liquidity and Capital Resources).

### Oil and Natural Gas Reserves

Reserve estimates can have a significant effect on net earnings as a result of their impact on the depletion rate, provisions for decommissioning obligations and asset impairments. An independent qualified reserves evaluator estimates the quantity of oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgments. Estimates of economically recoverable oil and gas reserves and future cash flows from those reserves are based on a number of variables and assumptions such as geological interpretation, commodity prices, operation and capital costs and production forecasts, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available, or as economic conditions change.

### Exploration and evaluation assets

Reclassification and transfer of assets from exploration and evaluation to development and producing assets is based on management's judgement and assessment of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven and probable reserves, completion of drilling, testing and resource assessments by third party reservoir engineers.

### Depletion, Depreciation and Amortization

The net carrying value of producing assets are depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved reserves of oil and natural gas reserves. Revisions to reserve estimates and the associated future cash flows could significantly increase or decrease depletion expense charged to net income/loss. Accordingly the impact to the audited consolidated financial statements in future periods could be material. The Company's property, plant and equipment are depreciated based upon estimates of useful lives and salvage values.

### Asset Impairment

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired or require a reversal of previously recorded impairments. If any such indication exists, the Company estimates the recoverable amount of the asset. Events and circumstances may change resulting in indicators of impairment in future periods that could result in a material impairment. Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed their recoverable amount, by comparing the relevant costs to the fair value or value in use.

The recoverability of development and producing asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgements and the circumstances. The Company allocates costs to a CGU based on

geographic location, shared infrastructure, and common geological and geophysical characteristics. In general, the Company has determined that each PSC constitutes a CGU. In assessing the recoverability of these assets, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value-in-use. The determination of the value-in-use of CGUs requires the use of assumptions and estimates including future commodity prices, quantity of reserves and expected production volumes, asset retirement obligations, future development and production costs, and discount rates. Changes in the assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU.

#### **Fair Value of Long-Term Debt**

The Company estimates fair value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation at that date of modification of such debt agreements. Subsequently, the Company will mark to market the fair value of the debt upon the occurrence of certain events (such as the trigger of a sale) or when there is a significant change to fair values in the market. Assumptions used when determining fair value includes quoted trading prices of the Convertible Notes, estimated discount rates, and estimated net proceeds under the Waterfall Distribution. The difference between the fair value and the carrying value is recognized on the statement of comprehensive income (loss) as a gain on debt modification.

#### **Decommissioning Obligations**

In accounting for the decommissioning obligation, the Company makes assumptions regarding the timing and the amount of reclamation and abandonment expenditures, inflation and discount rates. The estimates are reviewed at the end of each reporting period.

#### **Share-Based Compensation**

The fair value of share-based compensation is calculated using the Black-Scholes option pricing model which is based on significant assumptions such as share price volatility, expected life, dividends yields, risk-free interest rates and expected forfeiture rates.

#### **Income Taxes**

The Company estimates current and deferred income taxes based on interpretation and judgement in applying tax laws in the various jurisdictions in which it operates and pays income taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. Determination of income taxes is subject to measurement uncertainty. Management makes certain judgements in estimating the timing of temporary difference reversals and the realization of deferred tax assets. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

#### **Contingencies**

Contingencies are subject to measurement uncertainty as the related financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies requires the application of judgements and estimates including the determination of whether a present obligation exists and the reliable estimation of the timing and amount of cash flows required to settle the contingency.

### **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 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 timing of receiving 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, 2018 available on SEDAR at [www.sedar.com](http://www.sedar.com).

A complete description of the potential effects of the Company's contingencies on the Company as at March 31, 2018 are described in Note 30 of the audited consolidated financial statements for the year ended March 31, 2018.

## **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 March 31, 2018. 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.

Mcf (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 audited consolidated financial statements for the year ended March 31, 2018 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, and the impact of Petrobangla paying funds to the operator of the Block 9 for recovery of costs incurred by the operator related to Niko Block 9’s interest in Block 9. 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 completion of financings or monetizing of assets, future actions of the Company’s lenders, non-defaulting parties not seeking or being able 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 three 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 and paying funds to the operator of the Block 9 for recovery of costs, 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, 2018 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.



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Niko Resources Ltd.

We have audited the accompanying consolidated financial statements of Niko Resources Ltd., which comprise the consolidated statements of financial position as at March 31, 2018 and March 31, 2017, the consolidated statements of comprehensive income (loss), changes in shareholders' deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Niko Resources Ltd. as at March 31, 2018 and March 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Niko Resources Ltd.'s ability to continue as a going concern.

(Signed) "KPMG LLP"

Chartered Professional Accountants

Calgary, Canada

June 20, 2018

## AUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(thousands of US Dollars)	As at March 31, 2018	As at March 31, 2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	2,809	11,394
Restricted cash (Note 7)	590	8,492
Accounts receivable (Note 8)	4,073	6,071
Inventories (Note 10)	4,136	3,655
Current portion of income tax receivable (Note 30(c))	13,923	-
	25,531	29,612
Restricted cash (Note 7)	1,552	9,086
Long-term accounts receivable (Note 9)	6,309	6,784
Exploration and evaluation assets (Note 11)	4,737	4,737
Property, plant and equipment (Note 12)	306,929	344,629
Income tax receivable (Note 24)	18,161	31,160
	363,219	426,008
<b>Liabilities</b>		
Current liabilities		
Trade payables (Note 13)	9,618	15,344
Other payables (Note 14)	421,667	385,105
Current portion of long-term debt (Note 15)	4,380	9,630
Current portion of decommissioning obligations (Note 16)	-	51
	435,665	410,130
Decommissioning obligations (Note 16)	44,956	47,943
Long-term debt (Note 15)	211,055	215,121
	691,676	673,194
<b>Shareholders' Deficit</b>		
Share capital (Note 18)	1,366,867	1,366,867
Contributed surplus	143,142	143,142
Currency translation reserve	2,147	2,147
Deficit	(1,840,613)	(1,759,342)
	(328,457)	(247,186)
	363,219	426,008

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

Approved on behalf of the Board,

(Signed) "William T. Hornaday"

William T. Hornaday  
Chief Executive Officer

(Signed) "E. Alan Knowles"

E. Alan Knowles  
Chairman of the Audit Committee, Director

## AUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Oil and natural gas revenue (Note 19)	20,351	44,385
Production and operating expenses	(19,806)	(22,724)
General and administrative expenses	(4,481)	(5,439)
Finance and other income (Note 20)	2,254	2,980
Finance expense (Note 21)	(5,015)	(26,409)
Foreign exchange (loss) gain	(1,649)	1,072
Depletion and depreciation expenses (Note 12)	(42,445)	(30,895)
Exploration and evaluation expenses	(185)	(359)
Share-based compensation expense	-	(23)
Restructuring costs (Note 22)	(373)	(4,290)
Asset impairment (Notes 8, 9 and 23)	(1,328)	(14,336)
Loss on derivative	-	(36)
Gain on debt modification (Note 15)	-	283,248
Commercial claim expense (Note 14)	(28,940)	-
Income (loss) before income tax from continuing operations	(81,617)	227,174
Deferred income tax recovery (Note 24)	-	39,992
Income tax recovery from continuing operations	-	39,992
Net income (loss) from continuing operations	(81,617)	267,166
Net income (loss) from discontinued operations (Note 25)	346	(2,747)
Total net income (loss) and comprehensive income (loss)	(81,271)	264,419
Earnings (loss) per share (Note 26)		
Basic – continuing operations	(0.87)	2.84
Basic – discontinued operations	0.00	(0.03)
Diluted – continuing operations	(0.87)	1.59
Diluted – discontinued operations	0.00	(0.03)

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

## AUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT

(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 15)	-	-	-	-	(23,182)	-	(23,182)
Net income for the year	-	-	-	-	-	264,419	264,419
Balance, March 31, 2017	94,049,967	1,366,867	143,142	2,147	-	(1,759,342)	(247,186)
Net loss for the year	-	-	-	-	-	(81,271)	(81,271)
Balance, March 31, 2018	94,049,967	1,366,867	143,142	2,147	-	(1,840,613)	(328,457)

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

## AUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Net income (loss) from continuing operations	(81,617)	267,166
Adjustments for:		
Depletion and depreciation expenses	42,445	30,895
Accretion expense	3,507	4,059
Deferred income tax recovery (Note 24)	-	(39,992)
Unrealized foreign exchange loss (gain)	457	(1,577)
Asset impairment loss	1,328	14,336
Exploration and evaluation write-off	-	261
Share-based compensation expense	-	28
Finance and other income	(903)	(1,083)
Loss on derivative	-	36
Commercial claim expense (Note 14)	28,940	-
Gain on debt modification (Note 15)	-	(283,248)
Net gain on asset disposal	(782)	-
Interest due upon repayment of term loan facilities (Note 15(b))	-	3,785
Restricted cash contributions	-	-
Change in non-cash working capital	1,178	8,402
Change in long-term accounts receivable	-	(636)
Cash from (used in) operating activities from continuing operations	(5,447)	2,432
Cash from operating activities from discontinued operations (Note 25)	440	62
Net cash (used in) from operating activities	(5,007)	2,494
<b>Cash flows from investing activities:</b>		
Exploration and evaluation expenditures	-	(379)
Property, plant and equipment expenditures (net)	(4,743)	(30,963)
Contribution of restricted cash (Note 7)	(30)	(486)
Release of restricted cash (Note 7)	-	531
Proceeds from asset sales, net of costs	750	-
Change in non-cash working capital	2,775	13,999
Repayment of contract settlement obligation	-	(3,000)
Cash used in investing activities from continuing operations	(1,248)	(20,298)
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt (Note 15)	(9,630)	(20,576)
Release of restricted cash (Note 7)	7,300	12,700
Cash used in financing activities from continuing operations	(2,330)	(7,876)
Change in cash and cash equivalents	(8,585)	(25,680)
Cash and cash equivalents, beginning of year	11,394	37,074
Cash and cash equivalents, end of year	2,809	11,394

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

## NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

### 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 1500, 205 – 5th Avenue SW, Calgary, Alberta, T2P 2V7. 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

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 fiscal 2018, the Company received certain consents under its amended and restated facilities agreement whereby the required restricted cash balance under this agreement was reduced from \$7.3 million at March 31, 2017 to nil at March 31, 2018, with the cash released for use in funding the Company's requirements.

As at March 31, 2018, the Company's unrestricted cash balances totalled \$2.8 million. In May 2018, an indirect subsidiary of the Company received income tax refunds from the Government of India ("GOI") totalling the US\$ equivalent of approximately \$15.5 million (including interest).

#### *Funding of Projected Future Cash Requirements of the Company*

Major contracts for development of the R-Cluster fields in the D6 Block in India have been awarded with drilling expected to commence mid-2018, towards a targeted start-up of production by mid-2020. In addition, field development plans for the Satellite Cluster discoveries and the MJ discovery in the D6 Block have been approved by the GOI, with start-up of these projects projected for 2021 and 2022, respectively. Based on Deloitte's Reserve Evaluation as at March 31, 2018, Niko's share of the funding requirement for development of these projects is estimated at approximately \$200 million between mid-2018 and mid-2020, after which time the future net operating revenues from the D6 Block are forecast to be sufficient to fund the development capital expenditures to complete the projects.

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

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

The Company is pursuing financing options for the R-Cluster, Satellite Cluster and MJ development projects in the D6 Block in India, 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") after drilling for the R-Cluster development project commences. 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.

The Company is also continuing its efforts to monetize its interest in the D6 Block in India for the benefit of all of its stakeholders.

No assurance can be made that the Company will be able to enhance the Company's cash resources on a timely basis or at all, so as to meet its funding requirements under the D6 PSC or its other obligations. 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 of its stakeholders.

#### *Non-payments by Petrobangla of Amounts Due*

From June 2016 to March 2018, Petrobangla 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 March 2018 invoices totalling \$53 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 issued notices of dispute and force majeure under the Block 9 PSC and sales agreements to the Government of Bangladesh and Petrobangla and intends 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 totalling \$19 million that were due, and the operator of the Block 9 PSC has issued default notices.

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.

Subsequent to March 31, 2018, the Company was notified by the operator of the Block 9 PSC that Petrobangla had paid funds to the operator of the Block 9 for recovery of costs incurred by the operator related to Niko Block 9's interest. The impact on the Company's position in Block 9 of Petrobangla's actions is currently under evaluation. Refer to Notes 30(a)(ii) and 31 for further details on this matter.

#### *Claim from the Government of India in Alleged Migration of Natural Gas Dispute*

In November 2016, the contractor group of the D6 Block in India received a letter from the GOI, in which the GOI made claims against the contractor group in respect of gas said to have migrated from neighboring blocks to the D6 Block. 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 March 2018, the GOI updated its base claim to \$1.46 billion (Niko share \$146 million) for its estimate of the gas migrated from neighboring blocks and produced and sold by the contractor group up to December 31, 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. The GOI also included a claim for interest to December 31, 2017 of \$245 million (Niko's share \$24.5 million). Niko believes the contractor group is not liable for the amounts claimed by the GOI and has worked with the contractor group to defend against the claims through the arbitration process. A decision of the arbitration panel is expected by the end of July 2018.

#### *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 March 31, 2018. 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 30 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 audited consolidated financial statements for the year ended March 31, 2018 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 financial statements.

### **3. Basis of Presentation**

#### *(a) Statement of compliance*

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The audited consolidated financial statements were approved by the Board of Directors and authorized for issue on June 20, 2018.

(b) *Basis of measurement*

The audited consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments as described in sections Notes 4(d) and (l).

(c) *Functional and presentation currency*

The audited consolidated financial statements are presented in US Dollars which is Company's functional currency and all values are rounded to the nearest thousand dollars (\$000), except where otherwise indicated.

#### 4. Significant Accounting Policies

(a) *Basis of consolidation*

Subsidiaries are entities controlled by the Company. Control exists when an entity is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. The financial statements of subsidiaries are included in the audited consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the audited consolidated financial statements.

(b) *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, amounts on deposit with banks and term deposits.

(c) *Joint arrangements*

The majority of the Company's activities are conducted jointly with others through unincorporated jointly controlled operations. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. The Company accounts for its joint operations in the audited consolidated financial statements by including the proportionate share on a line-by-line basis of its interest in assets, liabilities, revenue and expenses from the date that joint control commences. Those parties who participate in joint operations are referred as joint operating parties in the Company's audited consolidated financial statements.

The following table sets out information of the Company's interests in joint operations as at March 31, 2018:

<b>Block<sup>(1)</sup></b>	<b>Country</b>	<b>Working Interest %</b>
Block 9	Bangladesh	60
D6	India	10
PEPB-M-729	Brazil	30
PEPB-M-621	Brazil	30

(1) Inactive and / or relinquished blocks that are subject to government approval are excluded from the table above.

(d) *Financial assets*

Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as fair value through profit or loss, which are initially measured at fair value. All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value depending on their classification. The Company classifies financial assets into the following categories: (i) financial assets at fair value through profit or loss; (ii) loans and receivables and held-to-maturity investments and (iii) available-for-sale financial assets.

- (i) Financial assets at fair value through profit or loss are measured at fair value with the corresponding gains or losses recognized in profit or loss. The Company classifies cash, cash equivalents and restricted cash as held-for-trading financial assets.
- (ii) Loans and receivables and held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired. The Company's loan and receivables includes trade and other current and long-term receivables. The Company does not have any financial instruments classified as held-to-maturity.
- (iii) Available-for-sale and held-for-sale financial assets are non-derivative financial assets that are initially recognized at fair value plus transaction costs. Any subsequent gains and losses, except for impairment losses and foreign exchange gains



and losses, are recognized in other comprehensive income (loss) and transferred to profit or loss when the asset is derecognized or impaired. The Company does not have any financial assets classified as held-for-sale.

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

*(e) Inventories*

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

Inventory of oil and condensate is valued at the lower of cost and net realizable value. Cost is comprised of operating expenses that have been incurred in bringing inventories to their present location and condition and the portion of depletion expense associated with the oil and condensate production. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

*(f) Oil and natural gas exploration, development and producing expenditure*

Oil and natural gas exploration and development expenditures are accounted for using the method described below:

- (i) Pre-license costs: Pre-licence costs are expensed in the period in which they are incurred.
- (ii) Licence and property acquisition costs: Licence and property acquisition costs are capitalized as exploration and evaluation assets.
- (iii) Geological and geophysical costs: Geological and geophysical costs are expensed in the period in which they are incurred.
- (iv) Exploration and evaluation costs: All costs incurred directly attributable to an exploration well (drilling, testing and evaluating for technical feasibility and commercial viability of extraction) including appraisal and any directly attributable general and administration costs and share-based payments are initially capitalized as exploration and evaluation assets. If hydrocarbons are not found, the accumulated exploration costs are written off as a dry hole. If hydrocarbons that may be capable of commercial development are found, subject to further appraisal activity that may include the drilling of further wells, the costs shall continue to be carried as exploration and evaluation assets. All such carried costs are subject to regular technical, commercial and management review to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off or impaired. If technical feasibility is demonstrated and commercial reserves are discovered, then the carrying value of the relevant exploration and evaluation asset will be reclassified as a development asset into the cash generating unit to which it relates, but only after the carrying value of the relevant exploration and evaluation asset has been assessed for impairment and, where appropriate, its carrying value adjusted. If technical feasibility and commercial viability have not been achieved in relation to the exploration and evaluation assets appraised, all other associated costs are written down to the recoverable amount in profit or loss.
- (v) Development and production assets: Expenditures for development and producing assets including the costs of drilling development wells and the construction of production facilities are capitalized under development assets after technical feasibility and commercial viability of producing hydrocarbons has been demonstrated. Development assets are transferred to producing assets when they are put in use. After recognition as an asset, development and producing assets are carried at cost less any accumulated depletion and impairment losses.
- (vi) Farm-outs: The Company may enter into agreements to transfer a portion of its interests in oil and gas properties to third parties. Proceeds from these arrangements are first deducted from any exploration and evaluation, development and producing assets recorded for the assets and any excess is recognized as other income.

*(g) Other property, plant and equipment*

Other property, plant and equipment include buildings, office equipment, furniture and fixtures, and vehicles. These costs are initially recorded at historical cost less accumulated depreciation and impairment losses. Initial costs include expenditures that are directly attributable to the acquisition of the asset. The costs of the day-to-day servicing of the equipment are recognized in profit or loss as incurred.

*(h) Depletion and depreciation*

Exploration and evaluation assets are not amortized prior to the conclusion of appraisal activities.

Development and producing assets are not depleted until production commences. The net carrying value of producing assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved reserves of oil and natural gas. The depletion calculation takes into account the estimated future development costs required to develop the proved reserves.

Proved and probable reserves are estimated using independent reservoir engineering reports and techniques and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Depreciation for finance lease assets is charged based on the unit-of-production method over the life of the total proved reserves.

Depreciation for other property, plant and equipment is recognized in profit or loss on a declining balance method or straight-line method depending on the nature of the asset over the estimated useful lives of each group of property, plant and equipment. Land is not depreciated.

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

Buildings	30 years
Roads	10 years
Plant and machinery	10 - 15 years
Office equipment, furniture and fittings	5 - 10 years
Computers	1 - 3 years
Vehicles and aircrafts	8 - 20 years
Pipelines	30 years

*(i) Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

*(j) Impairment*

The carrying amounts of the Company's exploration and evaluation assets, property, and plant and equipment are tested for impairment at each reporting period when indicators of impairment exist. Indicators are events, changes or circumstances that indicate the carrying value may not be recoverable.

At the end of each reporting period, impairment is assessed at the cash generating unit ("CGU") level. The Company's property, plant and equipment are grouped into CGUs based on separately identifiable and largely independent cash inflows considering geological characteristics, shared infrastructure and exposure to market risks. If indicators of impairment exist, the recoverable amount of the CGU is estimated. The recoverable amount is the greater of the asset's fair value less cost to sell and the value-in-use. Fair value, less costs to sell or dispose, is assessed by utilizing market valuation based on an arm's length transaction between active participants. In the absence of such information, fair value less costs to dispose is derived by estimating the discounted future net cash flows. Value-in-use is assessed using the expected future cash flows discounted at a pre-tax rate.

Impairments are only reversed when there is significant evidence that the impairment no longer exists based on changes in event and circumstances. A reversal in impairment is limited to the extent of what the carrying amount would have had no impairment been recognized.

*(k) Financial liabilities and equity instruments*

Financial liabilities at fair value through profit or loss are measured at fair value with the corresponding gains or losses recognized in profit or loss. All other financial liabilities are measured at amortized cost using the effective interest method, less any impairment losses. The Company classifies accounts payable, accrued liabilities, unfulfilled exploration commitments obligation, finance lease

obligation, contract settlement obligation, income tax payable, Convertible Notes and Term Loan as other financial liabilities.

The Convertible Notes are considered a compound instrument as they can be converted to a fixed number of common shares at the option of the holder. The liability component of a compound instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method.

Equity instruments are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects, if any.

A substantial modification of the terms of an existing financial liability or a part of it shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the original financial liability and the new financial liability shall be recognized as a gain or loss on debt modification on the statement of profit or loss.

The Convertible Notes are classified as a Level 1 financial instrument on the modification date as 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 on the modification date and subsequent thereto and the convertible note post the modification date are classified as a Level 3 financial instrument and the estimated fair value is determined using 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.

*(l) Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value through profit or loss and re-measured at their fair value at each subsequent reporting date based on changes in fair value. The Company's deferred obligation is a derivative financial instrument. The fair value of the deferred obligation is based on estimates of production volumes and natural gas prices in the reserve report for the D6 Block, also taking into consideration the Waterfall Distribution. Any gains and losses on the deferred obligation are presented as gain or loss on derivative.

*(m) Leases*

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

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

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

*(n) Decommissioning obligations*

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

The provision is estimated using the present value of the estimated future cash outflows required to reclaim, settle and abandon wells and facilities in the future, discounted using the relevant risk free rate. Subsequent to the initial measurement, the obligation is accreted over time to reflect the passage of time and changes in the estimated future cash flows. Accretion expense is included in

finance costs recognized in profit or loss. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

*(o) Revenue recognition*

Revenues from the sale of crude oil, condensate and natural gas from properties in which the Company has interests in joint operations are recognized on the basis of the Company's working interest.

Revenues from the sale of crude oil, condensate and natural gas are recorded when the significant risks and rewards of ownership have transferred to the buyer, which is at the delivery point as defined in the various sales contracts and if collection is reasonably assured. Revenue is measured at the fair value of the consideration received or receivable. Revenue recorded is net of value added tax ("VAT"), other sales-related taxes, royalties and the government share of the profit oil and gas as determined under the Company's PSCs.

*(p) Finance income and finance expense*

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

Finance expense comprises (i) interest expense on debt obligations; (ii) accretion on decommissioning obligations, debt obligations and other long-term liabilities; and (iii) bank charges and other finance costs.

*(q) Foreign currency translation*

*(i) Foreign operations*

The financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency), which is US Dollars for all entities. For the purpose of the audited consolidated financial statements, the results and financial position of each group entity are expressed in US Dollars, which is the presentation currency for the audited consolidated financial statements.

*(ii) Foreign transactions*

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

*(r) Share-based payments*

The Company uses the fair value method for recognition of all share-based compensation arrangements. Share-based compensation for options granted to employees and directors, is based on the estimated fair value at the time of the grant. For stock options, the fair value is estimated using the Black-Scholes option-pricing model. Compensation costs are recognized over the vesting period of the stock options. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

*(s) Taxation*

Income tax expense comprises of current tax, minimum alternate tax and deferred tax.

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

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the audited consolidated financial statements and the corresponding tax bases used in the calculation of taxable profit. Deferred tax liabilities

are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences and the carry-forward of unused tax losses and unused tax credits.

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

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

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

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

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

*(t) Per share amounts*

Basic per share information is computed by dividing the net income or loss for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. Diluted per share information is computed by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise Convertible Notes and/or share options granted to employees.

*(u) Segment reporting*

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Company has reportable segments comprised of oil and gas exploration, development and/or production activities within India, Bangladesh, and Other.

*(v) Discontinued Operations*

A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale, and represents either a separate major line of business or a geographical area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or that is a subsidiary acquired exclusively with a view to resale and the disposal involves loss of control. Discontinued operations are presented separately in the audited consolidated statements of comprehensive profit or loss, statements of cash flows and respective financial statement notes.

## **5. Critical Accounting Estimates and Judgements**

The preparation of the audited consolidated financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions regarding the application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses and unsettled transactions and events as of the date of the audited consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty and actual results may differ from those estimated. Estimates and their underlying assumptions are reviewed on an ongoing basis and revisions to these estimates are made in the year which the estimates are revised and any future years that are impacted. Significant estimates and judgement made by management in the preparation of these audited consolidated financial statements include the following:

### Pricing Forecasts

The Company uses forecasted commodity prices for the assumptions in evaluating oil and gas reserves, asset impairment, fair value of long-term debt and derivatives on deferred obligations. Forecasted commodity prices are based on estimates from reserve evaluators in addition to current applicable gas prices. The gas prices for currently producing fields in the D6 Block in India are to be determined on a semi-annual basis and will be 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.

In March 2016, the GOI approved a proposal to grant marketing freedom to producers including pricing freedom for the gas to be produced from discoveries in high pressure-high temperature, deepwater and ultra-deepwater areas. The new guidelines apply to future discoveries as well as existing discoveries which had yet to commence commercial production as of January 1, 2016 (such as existing undeveloped discoveries in the D6 Block in India). The marketing freedom so granted would be capped by a ceiling price arrived at on the basis of landed price of alternative fuels. The landed price-based ceiling will be calculated every six months and applied prospectively for the next six months. The price data used for the calculation of the ceiling price shall be the trailing four quarters data with one quarter lag. The notified ceiling price for the period of April 1, 2017 to September 30, 2017 for gas produced from discoveries in high temperature-high pressure, deepwater, and ultra-deepwater areas that had not commenced production as of January 1, 2017 was \$5.56 / MMBtu GCV. The notified gas price ceiling for October 1, 2017 to March 31, 2018 is \$6.30 / MMBtu GCV.

The following commodity price estimates were used for the Company's oil and gas reserves:

Year ending March 31 <sup>(2)</sup>	Brent Crude (\$/bbl)	India Crude Oil (\$/bbl) <sup>(1)</sup>	India NGL (\$/bbl) <sup>(1)</sup>	India Natural Gas – Producing Fields (\$/MMbtu)	India Natural Gas – Undeveloped Discoveries (\$/MMbtu)
2019	64.33	63.43	49.03	3.12	7.23
2020	65.75	64.85	50.45	3.26	8.13
2021	68.10	67.20	52.80	3.47	8.27
2022	72.14	71.24	56.84	3.77	8.56
2023	76.31	75.41	61.01	4.04	9.07
2024	79.90	79.00	64.60	4.26	9.60
Thereafter	2%	2%	2%	6%	2%

(3) Crude oil and condensate prices used for India evaluations are benchmarked to Brent crude prices.

(4) Block 9 reserves are excluded from the Company's total oil and gas reserves as at March 31, 2018 due to the non-recognition of oil and gas revenues during the fiscal year (refer to Note 2).

### Oil and Natural Gas Reserves

Reserve estimates can have a significant effect on net earnings as a result of their impact on the depletion rate, provisions for decommissioning obligations, fair value of long-term debt and asset impairments. An independent qualified reserves evaluator estimates the quantity of oil and natural gas reserves on an annual basis. The estimation of reserves is an inherently complex process requiring significant judgments. Estimates of economically recoverable oil and gas reserves and future cash flows from those reserves are based on a number of variables and assumptions such as geological interpretation, commodity prices, operation and capital costs and production forecasts, all of which may vary considerably from actual results. These estimates are expected to be revised upward or downward over time, as additional information such as reservoir performance becomes available, or as economic conditions change.

### Exploration and evaluation assets

Reclassification and transfer of assets from exploration and evaluation to development and producing assets is based on management's judgement and assessment of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven and probable reserves, completion of drilling, testing and resource assessments by third party reservoir engineers.

### Depletion, Depreciation and Amortization

The net carrying value of producing assets are depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved reserves of oil and natural gas reserves. Revisions to reserve estimates and the associated future cash flows could significantly increase or decrease depletion expense charged to net income/loss. Accordingly the impact to the audited consolidated financial statements in future periods could be material. The Company's property, plant and equipment are depreciated based upon estimates of useful lives and salvage values.

### **Asset Impairment**

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired or require a reversal of previously recorded impairments. If any such indication exists, the Company estimates the recoverable amount of the asset. Events and circumstances may change resulting in indicators of impairment in future periods that could result in a material impairment. Exploration and evaluation assets are tested for impairment when facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed their recoverable amount, by comparing the relevant costs to the fair value or value in use.

The recoverability of development and producing asset carrying values is assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgements and the circumstances. The Company allocates costs to a CGU based on geographic location, shared infrastructure, and common geological and geophysical characteristics. In general, the Company has determined that each PSC constitutes a CGU. In assessing the recoverability of these assets, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. The determination of the value-in-use of CGUs requires the use of assumptions and estimates including future commodity prices, quantity of reserves and expected production volumes, asset retirement obligations, future development and production costs, and discount rates. Changes in the assumptions used in determining the recoverable amount could affect the carrying value of the related assets and CGU.

### **Fair Value of Long-Term Debt**

The Company estimates fair value of the Company's Term Loan, Convertible Notes, deferred obligation and contract settlement obligation at that date of modification of such debt agreements. Subsequently, the Company will mark to market the fair value of the debt upon the occurrence of certain events (such as the trigger of a sale) or when there is a significant change to fair values in the market. Assumptions used when determining fair value includes quoted trading prices of the Convertible Notes, estimated discount rates, and estimated net proceeds under the Waterfall Distribution. The difference between the fair value and the carrying value is recognized on the statement of comprehensive income (loss) as a gain on debt modification.

### **Decommissioning Obligations**

In accounting for the decommissioning obligation, the Company makes assumptions regarding the timing and the amount of reclamation and abandonment expenditures, inflation and discount rates. The estimates are reviewed at the end of each reporting period.

### **Income Taxes**

The Company estimates current and deferred income taxes based on interpretation and judgement in applying tax laws in the various jurisdictions in which it operates and pays income taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. Determination of income taxes is subject to measurement uncertainty. Management makes certain judgements in estimating the timing of temporary difference reversals and the realization of deferred tax assets. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

### **Contingencies**

Contingencies are subject to measurement uncertainty as the related financial impact will only be confirmed by the outcome of a future event. The assessment of contingencies requires the application of judgements and estimates including the determination of whether a present obligation exists and the reliable estimation of the timing and amount of cash flows required to settle the contingency.

## **6. 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 "Financial Instruments" was amended in July 2014 with respect to its classification and measurement of financial assets and introduces a new expected loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted and shall be applied retrospectively. The standard now includes three categories for financial assets, as compared to five categories under IAS 39, including amortized cost, fair value through profit or loss, and fair value through other comprehensive income. IFRS 9 removes the loans and receivables and held for trading categories previously included under IAS 39. 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 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 is currently assessing the impact of adopting this new standard on its consolidated financial statements.

### 7. Restricted Cash

(thousands of US Dollars)	As at March 31, 2018	As at March 31, 2017
<i>Current portion of restricted cash</i>		
Term loan facilities reserve account <sup>(1)</sup>	-	7,300
Site restoration <sup>(2)</sup>	590	562
Performance security guarantee <sup>(3)</sup>	-	630
	590	8,492
<i>Non-current portion of restricted cash</i>		
Site restoration <sup>(2)</sup>	1,552	9,086
	2,142	17,578

(1) The required minimum cash balance of the reserve accounts is nil as at March 31, 2018. 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 March 31, 2018, \$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. In fiscal 2018, the Company disposed of its interest in the Hazira PSC in India.

(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 guarantee had expired and the funds supporting the guarantee have been claimed by the Government of Indonesia.

### 8. Accounts Receivable

(thousands of US Dollars)	As at March 31, 2018	As at March 31, 2017
Oil and gas revenues receivable <sup>(1)</sup>	816	2,118
Receivable from joint operators	-	636
Advances to vendors	2,092	1,305
Prepaid and deposits	998	1,671
VAT receivable	109	178
Other receivables	58	163
	4,073	6,071

(1) Oil and gas revenues receivable from Petrobangla of \$13 million were impaired in the second quarter of 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 to August 2016. Refer to Notes 2 and 30(a)(ii).



## 9. Long-term Receivable

(thousands of US Dollars)	As at March 31, 2018	As at March 31, 2017
Long term receivable	85	85
Gas pool account receivable <sup>(1)</sup>	6,224	6,699
	6,309	6,784

(1) Effective November 2014 to March 2016, the D6 contractor group was 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 was deposited into the gas pool account. Effective April 2016 to March 2018, the price paid was less than the earlier price of \$4.20 / MMBtu NCV, and no amounts were deposited into the gas pool account. Refer to the cost recovery dispute described in Note 30(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 year ended March 31, 2018, the Company recorded interest income of \$0.8 million related to the gas pool account receivable.

## 10. Inventories

(thousands of US Dollars)	As at March 31, 2018	As at March 31, 2017
Stock, spares and consumables	3,372	3,348
Oil and condensate inventories	764	307
	4,136	3,655

## 11. Exploration and Evaluation Assets

(thousands of US Dollars)	Year ended March 31, 2018	Year ended March 31, 2017
Opening balance	4,737	4,768
Additions	-	379
Transfers	-	(149)
Expensed	-	(261)
Closing balance	4,737	4,737

## 12. Property, Plant and Equipment

### (a) Development and producing assets

(thousands of US Dollars)	Year ended March 31, 2018	Year ended March 31, 2017
<i>Cost</i>		
Opening balance	1,232,407	1,201,207
Additions	5,806	30,687
Disposal <sup>(1)</sup>	(121,620)	-
Transfers and/or adjustments	-	513
Closing balance	1,116,593	1,232,407
<i>Accumulated depletion</i>		
Opening balance	(903,527)	(873,866)
Additions	(41,708)	(29,661)
Disposals <sup>(1)</sup>	121,620	-
Closing balance	(823,615)	(903,527)
Net development and producing assets	292,978	328,880

(1) In fiscal 2018, the Company disposed of its interest in the Hazira PSC in India and relinquished its interest in Surat PSC in India.

(b) *Other property, plant and equipment*

(thousands of US Dollars)	Land and buildings	Vehicles, helicopters and aircraft	Office equipment and furniture	Pipelines	Total
<i>Cost</i>					
Balance, March 31, 2017	18,480	2,924	3,580	10,868	35,852
Additions	-	-	-	-	-
Disposals / Adjustments	(947)	(159)	(789)	(7,177)	(9,072)
Balance, March 31, 2018	17,533	2,765	2,791	3,691	26,780
<i>Accumulated depreciation</i>					
Balance, March 31, 2017	(11,769)	(2,178)	(3,551)	(10,553)	(28,051)
Additions	(374)	(104)	(5)	(254)	(737)
Disposals / Adjustments	759	159	789	7,174	8,881
Balance, March 31, 2018	(11,384)	(2,123)	(2,767)	(3,633)	(19,907)
Net book value, March 31, 2018	6,149	642	24	58	6,873

(thousands of US Dollars)	Land and buildings	Vehicles, helicopters and aircraft	Office equipment and furniture	Pipelines	Total
<i>Cost</i>					
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
<i>Accumulated depreciation</i>					
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)	Year ended March 31, 2018	Year ended March 31, 2017
Opening balance	7,948	10,057
Additions	-	172
Transfers / Adjustments	(870)	(2,281)
Closing balance	7,078	7,948

**13. Trade Payables**

(thousands of US Dollars)	As at March 31, 2018	As at March 31, 2017
India	8,975	13,186
Bangladesh	177	1,263
Other	466	895
	9,618	15,344

## 14. Other Payables

(thousands of US Dollars)	As at March 31, 2018	As at March 31, 2017
Provision for unfulfilled exploration commitment obligation	269,399	270,029
Other payables from discontinued operations	86,268	86,202
Provision for minimum contract quantities dispute	28,940	-
Other accrued liabilities	35,839	27,653
Income tax payable	1,221	1,221
	<b>421,667</b>	<b>385,105</b>

The provision for unfulfilled exploration commitment obligation relates to dormant exploration subsidiaries that operated in Indonesia and Trinidad. Refer to Note 29(a).

Other payables from discontinued operations of \$86 million as at March 31, 2018, primarily relates to trade payables and other accrued liabilities of dormant exploration subsidiaries that operated in Trinidad, Indonesia and Pakistan.

In fiscal 2018, the Company recognized a liability of \$29 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 March 31, 2018, other accrued liabilities primarily relates to \$19 million owed to the operator of the Block 9 PSC (refer to Notes 2 and 30(a)(ii) for details), and \$15 million of disputed liabilities related to the D6 Block in India.

## 15. Long-term Debt

### (a) Finance Lease Obligation

(thousands of US Dollars)	Year ended March 31, 2018	Year ended March 31, 2017
Opening balance	14,010	22,586
Repayments	(9,630)	(8,576)
Closing balance	4,380	14,010
Current portion	4,380	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)	Year ended March 31, 2018	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 (see [Key Terms of Original Facilities Agreement](#) below).

In July 2016, the Company executed the Fourth Amendment that amended the terms of the Facilities Agreement (see [Key Terms of the Fourth Amendment](#) below). 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. Upon execution of the amendment, the Company made a principal repayment of \$12 million on the Term Loan and withdrew \$9.7 million from a reserve account required under the terms of the amended Facilities Agreement.

#### Key Terms of Original Facilities Agreement

Prior to July 2016, the key terms under the original Facilities Agreement and related documentation were as follows:

##### *Specific terms*

- **Prepayment:** At the Company's option at any time after December 20, 2015 (at a 7 percent premium, decreasing to 4 percent after December 20, 2016)  
At the lenders option (without premium) from the remaining net proceeds of certain asset sales, farm-outs, equity and debt issuances, and after contract settlement payments
- **Repayment:** On September 30, 2017
- **Interest:** Quarterly cash interest payments at 15 percent per annum; commencing June 2014, additional interest payable upon repayment ("D6 PIK Interest") of 5 percent per annum. Approval from the GOI of the grant of first ranking security over the Company's participating interest in the D6 Block has not been received. If security is provided, the D6 PIK Interest would be reduced by 25 percent.

##### *Uncommitted D6 facility*

The original Facilities Agreement included a provision for an uncommitted facility that can be funded at the option of any of the lenders if the Company was unable to fund the cash call requirements of the D6 Block. Advances under this facility would be repayable from the Company's gross revenues from the D6 Block until an amount equal to 200 percent of the advanced amount has been paid. The uncommitted facility was amended under the Fourth Amendment.

##### *Financial Covenants*

In the original Facilities Agreement, the Company was subject to the following financial covenants:

- Maximum ratio of (a) consolidated senior debt (defined as debt incurred under facilities A, B and C and finance lease obligations) to (b) the consolidated EBITDAX (as defined in the Facilities Agreement) for the trailing four quarters, commencing with the period ending June 30, 2014.
- Minimum ratio of (a) proved plus probable reserves for the D6 Block to (b) senior debt, commencing with the period ending March 31, 2014.

##### *General covenants*

In the original Facilities Agreement, the Company agreed to several other undertakings and covenants, including:

- Maintenance of certain reserve accounts, including:
  - A reserve account for anticipated expenditures in the D6 Block, with a minimum balance that increased over time to the greater of \$30 million and the Company's forecasted capital expenditures in the D6 Block for the subsequent six month period.
  - A reserve account for settlement payments, with a minimum balance commencing December 31, 2014 equal to the payments required under the terms of the settlement agreement with Diamond for the subsequent six month period.
  - A reserve account for debt service, with a minimum balance commencing December 31, 2014 equal to the interest payments due under the Facilities Agreement for the subsequent six month period.
- Restrictions on cash expenditures relating to areas outside of India and Bangladesh, subject to certain exceptions.
- Requirement to raise certain minimum amounts from asset sales, farm-outs and/or equity issuances by June 30, 2015.
- Requirement that, subject to certain exceptions, asset sales be completed at fair market value with at least 90 percent of the consideration received in the form of cash (including assumed liabilities).
- Restrictions on the incurrence of debt, granting of liens, investments and similar transactions.

##### *Change in Control*

Under the original Facilities Agreement, if a change in control of the Company occurred or the Company's indirect subsidiary, Niko (NECO) Ltd., disposed of any part of its rights in respect of the D6 PSC, the Company shall have made an offer to prepay all of the outstanding principal (plus a 1 percent prepayment fee) and accrued and unpaid interest (including cash interest and D6 PIK interest) within ten days of the change of control. The change in control provision was amended under the Fourth Amendment.

### *Deferred Obligation*

As a condition of the original Facilities Agreement, the Company entered into an agreement that provides for a monthly payment equal to 6 percent of the Company's share of the gross revenues received from the D6 Block in India, commencing April 1, 2015 for a period of seven years. The terms of the deferred obligation were amended under the Fourth Amendment. Refer to Note 15(d).

### *Security*

The obligations under the original Facilities Agreement and the deferred obligation are initially secured by:

- charges over all of the present and after-acquired personal and real property of the Company and certain of its subsidiaries;
- specific pledges and charges over the shares of substantially all of the Company's subsidiaries; and
- specific charges over the bank accounts of the Company and certain of its subsidiaries.

The Company has entered into security deeds to grant first ranking security with respect to Block 9 in Bangladesh which will become effective upon consent by Petrobangla and the Bangladesh government, and has agreed to use best endeavours to obtain all necessary India governmental authorizations to provide first ranking security over the Company's participating interest in the D6 PSC in India. Authorization has been received from the Reserve Bank of India and authorization from the GOI has been sought, but not yet granted.

### Key Terms of the Fourth Amendment

The key terms of the Fourth Amendment entered into in July 2016 are as follows:

- the Lenders may elect, at any time on or after the second anniversary of the Implementation Date and with 90 days prior written notice, to require the Company to commence a marketing and sale process (a "Sales Process") for its interest in the D6 PSC. Upon the failure of the Company to maintain a minimum cash balance of \$5 million, the decision of the D6 contractor group to commit to capitalizing new development projects, or the occurrence of an event of default under the Fourth Amendment (each a "Trigger Event"), the Lenders may require the commencement of the Sales Process prior to the second anniversary of the Implementation Date. At any time, the Company shall have the right to commence a Sales Process in respect of the D6 PSC, Block 9 or any of its other assets;
- extension of the waiver of certain financial covenants and undertakings under the Term Loan;
- waiver of certain covenants of the Company under the Facilities Agreement, including limitations in respect of the conduct of the Company's business as it relates to capital expenditures and other matters;
- limiting the events of default and remedies to certain matters, including the remedies of the Lenders in an event of default to the appointment of a receiver;
- accrual of cash interest under the Term Loan at the previously defined non-default rates of interest (15 percent);
- elimination of the requirements to pay cash interest on the Term Loan during the Hold Period;
- entitlement of the Lenders to additional capitalized interest ("PIK Interest") on the Term Loan calculated on a notional principal amount of \$168 million (less any proceeds distributed to the Lenders) at a simple rate of 6 percent per annum, subject to a cap of \$12 million (which was reached in September 2017);
- a principal repayment of \$12 million on the Term Loan on the Implementation Date;
- a reduction in the required minimum cash balance of a reserve account specified in the Facilities Agreement from \$20 million to \$10.3 million. The funds in this reserve account were restricted to either (i) payment for specified potential expenditures by specified dates, subject to the approval of the majority of the Lenders, or (ii) future distributions in accordance with the waterfall distribution noted below. The required minimum balance was subsequently reduced to nil prior to March 31, 2018 after a payment on the contract settlement obligation (refer to Note 15(e)) and after receipt of certain consents under amended and restated facilities agreement in fiscal 2018;
- a requirement to distribute any net proceeds ("Waterfall Proceeds") of transactions (sales of assets, settlements of certain arbitration and/or income tax disputes, excess operating cash above an agreed cash flow forecast, etc.) to the Lenders, Noteholders and the Company on the following basis (the "Waterfall Distribution"):
  - first tranche of the first \$168 million:
    - (i) 100 percent to the Lenders
  - PIK Interest of \$12 million:
    - (i) 100 percent to the Lenders
  - second tranche of the next US \$100 million, on a *pro rata* basis:
    - (i) 62.67 percent to the Lenders,
    - (ii) 29.33 percent to the Noteholders, and
    - (iii) 8.00 percent to be retained by the Company (of which 20 percent is payable to Diamond)
  - third tranche of the next US \$120 million, on a *pro rata* basis:
    - (i) 40 percent to the Lenders,
    - (ii) 40 percent to the Noteholders, and
    - (iii) 20 percent to be retained by the Company (of which 20 percent is payable to Diamond)
  - fourth tranche of any proceeds above the Third Tranche, on a *pro rata* basis:
    - (i) 20 percent to the Lenders,

(ii) 20 percent to the Noteholders, and

(iii) 60 percent to be retained by the Company (of which 20 percent is payable to Diamond, subject to a cap).

The cumulative proceeds distributed to each of (a) the Lenders shall not exceed the total principal and interest amounts outstanding to the Lenders as at the Implementation Date plus interest accruing at a rate of 15 percent per annum from the Implementation Date plus any amounts owing under the D6 Royalty Agreement plus PIK Interest, and (b) the Noteholders shall not exceed the total principal and interest outstanding to the Noteholders as at the Implementation Date plus interest accruing at a rate of 7 percent per annum from the Implementation Date. All Waterfall Proceeds retained by the Company will be retained free from the security (and claims for payment) held by the Lenders and Noteholders under the Fourth Amendment and the Indenture (as amended), respectively;

- issuance of a preferred share to the Agent on behalf of the Lenders (refer to Note 18(a)); and
- extension of the maturity date of the Term Loan to December 31, 2025.

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. 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 15(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)	Year ended March 31, 2018	Year ended March 31, 2017
Opening balance	9,463	88,362
Interest transferred from account payable and accrued liabilities	-	9,927
Foreign currency translation	314	(335)
Gain on debt modification	-	(88,491)
Closing balance	9,777	9,463
Current portion	-	-
Long-term portion	9,777	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. 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 15(b). See [Key Terms of Indenture Amendments](#) below.

The Convertible Notes are direct senior secured obligations of the Company and rank equally with one another (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, subordinate only to the indebtedness owing to the Lenders, as more particularly set out in the Intercreditor Agreement.

The Convertible Notes are convertible at the option of each holder into common shares at a conversion price of Cdn\$11.30 per share. After January 1, 2016 and at any time prior to or on the Maturity Date, provided that the Current Market Price at the time of the Redemption Notice is not less than 130 percent of the Conversion Price, the Convertible Notes may be redeemed at the option of the Company, in whole or in part, from time to time, on notice at a Redemption Price equal to their principal amount plus accrued and unpaid interest thereon up to (but excluding) the Redemption Date.

The Convertible Notes are guaranteed by the Company's subsidiaries, Niko Resources (Cayman) Ltd., Niko (NECO) Ltd. and Niko Exploration (Block 9) Ltd. Each guarantor guarantees that the Convertible Notes shall be paid in accordance with the agreement terms. The guarantees of the Convertible Notes are subordinated to the guarantees provided to the lenders of the Company's Term Loan.

The Convertible Notes are secured by certain assets of the Company and the guarantors, including share pledges of certain key subsidiaries and security over certain bank accounts, but such security is subordinated to the Term Loan such that the Noteholders will have limited rights of enforcement and recourse to such security, which will be subject to the Intercreditor Agreement (as described below).

The indenture provides that an event of default in respect of the Convertible Notes will occur:

- if an event of default occurs or exists under the Facilities Agreement and the Lenders have commenced enforcement actions for breach of contract;
- if the Security ceases to be effective as a result of the deliberate action of the Company and has not been rectified within 30 business days; and
- is caused by a failure to make any payment of Waterfall Proceeds under the terms of the Amendments and which has not been rectified within 15 business days. .

If an event of default in respect of the Convertible Notes has occurred and is continuing, the note trustee may, in its discretion, and shall upon request of holders of not less than 25 percent of the principal amount of Convertible Notes then outstanding, declare the principal of and interest on all outstanding Convertible Notes to be immediately due and payable. In certain cases, the holders of more than 50 percent of the principal amount of the Convertible Notes then outstanding may, on behalf of the holders of all Convertible Notes, waive any event of default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

#### Key Terms of Indenture Amendments

The key terms of the Indenture Amendments entered into in July 2016 are as follows:

- elimination of the requirements to pay cash interest under the Indenture (as amended) during the Hold Period, including any cash interest that would otherwise be payable on conversion and accrued and unpaid interest as of the Implementation Date, except pursuant to the distribution of Waterfall Proceeds;
- replacement of the events of default under the existing Indenture with events of default limited to those above;
- accrual of cash interest under the Convertible Notes at the previously defined non-default rate of interest (7 percent);
- provision for the distribution of Waterfall Proceeds to the Noteholders pursuant to the Waterfall Distribution;
- extension of the maturity date of the Convertible Notes to December 31, 2025;
- the Convertible Notes are secured by certain assets of the Company and the guarantors as described above;
- elimination of the Company's ability to pay principal or interest in common shares;
- the redemption of the Convertible Notes will require the Agent's consent;
- the Note Trustee was authorized and directed to execute and deliver the Intercreditor Agreement and the documents that will evidenced and gave effect to the security under the Indenture (the "Security Documents"); and
- removal of the covenant of the Company under the Indenture requiring the Company to maintain a listing of the Convertible Notes on the Toronto Stock Exchange.

#### Key Terms of Intercreditor Agreement

The key terms of the Intercreditor Agreement entered into in July 2016 are as follows:

- the Noteholders agreed to postpone and fully subordinate payment of the obligations under the Convertible Notes and the security granted to them pursuant to the Indenture Amendments in favour of the Lenders' security and to prior repayment of the Company's obligations to the Lenders, save and except for payments permitted under the Waterfall Distribution;
- the Company, the Noteholders and the Lenders agreed that the Company may make, and the Noteholders and the Lenders may accept, payments made in compliance with the Waterfall Distribution;
- the Noteholders agreed that until the Lenders have been repaid in full, they will not be entitled to take additional security, demand payment of the obligations under the Convertible Notes, appoint a receiver or initiate insolvency proceedings or take any enforcement action against the assets of the Company;
- to the extent the Noteholders or the Lenders receive any distributions or proceeds from the Company contrary to the provisions of the Fourth Amendment or the Indenture (as amended), such proceeds shall be held in trust and immediately turned over to the party entitled to receive such proceeds under the Waterfall Distribution;
- the Company released the Agent under the Facilities Agreement, the Lenders, the Trustee under the Indenture, and the Noteholders (and each of their respective current and former officers, directors, shareholders, unitholders, employees, members, partners, advisors and agents) from liability relating to the actions or omissions of such parties occurring prior to the Implementation Date;
- the Agent and the Lenders shall release the Company, the Guarantors, the Trustee, and the Noteholders (and each of their respective current and former officers, directors, shareholders, unitholders, employees, members, partners, advisors and agents) from liability relating to the actions or omissions of such parties occurring prior to the Implementation Date; and
- the Trustee, on behalf of itself and each of the Noteholders, released the Company, the Guarantors, the Agent, and the Lenders (and each of their respective current and former officers, directors, shareholders, unitholders, employees,

members, partners, advisors and agents) from liability relating to the actions or omissions of such parties occurring prior to the Implementation Date.

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. The gain on debt modification also included \$23 million related to the amount included in equity pertaining to the conversion feature on the debt. 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) Deferred Obligation**

(thousands of US Dollars)	Year ended March 31, 2018	Year ended March 31, 2017
Opening balance	-	19,423
Accretion	-	826
Payment	-	-
Transfer to/from accounts payable and accrued liabilities	-	2,779
Loss (gain) on valuation of derivative	-	36
Gain on debt modification	-	(23,064)
Closing balance	-	-

In December 2013, as a condition of the Facilities Agreement, the Company entered into an agreement that provides for a monthly payment equal to 6 percent of the Company's share of the gross revenues from the D6 Block in India, commencing April 1, 2015 for a period of seven years.

In July 2016, the Company executed the Fourth Amendment that amended the terms of the Facilities Agreement including terms of the deferred obligation. As a result of the Fourth Amendment, the Company is not required to make payments (including amounts previously owing) on the deferred obligation, other than in connection with the Waterfall Distribution as described in Note 2, with payments on the deferred obligation under the Waterfall Distributions to be last in priority after all other claims under the Term Loan have been completely satisfied. Given this priority in the Waterfall Distribution hierarchy, the future cash flows related to the deferred obligation on the date of the Fourth Amendment were estimated to be zero and therefore the Company derecognized the previous carrying value of the deferred obligation and related accounts payable of a combined \$23 million, resulting in a gain on debt modification of \$23 million.

**(e) Contract Settlement Obligation**

(thousands of US Dollars)	Year ended March 31, 2018	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.

Under the 2016 Settlement Agreement, in exchange for full and final mutual releases of outstanding claims under the drilling contracts and the 2013 Settlement Agreement (including related judgements), the Company:



- (i) agreed to make future payments to Diamond equal to 20 percent of amounts to be retained by the Company pursuant to the Waterfall Distribution, subject to a cap;
- (ii) paid to Diamond a cash settlement amount; and
- (iii) assigned to Diamond a portion of potential contingent payments under the previously announced sale agreement for the Company's interest in five Indonesian PSCs.

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. 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 15(c)), estimated discount rates and the corresponding net proceeds that may be payable to Diamond under the Waterfall Distribution mechanism.

## 16. Decommissioning Obligations

(thousands of US Dollars)	Year ended March 31, 2018	Year ended March 31, 2017
Opening balance	47,994	45,001
Change in estimate during the period	(51)	(167)
Disposal <sup>(1)</sup>	(6,494)	-
Settlement during the period	-	(73)
Accretion	3,507	3,233
Closing balance	44,956	47,994
Current portion	-	51
Long-term portion	44,956	47,943

(1) In fiscal 2018, the Company disposed of its interest in the Hazira PSC in India.

The Company's decommissioning obligations are expected to be settled over a period of approximately three 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 \$45 million as at March 31, 2018 (2017 - \$48 million) based on an undiscounted total future liability of \$68 million (2017 - \$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 Block 9. Refer to Note 7.

In October 2017, the GOI issued guidelines on site restoration and abandonment for petroleum operations. Subsequent to March 31, 2018, the other members of the contractor group of the D6 Block submitted bank guarantees for their respective shares of the estimated site restoration obligations for D1 D3 and MA fields. The company is evaluating options to fulfill its obligations under the site restoration guidelines.

## 17. 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 data (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 are classified as a Level 1 financial instrument on the modification date as 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 on the modification date and subsequent thereto and the convertible note post the modification date are classified as Level 3 financial instruments and the estimated fair values are determined using estimated discount rates and the corresponding net proceeds that may be payable to the Term Loan lenders and the Noteholders under the Waterfall Distribution mechanism.

The deferred obligation and contract settlement obligation are classified as Level 3 financial instruments 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 March 31, 2018:

(thousands of US Dollars)	Face Value <sup>(1)</sup>	Fair Value
Term loan (Note 15(b))	416,513	200,748
Convertible notes (Note 15(c))	110,651	9,777
Deferred obligation (Note 15(d))	6,247	-
Contract settlement obligation (Note 15(e))	26,057	530
	559,467	211,055

(1) Includes accrued interest and other amounts owing as at March 31, 2018.

(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, 8 and 30(a)(ii). As at March 31, 2018, 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 through its management of cash, debt and capital program by the use of cash flow forecasts.

The carrying values of the financial liabilities as at March 31, 2018 are as follows:

(thousands of US Dollars)	Carrying amount	< 1 year	> 1 year
Trade payables	9,618	9,618	-
Other payables <sup>(1)</sup>	421,667	421,667	-
Long-term debt			
Finance lease obligations <sup>(2)</sup>	4,380	4,380	-
Term loan <sup>(3)</sup>	200,748	-	200,748
Convertible notes <sup>(3)</sup>	9,777	-	9,777
Contract settlement obligation <sup>(3)</sup>	530	-	530
Decommissioning obligations	44,956	-	44,956

(1) Refer to Note 14 for discussion of the components of Other payables.

(2) The carrying value of the finance lease obligation is the fair value of \$4 million. The lease payments are \$4 million (including principal and interest) until August 2018.

(3) The carrying value of the Company's Term Loan, Convertible Notes, and contract settlement obligation approximately equals fair value as at March 31, 2018.

(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 March 31, 2018, the Company does not have forward exchange rate contracts in place to mitigate foreign currency risk.

In respect of financial instruments existing at March 31, 2018, 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 year ended March 31, 2018. In respect of financial instruments existing at March 31, 2018, 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 year ended March 31, 2018.

*(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 year ended March 31, 2018 by \$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 year ended March 31, 2018 by \$0.6 million, respectively, net of the impact on royalty and profit petroleum as applicable. As at March 31, 2018, 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 March 31, 2018, the Company has not entered into any contracts to hedge against interest rate risk.

## **18. 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.

In connection with the execution of the Fourth Amendment, the Company issued one preferred share during fiscal 2017. The preferred share was issued to the Agent, on behalf of the Lenders, and has the following terms: (i) one vote, (ii) the right to nominate for election up to two persons to the Board, (iii) an annual preferential cumulative dividend, if declared by the Board, at the rate of 0.00001% per annum on the redemption price of Cdn\$1.00, and (iv) in the event of the liquidation, dissolution or winding-up of the Company distribution of capital of Cdn\$1.00, in priority to the holders of the common shares of the Company.

*(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. The Company has not granted any stock options since May 2014 and all stock options granted prior to that date have been forfeited or have expired.

## 19. Revenue

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Natural gas sales	19,164	51,545
Oil and condensate sales	3,767	7,406
Less:		
Royalties	(2,305)	(3,437)
Government's share of profit petroleum	(275)	(11,129)
Net oil and natural gas revenue	20,351	44,385

The Company has not recognized \$40 million of net oil and gas revenue that it otherwise would have been entitled to from September 2016 to March 31, 2018. Refer to Notes 2 and 30(a)(ii) for further discussion of non-payments by Petrobangla of amounts due.

For the year ended March 31, 2018, significant natural gas customers in India were Nagarjuna Fertilizers and Chemicals Limited (27% of total natural gas and crude oil revenue), 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. (14%).

## 20. Finance and Other Income

(thousands of US Dollars)	Year ended March	
	31, 2017	31, 2016
Finance income	939	1,479
Other income	533	1,501
Gain on asset disposal	782	-
Finance and other income	2,254	2,980

## 21. Finance Expense

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Interest expense <sup>(1)</sup>	1,491	22,318
Accretion expense	3,507	4,059
Bank charges	17	32
Finance expense	5,015	26,409

(1) As a result of the Amendments in July 2016, the Company is not required to make interest payments on the Term Loan or the Convertible Notes, other than in connection with Waterfall Distributions. Refer to Notes 15(b) and (c) for further details. As a result, effective July 2016, the Company has not recognized interest expense on the Term Loan and the Convertible Notes.

## 22. Restructuring Costs

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Severance	308	1,824
Advisory costs	63	1,893
Other	2	573
Restructuring costs	373	4,290

## 23. Asset Impairment

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Oil and gas revenues receivables <sup>(1)</sup>	-	(13,010)
Gas pool account receivable (Note 9)	(1,328)	(1,326)
Asset impairment	(1,328)	(14,336)

(1) Oil and gas revenues receivable from Petrobangla of \$13 million were impaired during 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 to August 2016. Refer to Notes 2, 8 and 30(a)(ii).

## 24. Taxes

### (a) Income tax recovery

The Company is subject to tax on income earned in India. India's federal tax law contains a tax holiday deduction for seven years for profits from the commercial production of mineral oil. The Company is subject to current tax of the greater of 43.26 percent of taxable income in India after a deduction for the tax holiday or a minimum alternate tax of 20 percent of Indian income. Indian income is calculated in accordance with Indian Generally Accepted Accounting Principles. Refer to the application of the tax holiday provisions in Note 30(c).

The Company is not subject to tax on income earned in Bangladesh as it is indicated in the terms of the PSC that the Government of Bangladesh shall pay income taxes on behalf of the contractor.

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

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Current tax expense	-	-
Origination and reversal of temporary differences	-	39,992
Deferred income tax recovery	-	39,992
Total	-	39,992

### (b) Reconciliation of effective tax rate

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Income (loss) for the year	(81,271)	264,419
Total tax recovery	-	39,992
Income (loss) excluding tax	(81,271)	224,427
Tax using the Company's domestic tax rate (27 percent)	(21,943)	60,595
Share-based compensation expensed	-	7
Income exempt from tax	3,324	5,199
Adjustment to foreign statutory tax rates	(10,097)	3,586
Other non-deductible expenses	2,295	2,582
Unrecognized deferred tax asset	23,632	(103,404)
Prior year adjustments	(111)	576
Foreign exchange adjustment	2,800	(3,916)
Other	100	(5,217)
Total	-	(39,992)

### (c) Unrecognized deferred tax assets

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

(thousands of US Dollars)	As at	As at
	March 31, 2018	March 31, 2017
Deductible temporary differences	125,860	96,342
Minimum alternate tax credit	24,089	13,147
Capital tax losses	43,887	42,959
Non-capital tax losses	119,208	110,784
	313,044	263,232

The deductible temporary differences do not expire. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom. The Canadian capital tax losses do not expire. The Canadian non-capital tax losses of \$337 million will expire between fiscal 2027 and fiscal 2037.

The Company has temporary differences associated with its investments in its foreign subsidiaries, branches and interests in joint operations. At March 31, 2018, the Company has no recognized deferred tax liabilities in respect of these temporary differences.

(d) *Recognized deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

(thousands of US Dollars)	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
Property, plant and equipment	-	-	(75,691)	(83,432)	(75,691)	(83,432)
Decommissioning obligations	16,864	15,582	-	-	16,864	15,582
Finance lease obligation	1,895	6,061	-	-	1,895	6,061
Convertible Notes	-	-	(28,037)	(28,122)	(28,037)	(28,122)
Term Loan	-	-	(30,794)	(30,794)	(30,794)	(30,794)
Minimum alternative tax	19,638	32,663	-	-	19,638	32,663
Unused losses	96,125	88,042	-	-	96,125	88,042
Tax assets / (liabilities)	134,522	142,348	(134,522)	(142,348)	-	-

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

(thousands of US Dollars)	As at March 31, 2017	Recognized in profit or loss	As at March 31, 2018
Property, plant and equipment	(83,432)	7,741	(75,691)
Decommissioning obligations	15,582	1,282	16,864
Finance lease obligation	6,061	(4,166)	1,895
Convertible Notes	(28,122)	85	(28,037)
Term Loan	(30,794)	-	(30,794)
Minimum alternative tax	32,663	(13,025)	19,638
Unused losses	88,042	8,083	96,125

## 25. Discontinued Operations

In fiscal 2016, the Company reclassified its Indonesia and Pakistan operating segments as discontinued operations and in fiscal 2018, the Company reclassified the Trinidad segment as discontinued operations upon termination of certain PSCs in May 2017. Net income (loss) from discontinued operations for the years ended March 31, 2018 and 2017 is as follows:

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Other income	568	412
Expenses		
Foreign exchange loss	-	(44)
Exploration and evaluation expenses	-	(426)
Restructuring costs	(216)	(53)
Asset impairment loss	-	(493)
Unfulfilled exploration commitment expense	-	(2,103)
Other expenses	(6)	(40)
Net income (loss) from discontinued operations	346	(2,747)

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

	Year ended March 31,	
	2018	2017
Cash flow from operating activities	442	62
Cash flow from investing activities	-	-
Cash flow from financing activities	-	-

## 26. Per Share Amounts

(thousands of US Dollars, except number of common shares)	Year ended March 31,	
	2018	2017
<b>Continuing Operations</b>		
Basic		
Net income (loss)	(81,617)	267,166
Weighted average number of common shares	94,049,967	94,049,713
Net income (loss) per share	(0.87)	2.84
Diluted <sup>(1)(2)</sup>		
Net income (loss)	(81,617)	164,821
Weighted average number of common shares	94,049,967	104,192,191
Net income (loss) per share	(0.87)	1.59
<b>Discontinued Operations</b>		
Basic		
Net income (loss)	346	(2,747)
Weighted average number of common shares	94,049,967	94,049,713
Net income (loss) per share	0.00	(0.03)
Diluted <sup>(1)(2)</sup>		
Net income (loss)	346	(2,747)
Weighted average number of common shares	94,049,967	104,192,191
Net income (loss) per share	0.00	(0.03)

(1) For the years ended March 31, 2018 and 2017, stock options were excluded from the diluted earnings per share calculation as these options were anti-dilutive.

(2) For the year ended March 31, 2018, the outstanding Convertible Notes were excluded from the diluted earnings per share calculation as the Convertible Notes were anti-dilutive. For the year ended March 31, 2017, the gain on debt modification relating to the Convertible Notes was excluded and the total outstanding Convertible Notes of \$114,610,000 (convertible into 10,142,478 shares) were included in the diluted earnings per share calculation as the Convertible Notes were dilutive.

## 27. Segmented Information

### (a) Revenues from reportable segments

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Natural gas sales		
India	19,164	31,013
Bangladesh	-	20,532
Oil and condensate sales		
India	3,767	6,323
Bangladesh	-	1,083
Total oil and natural gas revenue	22,931	58,951

### (b) Capital additions from reportable segments

(thousands of US Dollars)	Year ended March 31, 2018		Year ended March 31, 2017	
	Exploration and evaluation assets	Property, plant and equipment	Exploration and evaluation assets	Property, plant and equipment
Continuing Segments				
Bangladesh	-	1,983	-	12,369
India	-	4,301	-	18,584
Total	-	6,284	-	30,953

(c) *Segmented assets*

Segment	As at March 31, 2018			As at March 31, 2017		
	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	26,307	32,770	4,737	28,740	35,327
India	-	280,622	328,781	-	315,889	378,537
Other	-	-	1,668	-	-	11,463
	4,737	306,929	363,219	4,737	344,629	425,327
Discontinued	-	-	-	-	-	681
Total	4,737	306,929	363,219	4,737	344,629	426,008

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

(thousands of US Dollar)	Year ended March 31, 2018				Year ended March 31, 2017			
	India	Bangladesh	Other	Total	India	Bangladesh	Other	Total
Natural gas revenue	19,164	-	-	19,164	31,013	20,532	-	51,545
Crude oil and condensate revenue	3,767	-	-	3,767	6,323	1,083	-	7,406
Royalties	(2,330)	-	25	(2,305)	(3,452)	-	14	(3,438)
Profit petroleum	(275)	-	-	(275)	(380)	(10,748)	-	(11,128)
<b>Net oil and natural gas revenue</b>	<b>20,326</b>	<b>-</b>	<b>25</b>	<b>20,351</b>	<b>33,504</b>	<b>10,867</b>	<b>14</b>	<b>44,385</b>
Production and operating expenses	(14,295)	(5,511)	-	(19,806)	(16,840)	(5,884)	-	(22,724)
General and administrative expenses	-	-	(4,481)	(4,481)	-	-	(5,439)	(5,439)
Finance and other income	1,635	-	619	2,254	1,083	-	1,897	2,980
Finance expense	(4,453)	(543)	(19)	(5,015)	(4,688)	(494)	(21,227)	(26,409)
Foreign exchange (loss) gain	-	-	(1,649)	(1,649)	-	-	1,074	1,074
Depletion and depreciation expenses	(38,028)	(4,417)	-	(42,445)	(26,176)	(4,719)	-	(30,895)
Exploration and evaluation expenses	(185)	-	-	(185)	(102)	(257)	-	(359)
Share-based compensation expense	-	-	-	-	-	-	(23)	(23)
Restructuring costs	-	-	(373)	(373)	-	-	(4,292)	(4,292)
Asset impairment loss	(1,328)	-	-	(1,328)	(1,326)	(13,010)	-	(14,336)
Loss on derivative	-	-	-	-	-	-	(36)	(36)
Gain on debt modification	-	-	-	-	-	-	283,248	283,248
Commercial claim expense	(28,940)	-	-	(28,940)	-	-	-	-
Deferred income tax recovery	-	-	-	-	39,992	-	-	39,992
<b>Net segment income (loss) from continuing operations</b>	<b>(65,268)</b>	<b>(10,471)</b>	<b>(5,878)</b>	<b>(81,617)</b>	<b>25,447</b>	<b>(13,497)</b>	<b>255,216</b>	<b>267,166</b>
<b>Net segment income (loss) from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>346</b>	<b>346</b>	<b>-</b>	<b>-</b>	<b>(2,747)</b>	<b>(2,747)</b>
<b>Total net income (loss) and comprehensive income (loss)</b>	<b>(65,268)</b>	<b>(10,471)</b>	<b>(5,532)</b>	<b>(81,271)</b>	<b>25,447</b>	<b>(13,497)</b>	<b>252,469</b>	<b>264,419</b>



## 28. Related party transactions

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

Key management compensation includes the following:

(thousands of US Dollars)	Year ended March 31,	
	2018	2017
Annual fees for non-management directors <sup>(1)</sup>	381	479
Executive officers – salaries and other benefits <sup>(1)</sup>	629	869
	1,010	1,348

(2) Amounts are based on cash payments made during the years ended March 31, 2018 and March 31, 2017, respectively. No bonuses or share-based payments were made during the years ended March 31, 2018 and March 31, 2017.

## 29. Commitments and contractual obligations

### (a) Exploration commitments

(thousands of US Dollar)	As at March 31, 2018
Indonesia <sup>(1)</sup>	140,579
Trinidad <sup>(1)(2)</sup>	128,820
Brazil <sup>(3)</sup>	3,000
	272,399

(1) Amounts have been recognized as unfulfilled exploration commitments as at March 31, 2018. Refer to Note 14.

(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 15(a) for details.

(thousands of US Dollar)	As at March 31, 2018
<1 year	4,509
Imputed interest	(129)
Carrying value	4,380

## 30. Contingent liabilities

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

Niko Resources (Bangladesh) Ltd. ("NRBL") is a party to two arbitration disputes to be decided upon by Tribunals constituted under the rules of International Centre for Settlement of Investment Disputes ("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 \$38 million. There is no assurance that Petrobangla will comply with the decision of the Tribunals. As such, no amounts have been recorded in these audited 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 Government of Bangladesh's ("GOB") losses and other expenses. A hearing on the corruption claim was held in April 2017 with the timing of a decision from the Tribunal uncertain.

(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. Hearings in the arbitration proceeds are expected in calendar 2019 and a decision is expected in calendar 2020.

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 November 2016, the contractor group of the D6 Block received a letter from the GOI in which 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).

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. Effective November 2014 to March 2016, the D6 contractor group was 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 was 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 has been below the earlier price of \$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 in India received a letter from the GOI, in which the GOI made claims against the contractor group in respect of gas said to have migrated from neighboring blocks to the D6 Block. 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 March 2018, the GOI updated its base claim to \$1.46 billion (Niko share \$146 million) for its estimate of the gas migrated from neighboring blocks and produced and sold by the contractor group up to December 31, 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. The GOI also included a claim for interest to December 31, 2017 of \$245 million (Niko share \$24.5 million). Niko believes the contractor group is not liable for the amounts claimed by the GOI and has worked with the contractor group to defend against the claims through the arbitration process. A decision of the arbitration panel is expected by the end of July 2018.

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 has claimed 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 \$55 million (comprised of additional taxes of \$37 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.

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.

Niko (NECO) Limited ("Niko NECO"), the Company's subsidiary that owns its interest in the D6 Block, has received similar unfavorable tax assessments relating to the tax holiday deduction claimed. In the third quarter of fiscal 2018, Niko NECO received favorable decisions on its appeals against these tax assessments for certain fiscal years. As a result, the Indian Rupee equivalent of \$14 million was reflected as current income tax receivable as at March 31, 2018. In May 2018, Niko NECO received income tax refunds from the GOI totaling the Indian Rupee equivalent of \$15.5 million (including interest).

(d) *Service Tax/GST on Royalty – India*

Subsequent to March 31, 2018, Niko NECO received a request from the GOI for payment of the Indian Rupee equivalent of \$0.9 million of service tax/GST on royalty paid by the operator of the D6 Block to the GOI from April 2016 to November 2017. Payments of the disputed service tax and GST from April 2016 equating to the proportionate share of the other members of the Contractor group of the D6 Block members of the Contractor group had been made under protest by the operator commencing in the fourth quarter of fiscal 2018. The Company continues to pursue its rights in this matter. In the opinion of the Company, it is more likely than not that the above noted dispute will not result in an outflow of resources embodying economic benefits from the Company.

(e) *Unfulfilled Commitments Disputes – India*

The Cauvery and D4 blocks in India have been relinquished. 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.

(f) *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.

### **31. Subsequent Event**

(a) Subsequent to March 31, 2018, the Company was notified by the operator of the Block 9 PSC that Petrobangla had paid funds to the operator of the Block 9 for recovery of costs incurred by the operator related to Niko Block 9's interest. The impact on the Company's situation in Block 9 of Petrobangla's actions is currently under evaluation.

(b) In May 2018, Niko NECO received income tax refunds from the GOI totaling the Indian Rupee equivalent of \$15.5 million (including interest).