



**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED MARCH 31, 2018**

June 20, 2018

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## ADVISORIES

In this Annual Information Form (“AIF”), references to “Niko” or “the Company” mean Niko Resources Ltd., its subsidiaries, partnerships and joint arrangements, unless otherwise noted.

Unless otherwise specified, information contained in this AIF is dated March 31, 2018. The effective date of discussion is June 20, 2018.

All financial information is reported in US Dollars unless otherwise noted. Additional information relating to the Company, including the Company’s audited consolidated financial statements and Management’s Discussion & Analysis for the year ended March 31, 2018, 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).

## FORWARD LOOKING STATEMENTS

This AIF contains forward-looking statements and forward-looking information (collectively “**forward-looking information**”) within the meaning of applicable securities laws. 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 current expectations, estimates, projections, and assumptions regarding the future growth, estimates of operations and 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.

Forward-looking statements in this AIF include references, but are not limited to: the Company’s ability to fund its cash requirements over the short term, the ability of the Company to successfully complete its strategic plan on a timely basis, the 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, the Company not being liable in respect of claims made by the Government of India and the successful pursuit of legal rights by the Company related to disputes with the Government of Bangladesh and its subsidiary entities. 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. 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. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. Undue reliance should not be placed on forward-looking information. Forward-looking information reflects the Company’s current beliefs and assumptions and is based on information available at the time the statement was made by the Company. 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, the 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 actions of the Government of India, and future actions of the People’s Republic of Bangladesh, Petrobangla or Bangladesh Petroleum Exploration Co., whether courts in the People’s Republic of Bangladesh will recognize the exclusive jurisdiction of the international tribunals constituted under the Rules of the International Centre for Settlement of Investment Disputes, 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. 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 *Going Concern Risk*), 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 costs, dependence on customers, ability to make payment associated with the Company’s financing obligations and contractual commitments (including work commitments), 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, marketability of crude oil and natural gas, 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, changes in taxes, royalty and environmental legislation, the impact of general economic conditions, imprecision of reserve estimates, labour concerns, and stock market volatility. Other risks impacting the Company include the termination of rights under joint operation agreements, licensing and regulatory requirements, international operations and foreign corruption violations, government approvals and

dependence on key personnel. Refer to "Risk Factors" for a detailed discussion of the risks and uncertainties. The Company makes no representation that the actual results achieved during the forecast period will be the same in whole or in part as those forecasts.

Statements relating to "reserves" contained herein are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be economically produced in the future. Future net revenue values are estimated values only and do not represent fair market value. The reserve estimates provided herein are estimates only and there is no assurance that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein.

The forward-looking statements contained in this report are made as of the date of this AIF. Except as required by applicable securities law, the Company assume no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing risk and assumptions affecting such forward-looking, whether as a result of new information, future events or otherwise. Previously disclosed forward looking information may be updated for actual results when information is made available or when a withdrawal occurs.

## NON-IFRS MEASURES

**"Netback"** is a non-IFRS financial measure used in this AIF. Netbacks are presented on a US dollar per mcf basis and are derived from segmented statement of net income (loss), after adjusting for items not directly attribution to the revenues and costs associated with production and delivery of crude, condensate and natural gas. Management uses netback to measure product profitability after consideration of royalties, profit petroleum and production and operating costs. The non-IFRS measure does not have any standard meaning under IFRS therefore may not be comparable to similar measures presented by other issuers. The most directly comparable measure under IFRS presented in the audited consolidated financial statements for the year ended March 31, 2018 to Netback is net income (loss) on the statement of comprehensive income (loss).

## ABBREVIATIONS AND CONVERSIONS

The following abbreviations and conversions may be used in this AIF:

<b>"2D"</b>	two dimensional	<b>"Mbbbl"</b>	thousand barrels
<b>"3D"</b>	three dimensional	<b>"Mcf"</b>	thousand cubic feet
<b>"bbl"</b>	barrel	<b>"Mcf<sub>e</sub>"</b>	thousand cubic feet of gas equivalent
<b>"bbls/d"</b>	barrels per day	<b>"MMbtu"</b>	million British thermal units
<b>"Bcf"</b>	billion cubic feet	<b>"MM\$"</b>	millions of US Dollars
<b>"Bcfe"</b>	billion cubic feet equivalent	<b>"MMcf"</b>	million cubic feet
<b>"boe"</b>	barrels of oil equivalent	<b>"MMcf<sub>e</sub>"</b>	million cubic feet of gas equivalent
<b>"bopd"</b>	barrels of oil per day	<b>"Mcf/d"</b>	thousands standard cubic feet per day
<b>"CAD\$"</b>	Canadian dollars	<b>"MMcf/d"</b>	million standard cubic feet per day
<b>"GCV"</b>	gross calorific value	<b>"NCV"</b>	net calorific value

Boe may be misleading, particularly if used in isolation. A boe conversion ratio of six (6) Mcf to one (1) bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Mcfe may be misleading, particularly if used in isolation. An Mcfe conversion ratio of one (1) bbl to six (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.

One MMbtu is equivalent to one (1) Mcfe plus or minus up to twenty (20) percent, depending on the composition and heating value of the natural gas in question.

## GLOSSARY OF TERMS

"**2012 Public Offering**" means the public offering of the Company that closed in December 2012, of (i) 12,688,000 Common Shares of the Company at CAD\$8.50 per Common Share for gross proceeds of CAD\$107.8 million and (ii) CAD\$115 million principal amount of Convertible Notes at a price of CAD\$1,000 per Convertible Note for aggregate gross proceeds of CAD\$222.8 million;

"**2013 Settlement Agreement**" means the settlement agreement executed with subsidiaries of Diamond Offshore Drilling Inc. in December 2013;

"**2016 Settlement Agreement**" means the agreement executed with subsidiaries of Diamond Offshore Drilling Inc. in October 2016 relating to the settlement of outstanding claims under drilling contracts and amendment to the 2013 Settlement Agreement.

"**ABCA**" means the Business Corporations Act, R.S.A. 2000, c. B-9, together with any amendments thereto and all regulations promulgated thereunder;

"**Agent**" means the agent on behalf of the lenders to the Term Loan Facilities and Convertible Notes;

"**Amendments**" means collectively the Fourth Amendment to the Term Loan Facilities and the Indenture Amendment to the Convertible Notes;

"**ANP**" means Agência Nacional do Petróleo, Gás Natural e Biocombustíveis;

"**BAPEX**" means the Bangladesh Petroleum Exploration Co., a wholly owned subsidiary of Petrobangla;

"**Block 9**" means the contract area Block 9 located in Bangladesh, onshore near the city of Dhaka, as identified in a production sharing contract entered into by Chevron International Bangladesh Limited, Tullow Bangladesh Limited, Texaco Exploration Asia Pacific Regional Pathfinding Inc., Petrobangla and the Government of Bangladesh in April 2001; on September 17, 2003, Niko, through its indirect wholly-owned subsidiary, Niko Resources (Cayman) Ltd., acquired all of the shares of Chevron International Bangladesh Limited, an indirect subsidiary of ChevronTexaco Corporation;

"**BP**" means BP Exploration (Alpha) Limited;

"**Brent Blended**" means a sweet type of crude oil, being a mix of crude oils from several facilities in the Ninian and Brent fields on the North Sea, that is used as a benchmark for the prices of other crude oils;

"**CCAA**" means Companies' Creditors Arrangement Act (Canada);

"**CFPOA**" means the Corruption of Foreign Public Officials Act, S.C. 1998, c. 34, together with any amendments thereto and all regulations promulgated thereunder;

"**Chattak**" means the contract areas of Chattak East and Chattak West located onshore Bangladesh on the northern Bangladesh/Indian border, as identified in the joint venture agreement;

"**CIBL**" means Chevron International Bangladesh Limited;

"**COGE Handbook**" means Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society);

"**Common Shares**" means the common shares in the capital of the Company;

"**Convertible Notes**" means the note portion of the 2012 Public Offering, being CAD\$115 million principal amount of convertible senior unsecured notes at a price of CAD\$1,000 per note for aggregate gross proceeds of CAD\$115 million;

"**D1 D3**" means Dhirubhai 1 and 3 fields in the D6 Block in India;

"**D4 Block**" means the contract area Block MN-DWN-2003/1 located offshore east coast India in the Mahanadi Basin, as identified in a product sharing contract entered into by Niko, Reliance Industries Limited and the Government of India in September 2005;

**"D6 Block"** means the contract area Block KG-DWN 98/3 located offshore east coast India, as identified in a production sharing contract entered into by Niko, Reliance Industries Limited and the Government of India in April 2000;

**"D6 contractor group"** means the joint operating group of the D6 Block comprising of Reliance Industries Limited, BP Exploration (Alpha) Limited, and Niko;

**"Deloitte"** means Deloitte LLP;

**"Deloitte Report"** means the independent reserves and economic evaluation of Niko's oil and natural gas interests in the D6 Block in India prepared by Deloitte LLP dated June 01, 2018 and effective March 31, 2018;

**"D6 Royalty Agreement"** means the agreement dated December 23, 2013 between Cortes Royalty Limited, an affiliate of the lenders under the Facilities Agreement and Niko (Neco) Ltd. relating to the D6 Block;

**"Diamond"** means Diamond Offshore Drilling Inc.;

**"DSTs"** means drill stem tests;

**"Facilities Agreement"** or **"Term Loan Facilities"** means the definitive facilities agreement dated December 23, 2013 among the Company, certain institutional investors and Wilmington Trust (London) Limited, as agent of the lenders and security trustee, providing for senior secured term loan facilities in an initial aggregate amount of \$340 million;

**"FDP"** means field development plan;

**"Feni"** means the contract area of Feni located in the Chittagong region of Bangladesh, as identified in the joint venture agreement;

**"First Amendment to the Facilities Agreement"** means the first amendment to the original senior secured Facilities Agreement dated December 20, 2013 for an initial aggregate amount of \$340 million. The First Amendment is dated February 12, 2015;

**"Fiscal Year"** means the twelve (12) month period ending March 31; **"Fiscal 2006"** means the fiscal year of the Company ended March 31, 2006; **"Fiscal 2015"** means the fiscal year of the Company ending March 31, 2015; **"Fiscal 2016"** means the fiscal year of the Company ending March 31, 2016; **"Fiscal 2017"** means the fiscal year of the Company ending March 31, 2017, **"Fiscal 2018"** means the fiscal year of the Company ending March 31, 2018 and **"Fiscal 2019"** means the fiscal year of the Company ending March 31, 2019.

**"Fourth Amendment to the Facilities Agreement"** means the fourth amendment to the original senior secured Facilities Agreement dated December 23, 2013 for an initial aggregate amount of \$340 million and to the first, second and third amendments to the Facilities Agreement. The Fourth Amendment was dated July 18, 2016;

**"FPSO"** means floating production storage and offloading vessel;

**"GOB"** means the Government of Bangladesh;

**"GOI"** means the Government of India;

**"GPSA"** means gas purchase and sale agreement;

**"GSPC"** means Gujarat State Petroleum Corporation Limited;

**"GORTT"** means the Government of Trinidad and Tobago;

**"Guayaguayare Area"** means the contract areas known as Guayaguayare Block - Shallow Horizon and Guayaguayare Block - Deep Horizon located on and off the southeast coast of Trinidad and Tobago, as identified in two (2) production sharing contracts entered into by Voyager Energy (Trinidad) Ltd., an indirect wholly-owned subsidiary of Niko, and Petroleum Company of Trinidad and Tobago Limited on July 7, 2009;

**"Guidelines"** means India's Domestic Natural Gas Guidelines effective November 1, 2014;

"**Hazira Field**" means the contract area known as the Hazira Field located onshore and offshore in Gujarat State, India, as identified in a production sharing contract entered into by Niko, GSPC and the Government of India in September 1994;

"**ICSID**" means International Centre for Settlement of Investment Disputes;

"**Indenture**" or "**Indenture Agreement**" means the trust indenture dated December 4, 2012 relating to the creation and issuance of \$115 million principal amount of Convertible Notes between the Company and Computershare Trust Company of Canada (the "**Trustee**");

"**Intercreditor Agreement**" means the supplementary agreement to the Indenture Amendment to grant security to the Noteholders;

"**JVA**" means the Joint Venture Agreement between NRBL and Bangladesh Petroleum Exploration Co. signed on October 16, 2003, covering the operation of three (3) onshore fields in Bangladesh, being the Feni, Chattak East and Chattak West fields located in the Dhaka and Chittagong areas of Bangladesh;

"**LBDP**" means land based drilling platform;

"**LBT**" means land and building tax;

"**Lenders**" means institutional lenders of the Term Loan Facilities;

"**LNG**" means liquefied natural gas;

"**NEC-25**" means the contract area Block NEC-OSN-97/2 located offshore east coast India as identified in a production sharing contract entered into by Niko, Reliance Industries Limited and the Government of India in April 2000;

"**New Guidelines**" means the amendments made to the Guidelines, in March 2016, 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 in India;

"**NGL**" means natural gas liquids, being those hydrocarbon components that can be recovered from natural gas as liquids, including but not limited to ethane, propane, butanes, pentanes plus, condensate, and small quantities of non-hydrocarbons;

"**Niko**" or the "**Company**" means Niko Resources Ltd. and, where the context requires, includes its wholly-owned subsidiaries;

"**Niko Block 9**" means Niko Exploration (Block 9) Ltd.;

"**NI 51-101**" means Canadian Securities Administrators' National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*;

"**NI 52-110**" means Canadian Securities Administrators' National Instrument 52-110 *Audit Committees*;

"**NRBL**" means Niko Resources (Bangladesh) Ltd., a wholly-owned indirect subsidiary of Niko;

"**Noteholders**" means noteholders holding the Company's seven (7) percent senior secured Convertible Notes due December 31, 2025;

"**Petrobangla**" means the Bangladesh Oil, Gas and Mineral Corporation, the Bangladesh state-owned oil and gas company;

"**PSC**" means production sharing contract;

"**R-Cluster**" or "**R-Series**" means gas discovery fields related to the Dhirubhai-34 well in the south portion of the KG-D6 block in India;

"**Reliance**" means Reliance Industries Limited;

"**Satellite Area**" means the four (4) discoveries in the KG-D6 block in India;



**"Second Amendment to the Facilities Agreement"** means the second amendment to the original senior secured Facilities Agreement dated December 23, 2013 for an initial aggregate amount of \$340 million and to the first amendment to the Facilities Agreement dated February 15, 2015. The Second Amendment was dated June 1, 2015;

**"SHESR"** means Safety, Health, Environment and Social Responsibility;

**"Subsidiary"** has the meaning ascribed thereto in the ABCA;

**"Surat Block"** means the contract area Block CBB-ONN-2000/2 located onshore in Gujarat State, India as identified in a production sharing contract entered into by Niko and the Government of India in July 2001;

**"Third Amendment to the Facilities Agreement"** means the third amendment to the original senior secured Facilities Agreement dated December 23, 2013 for an initial aggregate amount of \$340 million and to the first and second amendments to the Facilities Agreement. The Third Amendment was dated September 22, 2015;

**"TSX"** means the Toronto Stock Exchange;

**"Working Interest"** means the percentage of undivided interest held by the Corporation in the oil and/or natural gas or mineral lease granted by the mineral owner, which interest gives the Corporation the right to "work" the property to explore for, develop, produce and market the leased substances.

## INFORMATION CONCERNING RESERVES

In the tables set forth in the "Statement of Reserves Data and Other Oil and Gas Information" and elsewhere in this AIF, unless otherwise indicated, the following definitions and other notes are applicable.

**"Gross"** means:

- (i) in relation to the Company's interest in production or reserves, its working interest (operating or non-operating) share before deduction of royalties and profit petroleum without including any royalty interest of the Company;
- (ii) in relation to wells, the total number of wells in which the Company has an interest; and
- (iii) in relation to properties, the total area of properties in which the Company has an interest.

**"Net"** means:

- (i) in relation to the Company's interest in production or reserves, its working interest (operating or non-operating) share after deduction of royalty obligations, which are profit petroleum, plus the Company's royalty interests in production or reserves;
- (ii) in relation to the Company's interest wells, the number of wells obtained by aggregating the Company's working interest in each of its gross wells; and
- (iii) in relation to the Company's interest in a property, the total area in which the Company has an interest multiplied by the working interest owned by the Company.

### Reserves Categories

**"Reserves"** are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable, and shall be disclosed. Reserves may be divided into proved and probable categories according to the degree of certainty associated with the estimates.

**"Proved reserves"** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

**"Probable reserves"** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

## Development and Production Status

Each of the reserves categories (proved and probable) may be divided into developed and undeveloped categories:

**“Developed reserves”** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.

- **“Developed producing reserves”** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
- **“Developed non-producing reserves”** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

**“Undeveloped reserves”** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator’s assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

## Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves estimates are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- At least a ninety (90) percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves;
- At least a fifty (50) percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A quantitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates are prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

## Future Income Tax Expense

Future income tax expenses are estimated:

- making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes between oil and gas activities and other business activities;
- without deducting estimated future costs that are not deductible in computing taxable income;
- taking into account estimated tax credits and allowances;
- taking into account Minimum Alternative Tax (“**MAT**”);
- applying to the future pre-tax net cash flows relating to the Company’s oil and gas activities the appropriate year-end statutory tax rates, taking into account future tax rates already legislated.

## Well and Cost Information

**“Development well”** means a well drilled inside the established limits of an oil or gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

**"Development costs"** means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground, draining, road building, and relocating public roads, gas lines and power lines to the extent necessary in developing the reserves;
- drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
- acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
- provide improved recovery systems.

**"Exploration well"** means a well that is not a development well, a service well or a stratigraphic test well.

**"Exploration costs"** means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
- costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
- dry hole contributions and bottom hole contributions;
- costs of drilling and equipping exploratory wells; and
- costs of drilling exploratory type stratigraphic test wells.

**"Service well"** means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.

## **Other Oil and Natural Gas Disclosure Matters**

- Numbers may not add due to rounding.
- FPSO charter lease costs are included as operating cost.
- Estimated future abandonment and reclamation costs related to a property have been taken into account by Deloitte in determining reserves that should be attributable to a property and, in determining the aggregate future net revenue therefrom, there was deducted the reasonable estimated future well abandonment costs.
- The forecast price and cost assumptions assume the continuance of current laws and regulations.
- The extended character of all factual data supplied to Deloitte was accepted by them as represented. Deloitte did not consider a field inspection necessary.
- Future net revenues disclosed herein do not represent fair market value.

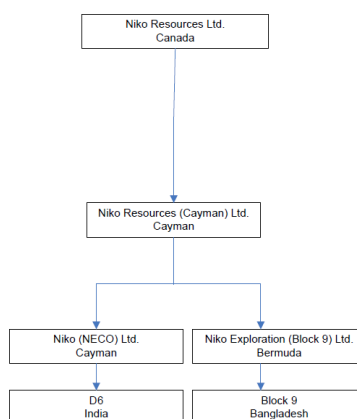
# CORPORATE STRUCTURE

## Name and Incorporation

Niko Resources Ltd. was incorporated under the ABCA on March 26, 1987. On October 7, 1997, the Company's Articles of Incorporation were amended to delete the Class A shares and Class B shares, to rename the common shares and to create a class of preferred shares. The principal and registered office is located at Suite 1500, 205 – 5th Avenue S.W., Calgary, Alberta, T2P 2V7.

## Intercorporate Relationships

The following diagram describes the intercorporate relationships between the Company and its subsidiaries, which are all wholly-owned. Subsidiaries accounting for less than ten (10) percent of the Company's consolidated assets and revenues and in aggregate accounting for less than twenty (20) percent of the Company's consolidated assets and revenues as at, and for the year ended March 31, 2018 have been excluded from the diagram below.



### Notes:

- 1) The shares of all subsidiaries are directly or indirectly owned 100 percent by Niko.
- 2) Niko (NECO) Ltd. holds interest in the D6 Block in India.
- 3) Niko (Exploration Block 9) Ltd. holds interest in Block 9 in Bangladesh.
- 4) Subsidiaries not shown in the above diagram includes the following: a) Niko Resources (Cyprus) Ltd. holds two (2) active participating subsidiaries with interests in two (2) PSCs in Brazil. b) Niko Resources (Cyprus) Ltd. had fourteen (14) subsidiaries that previously held participating interests PSCs located in Indonesia. c) Niko Resources (Barbados) Ltd. d) Voyager Energy (Barbados) Ltd. previously held participating interests in four (4) PSCs located in Trinidad and Tobago. e) Eleven (11) subsidiaries that previously held participating interests in eight (8) PSCs located in Indonesia were merged with Black Gold Energy LLC in Fiscal 2017.

# DEVELOPMENT OF THE BUSINESS

## General Overview

Niko is a Canadian-based international company headquartered in Calgary, Alberta. The Company's main business activities include development and production of oil and natural gas in India and Bangladesh. The Company's Common Shares and Convertible Notes are listed on the TSX under the symbol "NKO" and "NKO.NT" respectively.

The Company's reportable segments for financial reporting purposes include India, Bangladesh, and Other. Other consists of Corporate and Brazil. For the year ended March 31, 2018, the Company's total revenue was comprised of eighty-four (84) percent natural gas and sixteen (16) percent oil and condensate. Refer to "Assets" for detailed information for each the reportable segments.

## Code of Ethics and Business Conduct

The Company abides by the Code of Ethics and Business Conduct (the "**Code**"), which is designed to provide guidance on the conduct of the Company's business in accordance with all applicable laws, rules and regulations and with the highest ethical standards. As a public corporation, the Company must not only conduct, but must also be seen to conduct, its business in accordance with the highest ethical standards. The Code applies to all directors, officers and employees of the Company as well as other individuals who are engaged in providing professional and business services to the Company and operates in all countries in

which the Company conducts business. Consultants to, suppliers and partners of and those in a contract or agency relationship with the Company are also expected to adhere to the Code when dealing with the Company.

### **Environmental Policies**

The Company currently abides by the Safety, Health, Environment and Social Responsibility (“SHESR”) policy which was implemented on August 13, 2007. SHESR is intended to ensure the Company’s activities do not compromise the wellbeing of the Company’s employees, contractors, communities or the environment in which the Company operates in. The Company is also required to comply with the Environment and Social Action Plan under the terms of the original Facilities Agreement. In addition, 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 “decommissioning obligations”.

### **Three Year History of the Company**

The following list includes several events over the past three (3) fiscal years that have influenced the general development of the Company.

#### **India**

##### **Fiscal 2016**

- In the first quarter of fiscal 2016, the D6 contractor group elected to conduct DSTs for two (2) discoveries in the block. The DSTs were completed, confirming the potential of these discoveries, and the D6 contractor group plans to incorporate the information into the design of an integrated development scheme for the retained discoveries with the Satellites discoveries.
- In September 2015, the notified price for natural gas sales from the D6 Block in India for October 1, 2015 to March 31, 2016 was \$3.82 / MMBtu GCV.
- In September 2015, the Company relinquished its interest in the NEC-25 Block.
- In March 2016, the notified price for natural gas sales from the D6 Block in India for April 1, 2016 to September 30 2016 was \$3.06 / MMBtu GCV.
- In March 2016, the GOI announced the approval of a proposal on marketing including pricing freedom for the gas to be produced from discoveries in high pressure-high temperature, deepwater and ultra-deepwater areas. The notified ceiling price for the period of April 1, 2016 to September 30, 2016 for gas produced from discoveries in high temperature-high pressure, deepwater, and ultra-deepwater areas that had not commenced production as of January 1, 2016 was \$6.61 / MMBtu GCV. 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 once in six (6) months and applied prospectively for the next six (6) months. The price data used for the calculation of the ceiling price shall be the trailing four (4) quarters data with one quarter lag. Refer to “Assets – India – Domestic Gas Sales Pricing Policy”.
- The Operating Committee of the D6 Block approved the submissions of declaration of commerciality reports for each of the MJ and Other Satellites discoveries.
- The abandonment program of the Surat block in India was substantially completed as at March 31, 2016.

##### **Fiscal 2017**

- The drilling of the first of two (2) planned sidetrack wells in the MA field in D6 Block commenced in June 2016 and production from this well commenced in October 2016.
- The drilling of the second of two (2) planned sidetrack wells in the MA field in D6 Block commenced in late September 2016 and production from this well commenced in late January 2017.
- In September 2016, the notified price for natural gas sales from the D6 Block in India for October 1, 2016 to March 31, 2017 was \$2.50 / MMBtu GCV.
- In September 2016, the notified gas price ceiling for gas to be produced from discoveries in deepwater, ultra-deepwater and high pressure-high temperature areas that had not commenced production as of January 1, 2016, for October 1, 2016 to March 31, 2017 was \$5.30 / MMBtu GCV.
- In December 2016, the Company signed an asset sale and purchase agreement for the sale of its thirty-three (33.33) percent interest in the Hazira Field. Closing of the sale transaction was subject to government and other approvals.
- In December 2016, the D6 contractor group declared D55 (MJ field) and D29, D30 (Other Satellites) gas discoveries as commercial discoveries.
- In March 2017, the notified price for natural gas sales from the D6 Block in India for April 1, 2017 to September, 2017 was \$2.48 / MMBtu GCV.

- In March 2017, the notified gas price ceiling for gas to be produced from discoveries in deepwater, ultra-deepwater and high pressure-high temperature areas that had not commenced production as of January 1, 2016, for April 1, 2017 to September 30, 2017 was \$5.56 / MMBtu GCV.

#### **Fiscal 2018**

- In September 2017, the notified price for natural gas sales from the D6 Block in India for October 1, 2017 to March 31, 2018 was \$2.89 / MMBtu GCV.
- In September 2017, the notified gas price ceiling for gas to be produced from discoveries in deepwater, ultra-deepwater and high pressure-high temperature areas that had not commenced production as of January 1, 2017, for October 1, 2017 to March 31, 2018 was \$6.30 / MMBtu GCV.
- In January 2018, The GOI approved the assignment of Niko's thirty-three (33.33) percent interest in the Hazira PSC to a third party. Closing of the sale, effective October 1, 2017, occurred in the fourth quarter of Fiscal 2018.
- In February 2018, the GOI approved the FDPs for two (2) of the Satellite discoveries, the Other Satellites and the MJ discovery in the D6 Block.
- In March 2018, the notified price for natural gas sales from the D6 Block in India for April 1, 2018 to September, 2018 is \$3.06 / MMBtu GCV.
- In March 2018, the notified gas price ceiling for gas to be produced from discoveries in deepwater, ultra-deepwater and high pressure-high temperature areas that had not commenced production as of January 1, 2017, for April 1, 2018 to September 30, 2018 is \$6.78 / MMBtu GCV.

#### **Bangladesh**

##### **Fiscal 2016**

- In September 2015, the Tribunal issued a favorable decision on the implementation of its decision on the payment claim deciding that Petrobangla shall pay into escrow account approximately \$35 million including interest. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in Bangladesh".
- In March 2016, BAPEX filed a memorial with the Tribunals that included a request that the Tribunals declare the JVA null and void based on the premise that the JVA was procured through corruption and dismiss all claims of NRBL in arbitration. In addition, BAPEX requested compensation of \$118 million for BAPEX's losses and approximately \$905 million for the GOB's losses and other expenses. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in Bangladesh".

##### **Fiscal 2017**

- In May 2016, the Tribunals issued its Third Decision on the Payment Claim filed by NRBL against Petrobangla and decided that Petrobangla shall pay approximately \$35 million for gas delivered between November 2004 and April 2010 and accrued interest to NRBL forthwith and free of any restrictions. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in Bangladesh".
- In May 2016, a writ petition was filed before the Supreme Court of Bangladesh, High Court Division relating 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 (1) 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. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in Bangladesh".
- In June 2016, another writ petition was filed before the Supreme Court of Bangladesh, High Court Division relating to the October 2004 approval by Petrobangla of the acquisition by Niko, Cayman of Niko Block 9 from Chevron Corporation. Niko Block 9 owns a sixty (60) percent interest in Block 9 PSC. Pending resolution of the writ petition, the Court issued a Stay Order for a period of three (3) months on any kind of benefit given by the GOB, Petrobangla or BAPEX to Niko Exploration (Block 9) Limited, Niko Cayman or Niko. The Court has subsequently extended the Stay Order. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in Bangladesh".
- Petrobangla withheld payment of Block 9 gas and condensate revenues commencing June 2016.
- The drilling of the first of two (2) planned development wells in the Bangora field commenced in September 2016 and the well was brought on-stream in late January 2017.

##### **Fiscal 2018**

- In September 2017, the Company closed its office in Bangladesh to reduce ongoing costs.

## **Other - Exploration Areas**

### **Fiscal 2016**

- In July 2016, the Company recognized the sales of its entire interests in the Guayaguayare Shallow and Guayaguayare Deep PSCs in Trinidad in exchange for the assumption of existing liabilities and commitments under the PSCs and for potential future payments that are contingent on certain future events in the PSCs.
- In April 2015, the Company closed on the sale of its subsidiaries holding interests in four (4) Indonesian PSCs (West Papua IV, Kofiau, Halmahera-Kofiau, and Aru). Cash consideration of \$16 million was received, reflecting \$9 million of combined net working capital obligations of the subsidiaries.
- In July 2016, the Company closed its Indonesian office and discontinued operating activities related to its remaining Indonesia Blocks.
- In August 2016, the Company closed its office in Trinidad to reduce ongoing costs.
- In November 2016, the Company closed on the sale of its subsidiary holding an interest in the North Ganai PSC for net cash consideration of \$1.5 million after working capital adjustments.

### **Fiscal 2017**

- In August 2016, three (3) of the Company's indirect subsidiaries received written notice from the GORTT requesting that unfulfilled exploration work commitments be performed under each of the subsidiaries' respective PSCs within sixty (60) days, failing which the GORTT would terminate the PSCs and exercise its right on the parent guarantees for unfulfilled exploration commitments.

### **Fiscal 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 (3) PSCs. In the Company's view, the parent guarantees for unfulfilled exploration commitments for the three (3) PSCs have expired.

## **Other - Corporate - Liquidity and Financing Activities**

### **Fiscal 2016**

- In April 2015, \$4 million of the cash consideration from the sale of its subsidiaries holding interests in four (4) Indonesian PSCs of was used to reduce the amount outstanding under the Diamond Settlement Agreement.
- In June 2015, the Company entered into the Second Amendment to the Facilities Agreement to further amend the terms of the First Amendment to the Facilities Agreement, including the deferral of interest payments due and waiver of certain financial covenants.
- In September 2015, the Company entered into the Third Amendment to further amend the terms of the First and Second Amendment to the Facilities Agreement, including the deferral of interest payments due and waiver of certain financial covenants.
- In March 2016, the Company executed a support agreement with the Lenders holding more than eighty-five (85) percent of Term Loan Facilities and a support agreement with the Noteholders holding more than sixty (60) percent of the Company's Convertible Notes. The support agreements included a term sheet reflecting the key terms of the Fourth Amendment that would amend the terms of the Term Loan Facilities and outlines the Indenture Amendments that are required to be made to the indenture governing the Indenture.

### **Fiscal 2017**

- In July 2016, the Company entered into the Fourth Amendment to the Facilities Agreement and formally amended the Indenture governing its Convertible Notes. As a result, the Company was no longer in default of the amended Facilities Agreement or Indenture and is not required to make interest payments (including interest previously owing), nor make payments under the deferred obligation, other than in connection with the Waterfall Distribution. Refer to "Description of Capital Structure – Facilities Agreement" for the key terms of the agreements including the Waterfall Distribution.
- 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 2013 Settlement Agreement.

### **Fiscal 2018**

- 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.

### **Other - Corporate - Personnel Updates**

#### **Fiscal 2016**

- In June 2015, the Board of Directors appointed Mr. Valk, Chief Financial Officer and Vice President Finance of the Company, as Corporate Secretary of the Company.
- In September 2015, Mr. Sigmon resigned from his position of director of the Company.
- In September 2015, the Board of Directors appointed Christopher Rudge as a director of the Company.
- In March 2016, Mr. Clarke announced his intended resignation from his position as Chairman of the Board and interim Chief Executive Officer subsequent to the completion of the restructuring transaction.
- In March 2016, Mr. Raj and Mr. Gendal resigned from their positions of directors of the Company.
- In March 2016, the Board of Directors appointed Robert S. Ellsworth Jr. as a director of the Company.

#### **Fiscal 2017**

- In July 2016, Mr. Clarke resigned from his position as Chairman of the Board, director, and interim Chief Executive Officer of the Company.
  - In July 2016, the Board of Directors appointed Mr. Ellsworth Jr. as interim Chief Executive Officer of the Company.
  - In July 2016, Mr. Rudge was appointed as Chairman of the Board of the Company.
  - In July 2016, Frederic F. (Jake) Brace was appointed as a director of the Company.
  - In September 2016, the Board of Directors appointed Glenn R. Carley as a director of the Company.
  - In November 2016, Mr. Ellsworth Jr. resigned from his position as director and interim Chief Executive Officer of the Company effective December 19, 2016.
  - In November 2016, the Board of Directors appointed Mr. Hornaday as Chief Executive Officer of the Company effective December 19, 2016.
  - In November 2016, the Board of Directors appointed Scott K. Brandt as a director of the Company effective December 19, 2016.
- In February 2017, Mr. Brace resigned as a director of the Company. Mr. Brace has been retained to act as an advisor to the Board.

### **Recent Developments**

The following recent material developments have occurred subsequent to March 31, 2018 up to the date of this AIF:

- 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. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in Bangladesh".
- In May 2018, Niko NECO received income tax refunds from the GOI totaling the Indian Rupee equivalent of \$15.5 million (including interest).



## DESCRIPTION OF THE ASSETS

### India

#### **D6 Block, India**

In 2000 the Company entered into the PSC for the D6 Block in India and has a ten (10) percent working interest, with Reliance, the operator, holding a sixty (60) percent interest and BP holding the remaining thirty (30) percent interest. The block is located off the coastline of Andhra Pradesh, with the northwestern boundary about forty (40) to sixty (60) kilometers southeast of Kakinada. The D6 Block contains two (2) areas currently in production, D1 D3 and MA, and planned development projects for a further three (3) areas: R Cluster, Satellite Area and MJ field.

#### Dhirubhai 1 and 3 Fields

Initial development of the D1 D3 fields included the drilling and tie-in of eighteen (18) wells and construction of the offshore Deep Water Pipeline End Manifold (“**DWPLEM**”) and Control and Riser Platform (“**CRP**”), and the Onshore Terminal (“**OT**”) at Gadimoga. Gas production began in April 2009 and peaked in March 2010, followed by natural declines of the fields and greater than anticipated water production. Four (4) additional wells were drilled from 2010 to 2011. Based on the information obtained from three (3) wells drilled within the main channel fairway, the operator determined that it is not economic to tie-in any of these three (3) wells. The fourth well drilled outside of the main channel fairway did not encounter economic quantities of natural gas. As at March 31, 2018, a total of seven (7) wells were producing.

#### MA Field

The MA oil was discovered in February 2006 with the drilling of MA1, the first exploratory well in the Mesozoic play, in the northwest corner of the block. The MA field commenced liquids production in September 2008 and gas sales in November 2009, with development wells tied into a FPSO, which stores the crude oil until it is sold on the spot market at a price based on the Bonny Light reference price and adjusted for quality. The current charter lease contract for the FPSO expires in September 2018, with negotiations underway to continue the use of the FPSO beyond September 2018. As at March 31, 2018, out of the seven (7) development wells drilled, three (3) wells were producing, with the remaining suspended either due to detection of sand or water production.

Natural gas produced from the D1 D3 and MA fields is received at the OT and is sold at the inlet to the East-West Pipeline owned by Reliance Gas Transportation Infrastructure Limited.

#### R Cluster Development Project

The R Cluster discovery was made in 2007 and the fields were appraised with five (5) wells in 2009 and 2010. The field development plan was approved by the GOI in August 2013. Front-end engineering design for the R Cluster field development has been completed. The R Cluster development project envisages six (6) new wells and two (2) re-entry wells tied back to a new R-DWPLEM to be connected to the existing CRP. The existing facilities downstream of the CRP will be used for further transportation and handling at the OT. Peak production is targeted at rates of approximately 50 MMcf/d (net). 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.

#### Satellite Cluster Development Project

The Satellite Cluster development project envisages four (4) subsea wells tied back to a subsea manifold and pipelined to an existing manifold in the D1 D3 field. Peak production is targeted at rates of approximately 20 MMcf/d (net). A field development plan for development of four (4) discoveries (“**Satellites**”) was approved in January 2012. In Fiscal 2017, the D6 contractor group declared commerciality on two (2) additional discoveries (the “**Other Satellites**”), following fulfillment in Fiscal 2016 of a government requirement for DSTs on the discoveries. In Fiscal 2018, the contractor group submitted integrated field development plans for the Satellites and Other Satellites. After relinquishment of two (2) of the Satellites, the field development plans for the Satellite Cluster discoveries in the D6 Block were approved by the GOI in February 2018, with start-up of the project projected for 2021.

#### MJ Field Development Project

The MJ gas and condensate field was discovered in May 2013. Following the discovery well, three (3) appraisal wells have been drilled. The MJ-1 well was drilled to a water depth of 1,024 metres and to a total depth of 4,509 metres exploring the prospectivity of

a Mesozoic Synrift Clastic reservoir lying over 2,000 metres below the already producing reservoirs in the D1 D3 gas fields. The appraisal program for the MJ field included the drilling of MJ-A1, MJ-A2 and MJ-A3 appraisal wells. The drilling of MJ-A1, located in the western fault block on the field, was completed in January 2014 and technical evaluation suggested a gross pay interval of 130 meters and pre-drill expectations were largely confirmed. The drilling of MJ-A2, located to target the eastern fault block on the field, was completed in June 2014 and encountered high quality reservoir, similar to the quality and age of the hydrocarbon bearing sections found in MJ-1 and MJ-A1, but the targeted section was wet. Drilling of the third appraisal well, MJ-A3, was completed in the third quarter of Fiscal 2015. The MJ-A3 well encountered hydrocarbon at the zone of interest; however, the zone was thinner than expected. In Fiscal 2017, the D6 contractor group declared commerciality on the MJ discovery. The MJ field development project envisages seven (7) subsea wells tied back to an FPSO, with the natural gas to be pipelined to the DWPLEM. Peak production is targeted at rates of approximately 35 MMcf/d (net) of natural gas plus 2,400 bbl/d (net) of condensate. In February 2018, the field development plan for the MJ discovery in the D6 Block was approved by the GOI, with start-up of the project projected for 2022.

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 PSC after drilling for the R-Cluster development project commences. Under the terms of the 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 (60) 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. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in India" and "Risk Factors".

#### Domestic Gas Pricing Policy

The PSC for the D6 Block states that natural gas must be sold at arm's length prices, with "arm's length" defined as sales made freely in the open market between willing and unrelated sellers and buyers, and that the pricing formula be approved by the GOI taking into account the prevailing policy on natural gas. In May 2007, Reliance, on behalf of the joint operating partners, discovered an arm's length price for the sale of gas on a transparent basis with a term of three (3) years and accordingly, proposed a gas price formula to the GOI. In September 2007, the GOI approved a pricing formula with some modification to the proposed formula. As a result of these modifications, the gas price was capped at \$4.20 / MMBtu and the formula was declared effective for a period of five (5) years rather than the three (3) years proposed by Reliance.

In June 2013, the Cabinet Committee of Economic Affairs of the GOI approved a pricing formula for domestic gas sales in India, based on the recommendations of the Rangarajan Committee report on "The Production Sharing Contract Mechanism in Petroleum Industry" issued in December 2012. The formula was to be effective April 1, 2014 for a period of five (5) years, with the price to be revised quarterly. The formula was based on the average of the prices of imported LNG into India and the weighted average of gas prices in North America, Europe and Japan. Based on the formula, the price effective at April 1, 2014 was estimated to be approximately \$8.40 / MMBtu, double the price of \$4.20 / MMBtu for gas sales from the D6 Block up to March 31, 2014.

In January 2014, the GOI formally announced the policy guidelines, which incorporated the formula from June 2013. The pricing formula shall be applicable to all natural gas sales from the D6 Block, subject to submission of bank guarantees related to incremental natural gas revenues from the D1 D3 fields. The Company provided bank guarantees to the GOI, as required as security in the case of an adverse outcome to the contractor group of the D6 Block of the D6 cost recovery dispute arbitration proceedings. The bank guarantee expired in July 2014 and cash was released from the bank.

There was a continued delay from the GOI in notifying the price after the announcement in January 2014, under protest but in good faith, the D6 contractor group for the D6 Block had kept supplying gas to its customers and the customers had paid for the gas supplied under the terms of the sales contracts that expired on March 31, 2014 up to October 2014. In May 2014, the D6 contractor group filed a notice of arbitration to the GOI seeking the implementation of the Guidelines notified while preserving their rights to claim an arms-length market price as required under the PSC.

After three (3) deferrals, in October 2014, the GOI approved the new domestic gas pricing policy for India effective November 1, 2014, and issued the Guidelines, which reflected a pricing formula that had been revised from the pricing formula approved in June, 2013. As per the Guidelines, the gas price is to be calculated based on a volume weighted average of prices in the US, Canada, Europe and Russia based on the twelve (12) month trailing average price with a lag of three (3) months, and is to be determined on a semi-annual basis.

In March 2016, the GOI approved the New Guidelines 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 in India. The marketing freedom so granted is capped by a ceiling price arrived at on the basis of landed price of alternative fuels. The New Guidelines applies 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). However, in case of existing discoveries which had yet to commence commercial production as of January 1, 2016, if there is pending arbitration or litigation filed by the contractors directly pertaining to gas pricing covering such fields, the New Guidelines is made applicable only on the conclusion/withdrawal of such litigation/arbitration and the attendant legal proceedings. The landed price-based ceiling is calculated once every six (6) months and applied prospectively for the next six (6) months. The price data used for the calculation of the ceiling price in US\$ per MMBtu shall be the trailing four (4) quarters data with one (1) quarter lag. All gas fields currently under production in the D6 Block will continue to be governed by the Guidelines.

#### *Production and Operating Expenses, Profit Petroleum, Royalties and Income Taxes*

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

The Company calculates and remits the government share of profit petroleum to the GOI in accordance with the PSC for the D6 Block. Refer to "Terms of Agreements Governing Exploration, Development and Production Activities – Terms of the D6 Block PSC". The profit petroleum calculation considers capital, operating and other expenditures made by the joint operation. As a result of unrecovered costs to date, the GOI's share of profit petroleum has amounted to the minimum level of one (1) percent of gross revenue. The government share of profit petroleum will increase above the minimum level once past unrecovered costs have been fully recovered. The Company has included certain costs in the profit petroleum calculations that are being contested by the GOI and has received notice from the GOI making allegations in relation to the fulfillment of certain obligations under the PSC for the D6 Block. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in India" and "Risk Factors".

The Company paid royalty expense of five (5) percent of gross revenue for the first seven (7) years of commercial production for the D1 D3 and MA fields. In May 2016, the royalty rate for the D1 D3 and MA fields increased to ten (10) percent of gross revenue. Royalty payments are deductible in calculating profit petroleum.

The Company is subject to tax on income earned in India of the greater of forty-three (43.26) percent of taxable income in India after a deduction for the tax holiday or a MAT of twenty (20) percent of Indian income. MAT is the amount of tax payable in respect of accounting profits and can be deducted against regular income taxes in future years. In Fiscal 2017, the GOI granted an extension to the carry-forward period for unutilized MAT credits in India from ten (10) to fifteen (15) years. India's federal tax law contains a tax holiday deduction for seven (7) years for profits from the commercial production of mineral oil. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in India" and "Risk Factors".

#### ***Hazira Field, India***

Niko was the operator of and previously held thirty-three (33.33) percent interest in the Hazira Field, located about twenty five (25) kilometers southwest of the city of Surat and covering an area of fifty (50) square kilometers on and offshore. Niko and GSPC constructed a thirty-six (36) inch gas sales pipeline to the local industrial area, in addition to the construction of an offshore platform, an LBDP, a gas plant and an oil facility at the Hazira Field. In the fourth quarter of Fiscal 2018, the Company closed the sale of its thirty-three (33.33) percent interest in the Hazira field in India, with an effective date of October 1, 2017. Refer to "Legal Proceedings and Regulatory Actions" for contingencies related to the Hazira Field.

#### ***Surat Block, India***

The Company held and was the operator of the twenty four (24) square kilometer Surat Block located onshore adjacent to the Hazira Field. The natural gas production from the Surat Block commenced in April 2004 and ceased in November 2012 as the cap on cumulative production in the approved field development plan was reached. The Company's site restoration program was completed in Fiscal 2017 and the Company has relinquished the block.

## **Bangladesh**

#### ***Block 9, Bangladesh***

In September 2003, the Company acquired a sixty (60) percent working interest in the PSC for Block 9. KrisEnergy, the operator, holds a thirty (30) percent interest and the remaining ten (10) percent interest is held by BAPLEX. Block 9 covers approximately 1,770 square kilometers of land in the central area of Bangladesh surrounding the capital city of Dhaka. The block contains the Bangora field and commenced commercial production in May 2006. As at March 31, 2018, a total of five (5) wells were producing.

The Company has signed a GPSA including a price of \$2.32 / Mcf, which expires at the earliest of (i) the end of commercial production, (ii) at expiry of the PSC (March 31, 2026) or (iii) twenty-five (25) years after approval of the field development plan (May 15, 2032). Petrobangla is the sole purchaser of the natural gas production from this field. The sales delivery point is at the Company's facility and thereafter is the responsibility of Petrobangla and is transported on the trunk pipeline.

The FDP consisted of three (3) phases. Phase I consisted of a long term test facility which was installed on the Bangora site in 2006. The facilities consist of a 60 mmscf/d processing plant with gas / liquid separation, water dew-pointing, fiscal metering and water and condensate storage tanks as well as a 2 kilometer export pipeline tie-in to the Ashuganj to Bakhrabad pipeline. In 2008, Phase II of the development was initiated to convert the temporary facility into a permanent processing plant ensure reliable production with a capacity up to 75 mmscf/d (net). Phase III facility upgrades were recently completed and comprised the installation of three (3) compressors, a new condensate storage tank and condensate loading system at the Bangora facility. In Fiscal 2014 two (2) workovers were completed and the plant compression facilities came on-line in the third quarter of Fiscal 2015. The drilling of the first of two (2) planned development wells in Bangora field commenced in September 2016 and this well was brought on stream in late January 2017. Commencement of drilling of the second well originally targeted for the fourth quarter of Fiscal 2017 is currently under evaluation.

The production and operating expenses for Block 9 relate primarily to the onshore wells and facilities, including a gas plant and pipeline. The majority of these expenses are fixed in nature with repair and maintenance expenditures incurred as required.

The Company calculates and remits the government share of profit petroleum to the GOB in accordance with the PSC for Block 9. The profit petroleum calculation considers capital, operating and other expenditures made by the joint operations. In Fiscal 2015, the GOB's share of profit petroleum increased as all the past unrecovered allowable costs were fully recovered based on the profit petroleum provisions of the PSC. Increases from the minimum level are dependent on future revenue and spending levels in Block 9. Under the terms of the Block 9 PSC, income tax is deemed to be included in the government share of profit petroleum. Refer to "Terms of Agreements Governing Exploration, Development and Production Activities – Terms of the Block 9 PSC" for detailed terms.

From June 2016 to March 2018, Petrobangla paid reduced amounts to the operator of Block 9 PSC for invoiced amounts due for natural gas and condensate supplied from the Block 9 PSC, with amounts withheld equal to the sixty (60) percent share in the Block 9 PSC held by Niko Block 9. The non-payments by Petrobangla have resulted in non-recognition of gas and condensate production natural sales revenue. 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. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in Bangladesh", "Statement of Reserves Data and Other Oil and Gas Information" and "Risk Factors".

## **Brazil**

In September 2013, the Company acquired thirty (30) percent interests in two (2) contract areas in Brazil. Both the blocks are in the first exploration period of five (5) years. The Company's share of the minimum work commitments for the acquisition and processing of seismic for the two (2) blocks is \$3 million to be spent by September 2018. The exploration commitments are backed by parent guarantees.

## **TERMS OF AGREEMENTS GOVERNING EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES**

### **General Description**

The Company is party to long-term agreements with the governments in each of the respective countries where the Company holds properties. These agreements provide the Company the right to conduct petroleum operations that include oil and gas exploration, development and production activities. The various governments are the sole owners of any oil and natural gas reserves for the lands under agreement. If the Company is unable to complete the work program, the Company has the ability to surrender its rights prior to the end of the exploration term by making pre-determined payments to the relevant government based on the outstanding work commitments under the contract. Unless specifically provided for in the agreements, each agreement terminates at the end of the exploration period if no commercial discovery is made.

The various agreements enable the Company and its partners to recover exploration, development and production costs and expenses (as defined in the various agreements) incurred for the block from the oil and natural gas produced from the block. For all properties, the Company is required to provide a guarantee, standby letter of credit or a parent company guarantee as a performance security guarantee related to the work commitment in the exploration periods.

Except as specifically noted below for individual properties, all agreements provide for the right to market natural gas to third parties at a market-determined price and for the right to market crude oil produced at international prices. For all properties, should the Company fail to fulfill its obligations or in the event of a major breach of the relevant agreement, the host government has the right to terminate the agreement in question and the Company may be liable to make certain payments to the relevant government related to the work commitments.

For all properties, on the expiry or termination of a PSC or JVA or relinquishment of part of a contract area under a PSC or JVA, the operator will remove all equipment and installations in a manner agreed with the host government pursuant to an abandonment plan and the operator will perform all necessary site restoration activities in accordance with good international petroleum industry practice. In India and Bangladesh, the Company must fund these costs over time with an annual contribution to a site restoration fund in accordance with the scheme framed by the host government or specified in the respective agreement.

For all properties, at the end of the contract life, title to all moveable and immoveable assets, including all of the wells, facilities, infrastructure equipment, etc. associated with the fields and blocks and all lands, is returned to the applicable government along with the associated site restoration fund. Although the Company has the exclusive right to use the equipment during the field life, the governments of the various countries are deemed to have title to the assets. Where income taxes are assessed, the Company is able to claim deductions for these assets.

## Terms of the D6 Block PSC

Under the terms of the PSCs for D6 Block, the GOI is the sole owner of the oil and natural gas reserves thereunder except in regard to that part of the reserves where the title has passed to the Company and its partner in accordance with the provisions of the PSC. The D6 Block PSC provides:

- (a) The exploration period consist of three (3) consecutive exploration phases not exceeding seven (7) consecutive years in aggregate, with the first phase not exceeding three (3) years and the second and third phases not exceeding two (2) years each. Subsequent to a commercial discovery, the petroleum mining lease may be obtained for a period of twenty (20) years, which may be extended for a further five (5) years by mutual agreement.
- (b) A formula for sharing in the profit oil and gas produced from the blocks between the participants and the GOI, which is applied on a field-by-field basis. Under the terms of the PSCs for the D6 Block, ninety (90) percent of revenue can be used to recover costs. Under the terms of the PSCs, the GOI is entitled to a ten (10) percent interest in the profit oil and natural gas produced if the participants have recovered less than 150 percent of their investment in the field from cash flows. The GOI entitlement escalates on a formula basis with the GOI share increasing as a greater multiple of the investment is recovered according to the following investment multiples for the D6 Block:

Investment Multiple	GOI Entitlement D6 Block
0.0 - 1.5	10%
1.5 - 2.0	16%
2.0 - 2.5	28%
2.5 - 3.0	85%
3.0 - 3.5	85%
>3.5	85%

The formula for the GOI entitlement on all the PSCs is calculated on a cumulative basis at March 31 each year and the results of the calculation establish the sharing ratio for the next year. The GOI entitlement is applied to the pre-tax cash flow from the field after deducting allocated overhead and capital expenditures.

- (c) A specific work commitment for each block, which would include reprocessing existing 2D seismic, shooting new 2D and 3D seismic and drilling one (1) exploration well in the first phase of the work commitment. For the D6 Block, subsequent work phases are optional and would include additional seismic and three (3) exploration wells in the second phase and four (4) exploration wells in the third phase for the D6 Block.
- (d) In the event that, at the end of the relevant phase of work commitment or at the time of the early termination of the PSC by the GOI for any reason whatsoever, the minimum work program under the PSC for that phase has not been fulfilled, the Company is required to pay to the GOI its participating working interest share of the amount of funds that would be required to complete such minimum work program.
- (e) Subject to an extension of time approved by the GOI, the contractors may retain the greater of seventy-five (75) percent of the original contract area or the entire development area and discovery area and relinquish up to twenty five (25) percent at the end of the first exploration phase of the PSC. The contractors shall retain the greater of fifty (50) percent of the original contract area or the entire development area and discovery area and relinquish the balance areas at the end of the second phase. At the third exploration phase, the contractors shall retain only development areas and relinquish the balance areas.
- (f) Following a discovery, the contractor is required to run tests to determine whether the discovery is of potential commercial interest. If the contractor determines to conduct a drill stem test or production test, in open hole or through perforated casing, the Government shall have the right to have a representative present during testing. The PSC does not have a specific requirement to conduct a drill stem test and doing so is at the contractor's election.
- (g) Upon approval of a development plan and designation of a development area by the GOI, the joint operating partners are required to submit a proposed annual work program and budget for development and production operations in respect of each development area. Additionally, the joint operating partners may be required to prepare an estimate of potential production to be achieved through the implementation of the proposed work

program and budget for each of the three (3) years subsequent to the year for which the proposed work program and budget relate.

- (h) Once commercial production has commenced, and on an annual basis thereafter, the joint operating partners will determine and submit to the management committee for approval, the maximum quantity of petroleum which can be produced from a particular development area in the relevant year. This determination will be based on the estimates of the joint operating partners, as approved by the management committee, and will assume operations are conducted in accordance with good international petroleum industry practices and minimizing unit production costs, taking into account the capacity of the producing wells, gathering lines, separators, storage capacity and other production facilities available for use during the relevant year as well as the transportation facilities up to the delivery point.
- (i) Payment of royalty to the GOI for offshore areas falling in water depth greater than 400 meters is five (5) percent of the wellhead value of crude oil and natural gas for the first seven (7) years from the date of commencement of production in the field and ten (10) percent thereafter.
- (j) A seven (7) year tax holiday commencing from the first year of commercial production, however, there is a minimum alternate tax.
- (k) Subject to earlier termination of the PSC, the PSC for a block expires when the license for the block expires.
- (l) Any party comprising the contractor may assign, or transfer, a part or all of its participating interest, with the prior written consent of the government.
- (m) The contractor shall endeavor to sell all natural gas produced and saved from the contract area at arms-length prices to the benefits of parties to the contract. Natural gas produced from the contract area shall be valued for the purposes of the contract as follows:
  - i. Gas which is used as per Article 21.2 or flared with the approval of the GOI or re-injected or sold to the GOI shall be ascribed a zero value;
  - ii. Gas which is sold to the GOI or any other GOI nominee shall be valued at the prices actually obtained; and
  - iii. Gas which is sold or disposed of otherwise than in accordance with paragraph (i) or (ii) shall be valued on the basis of competitive arms-length sales in the region for similar sales under similar conditions.
- (n) The formula or basis on which the prices shall be determined shall be approved by the GOI prior to the sale of natural gas to the consumers/buyers. For granting this approval, GOI shall take into account the prevailing policy, if any, on pricing of natural gas including any linkages with traded liquid fuels, and it may delegate or assign this function to a regulatory authority as and when such an authority is in existence.

The PSC governing the D6 Block may be terminated upon certain insolvency events, including a filing under the CCAA or other debtor protection laws, or other defaults. Refer to "Risk Factors" and "Legal Proceedings and Regulatory Actions - Proceedings in India".

## **Terms of the Block 9 PSC**

The Block 9 PSC provides:

- (a) A production period of twenty (20) years for oil production and of twenty-five (25) years for natural gas production.
- (b) Subject to an extension of time approved by the GOB, a requirement to relinquish twenty-five (25) percent of the block at the end of each of the initial exploration period and the first successive exploration period.
- (c) The sharing in the profit oil and natural gas among the participants and Petrobangla; under the terms of the Block 9 PSC (i) during the period of cost recovery, the Company shall recover all costs and expenses in respect of all exploration, development, production, operations and related activities to a maximum of forty-five (45)

percent per calendar year of all available natural gas and condensate produced. Costs not recoverable in a particular year shall be carried forward for recovery in the next succeeding years until fully recovered. Profit petroleum is to be shared as per below:

Profit Natural Gas	During Cost Recovery		After Cost Recovery	
	Petrobangla Share (%)	Contractor Share (%)	Petrobangla Share (%)	Contractor Share (%)
Production Tranches				
Up to 150 MMcf/d	61	39	66	34

Profit Condensate	During Cost Recovery		After Cost Recovery	
	Petrobangla Share (%)	Contractor Share (%)	Petrobangla Share (%)	Contractor Share (%)
Production Tranches				
Up to 3,000 bbls/d	65	35	70	30

- (d) Participants may produce annually a total volume of natural gas equal to up to seven (7) percent of the proved plus probable recoverable natural gas reserves on the lands as determined by the Society of Petroleum Engineers. Petrobangla has a right of first refusal to acquire the participants' share of natural gas production for domestic consumption in Bangladesh subject to terms to be negotiated at that time, provided that the price to be paid by Petrobangla will be determined quarterly and will be seventy five (75) percent of the arithmetic daily average of Platt's Oilgram quotations of high sulphur fuel oil 180 CST, FOB Singapore for the six (6) months ending on the last day of the second month preceding the start of the particular quarter (with a floor price, prior to the twenty five (25) percent discount, of \$70 per metric tonne and a ceiling price, prior to the twenty-five (25) percent discount, of \$120 per metric tonne) plus a further one (1) percent discount; in the event that Petrobangla does not exercise its right of first refusal, the participants will be entitled to sell their share of natural gas production in the Bangladesh domestic market provided that the sale price is not less than the discounted price referred to above; subject to Petrobangla's right of first refusal, the participants will also have the right to export their share and Petrobangla's share of natural gas production in the form of liquefied natural gas; the price at which liquefied natural gas may be sold for export must be approved by Petrobangla.
- (e) The right for Petrobangla to require the participants to provide, for the period of time required by Petrobangla, the participants' share of oil production (up to twenty-five (25) percent of the participants' share of profit oil) to the Bangladesh domestic market at a price to be determined in accordance with the market at that time discounted by fifteen (15) percent (provided that such final price must be approved by Petrobangla).
- (f) The payment by the participants to Petrobangla of (i) production bonuses increasing from \$1 million to \$5 million as production on the Block 9 lands increases from 10,000 bbl/d to 100,000 bbl/d of oil and from 75 MMcf/d to 600 MMcf/d of natural gas and (ii) contributions to research and development activities of Petrobangla equal to \$0.03/bbl of the participant's share of profit oil, condensate and NGL production and \$0.004/Mcf of the participant's share of profit natural gas (which amounts are not recoverable as costs). Income taxes are deemed to be included in the GOB profit petroleum.
- (g) The PSC can be terminated by Petrobangla and the GOB upon giving the Contractor sixty (60) days written notice and subject to Contractor not having remedied its failure within this period, to take without payment all property of whatever nature of the Contractor in Bangladesh related to Petroleum Operations if the Contractor shall:
- Fail to make any of the payments prescribed in the PSC on the dates prescribed for such payments;
  - Fail to fulfill the obligations provided for in the PSC;
  - Fail to confirm to the provision of an arbitration award under the PSC hereof within the period stipulated in such award; or
  - Fail to declare a commercial discovery in the contract area within the time limits specified in the PSC.
  - Fail to resume petroleum operations within 120 days after the cessation of any force majeure event.

The Contractor has the right to terminate the PSC by electing to relinquish the either contract area. If either party to the PSC commits a material breach of the PSC, the other party of the PSC has the right to terminate the PSC in notice of written notice.

The PSC governing Block 9 may be terminated upon certain insolvency events, including a filing under the CCAA or other debtor protection laws, or other defaults. Refer to "Risk Factors" and "Legal Proceedings and Regulatory Actions - Proceedings in Bangladesh".



## Terms of the Brazil Concession Contracts

The material provisions of the concession contracts for the two (2) contract areas in Brazil include:

- (a) Exclusive development rights within the concession area and ownership of measured hydrocarbons at the metering point, with the right to dispose of such hydrocarbons, including by way of export (subject to obtaining certain permits and certain restrictions in the event of emergency situations in the domestic market).
- (b) An exploratory period of seven (7) contract years is divided into five (5) plus two (2) years: a first phase of five (5) years, and an optional second phase of two (2) years. The exploratory period may be extended in accordance with the concession contract if an exploratory well has been drilled but has not yet been assessed at the end of an exploration phase. During the first phase of the concession contracts, the Company is required to acquire and process at least 324 square kilometers of 3D seismic in respect of each exploration concession area. The Company has the option to elect the second phase if the Company chooses to do so once all the requirements of the first phase have been met and agreed by ANP. The second phase requires one (1) well per concession to a specific stratigraphic objective as outlined in the exploration programme of the concession.
- (c) At any time within the exploration phase, the areas of the concession can be totally reverted by notifying ANP formally and in writing. Areas of interest can be carved out in consultation with ANP, with a set timeframe, at the end of the period.
- (d) Upon a declaration of commerciality and acceptance by ANP of the development plan, production from the applicable field is permitted for a duration of twenty-seven (27) years, subject to extension by ANP or the Company. At the end of the production phase, the field must be returned to ANP with the assets necessary to continue operations in the relinquished area and all other assets must be removed at the sole expense of the Company.
- (e) The operator must hold at least thirty (30) percent of the contract share throughout the term of the concession contract.
- (f) In addition to the signature bonus paid at the time of entry into the concession contracts, the Company is required to pay royalties (ten (10) percent of the production of oil and natural gas), taxes, a special participation in an amount equivalent to one (1) percent of the gross revenues of production for a field for research, development and innovation in areas of interest and topics relevant to the petroleum, natural gas and biofuel sectors, payment for the occupation or retention of the lands and payment to the owners of the land of participation equivalent to one (1) percent of the oil and natural gas production. The Company is also required to maintain certain commitments for local goods and services during the term of the concession contract.

## STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

This statement of reserves data and other information (the "**Statement**") is based on reserves evaluations by Deloitte, with an effective of March 31, 2018. The preparation date is June 01, 2018.

The future net revenue numbers presented throughout the Statement, 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 tables below 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.

### **Disclosure of Reserves Data**

The following reserves data and associated tables summarize the estimated reserves of crude oil, natural gas and NGL and the estimated net present values of future net revenues associated with the Company's reserves as evaluated in the Deloitte Report, based on forecast price assumptions presented in accordance with NI 51-101. As at March 31, 2018, the Company's material reserves were located in the D6 Block in India.

Since June 2016, Petrobangla has withheld all payments for Niko's share of gas and condensate sales from the Block 9 PSC due to legal disputes between Niko and the GOB, Petrobangla and Bapex. 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. As such, Block 9 reserves have been excluded in the reserves information. Refer to "Legal Proceedings and Regulatory Actions – Proceedings in Bangladesh".

There is no assurance that the price and cost assumptions set out below will be attained and variances could be material. The reserves estimates provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual reserves may be greater than or less than the estimates provided herein. Deloitte has estimated prices based on the Guidelines and New Guidelines as discussed under "Assets – India – Domestic Gas Sales Pricing Policy".

The Reports on Reserves Data by Independent Qualified Reserves Evaluator on Form 51-101F2 are attached hereto as Appendix "A" and the Report of Management and Directors on Oil and Gas Disclosure on Form 51-101F3 is attached hereto as Appendix "B".

## Summary of Oil and Gas Reserves

The following tables outlines the Company's estimated aggregate gross and net reserves of the D6 Block in India, estimated using forecast prices and costs, as well as the estimated aggregate net present value of future net revenue attributable to the reserves (both before and after future income tax expenses), estimated using forecast prices and costs, calculated without discount and using discount rates of 5%, 10%, 15% and 20%:

Summary of Oil and Gas Reserves (Forecast Prices and Costs) As At March 31, 2018								
Reserves Category	Light/Medium Crude Oil		Natural Gas		NGL		Total	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcfe)	Net (MMcfe)
<b>Proved Developed Producing<sup>(3)</sup></b>	-	-	-	-	-	-	-	-
<b>Proved Developed Non-Producing<sup>(3)</sup></b>	-	-	-	-	-	-	-	-
<b>Proved Developed<sup>(3)</sup></b>	-	-	-	-	-	-	-	-
<b>Proved Undeveloped</b>	3,286	2,818	168,058	147,747	326	279	189,726	166,330
<b>Total Proved</b>	3,286	2,818	168,058	147,747	326	279	189,726	166,330
<b>Total Probable</b>	1,396	1,001	115,956	85,065	73	45	124,767	91,340
<b>Total Proved Plus Probable</b>	4,681	3,819	284,014	232,812	398	324	314,493	257,670

- (1) Net reserves are defined as those accruing to the Company's working interest share after royalty interests owned by others have been deducted. Royalty interests owned by others are comprised of the government share of profit petroleum and royalty amounts that will be payable to the GOI.
- (2) Figures may not add up due to rounding.
- (3) 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.

**Summary of Net Present Values of Future Net Revenues  
Forecast Prices and Costs as at March 31, 2018**

Reserves Category (MM\$)	Before Deducting Income Taxes Discounted At <sup>(1)</sup>					After Deducting Income Taxes Discounted At <sup>(1)</sup>					Unit Value <sup>(2)(3)</sup>
	0%	5%	10%	15%	20%	0%	5%	10%	15%	20%	(\$/boe)
<b>Proved Developed Producing<sup>(4)</sup></b>	-	-	-	-	-	-	-	-	-	-	-
<b>Proved Developed Non-Producing<sup>(4)</sup></b>	-	-	-	-	-	-	-	-	-	-	-
<b>Proved Developed<sup>(4)</sup></b>	-	-	-	-	-	-	-	-	-	-	-
<b>Proved Undeveloped</b>	1,164	806	565	398	281	753	510	346	234	154	20.39
<b>Total Proved</b>	1,164	806	565	398	281	753	510	346	234	154	20.39
<b>Total Probable</b>	913	598	407	287	209	533	347	235	165	120	26.76
<b>Total Proved Plus Probable</b>	2,077	1,404	972	686	489	1,286	857	581	399	274	22.64

(1) These values reflect reductions for the estimates for profit petroleum amounts that will be payable to the GOI, cash outflows for the funding of abandonment obligations, and cash outflows reflected for the lease of the FPSO used in the MA field.

(2) Calculated using net present value of future net revenue before deducting income taxes, discounted at ten (10) percent per year, and net reserves.

(3) The unit value is based on net reserves volumes. Net reserves are defined as those accruing to the Company's working interest share after royalty interests owned by others have been deducted. Royalty interests owned by others are comprised of the government share of profit petroleum and royalty amounts that will be payable to the GOI.

(4) 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.

(5) Figures may not add up due to rounding.

### Forecast Prices Used in Estimates

The estimated future net revenue to be derived from the production of reserves is based on the following price forecasts and inflation rate assumptions as at March 31, 2018 in the Deloitte Report for estimating reserves data.

Forecast Pricing and Inflation Rate Assumptions As of March 31, 2018 Forecast Prices and Costs						
Fiscal Year	Brent Crude Oil (\$US/bbl)	India Crude Oil (\$US/bbl)	India NGL (\$US/bbl)	India Natural Gas Producing Fields (\$US/MMbtu) <sup>(1)</sup>	India Natural Gas Undeveloped Discoveries (\$US/MMbtu) <sup>(1)</sup>	Inflation Rate (%/Year) <sup>(2)</sup>
Forecast						
2019	\$64.33	\$63.43	\$49.03	\$3.12	\$7.23	2%
2020	\$65.75	\$64.85	\$50.45	\$3.26	\$8.13	2%
2021	\$68.10	\$67.20	\$52.80	\$3.47	\$8.27	2%
2022	\$72.14	\$71.24	\$56.84	\$3.77	\$8.56	2%
2023	\$76.31	\$75.41	\$61.01	\$4.04	\$9.07	2%
2024	\$79.90	\$79.00	\$64.60	\$4.26	\$9.60	2%
Thereafter	2%	2%	2%	6%	2%	2%

(1) Refer to "Assets – India – Domestic Gas Sales Pricing Policy" for a discussion of the gas pricing assumptions.

(2) The inflation rate applies to operating and capital expenditures only.

In Fiscal 2018, the Company received a weighted average price (before transportation costs, profit petroleum and royalties) of \$51.22/bbl for crude oil and NGLs and \$2.90/Mcf for natural gas in the D6 Block.

### Undiscounted Future Net Revenue

The following tables outlines the undiscounted total future net revenue by reserve category for the D6 Block as at March 31, 2018 using forecast prices and costs:

Undiscounted Future Net Revenue by Reserves Category As At March 31, 2018								
(MM\$)	Revenue <sup>(1)</sup>	Government Share of Profit Petroleum & Royalties <sup>(2)</sup>	Operating Expenses	Development Costs	Abandonment and Reclamation Costs	Future Net Revenue Before Income Taxes	Income Taxes	Future Net Revenue After Income Taxes
<b>Total Proved</b>	2,008	(260)	(136)	(404)	(44)	1,164	(411)	753
<b>Total Proved Plus Probable</b>	3,399	(651)	(206)	(420)	(45)	2,077	(791)	1,286

(1) Revenue as presented includes a marketing fee paid by customers.

(2) Under the terms of the D6 Block PSC, the GOI is entitled to a percentage share of the profit petroleum produced from the blocks, which percentage is based upon the multiple of investment cost recovered by the Company. Refer to "Terms of Agreements Governing Exploration, Development and Production Activities - Terms of the D6 Block PSC".

(3) Figures may not add up due to rounding.

## Net Present Value of Future Net Revenue

The following table outlines the net present value of future net revenue before deducting future income tax expenses for the D6 Block, estimated using forecast prices and costs and calculated using a discount rate of ten (10) percent:

Future Net Revenue by Production Group As At March 31, 2018			
Reserves Category	Production Group	Future Net Revenue Before Income Taxes <sup>(1)</sup> (MM\$)	Unit Value <sup>(2)</sup> (\$/boe)
<b>Total Proved</b>	Light and medium oil	-	
	NGL	-	
	Natural gas	565	
	<b>Total</b>	<b>565</b>	<b>20.39</b>
<b>Total Proved Plus Probable</b>	Light and medium oil	-	
	NGL	-	
	Natural gas	972	
	<b>Total</b>	<b>972</b>	<b>22.64</b>

(1) Discounted at a rate of ten (10) percent.

(2) The unit value is based on net reserves volumes. Net reserves are defined as those accruing to the Company's working interest share after royalty interests owned by others have been deducted. Royalty interests owned by others are comprised of the government share of profit petroleum and royalty amounts that will be payable to the GOI.

## Reconciliations of Changes in Reserves

The following table reconciles the changes in the gross reserves estimates for the D6 Block as at March 31, 2017 and as at March 31, 2018 estimated using forecast prices and costs:

Reconciliation of Company Gross Reserves by Product Type India Forecast Prices and Costs									
Factors	Light and Medium Oil <sup>(1)</sup>			Natural Gas			NGL		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved plus Probable (Mbbbl)	Gross Proved (MMcf)	Gross Probable (MMcf)	Gross Proved plus Probable (MMcf)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved plus Probable (Mbbbl)
March 31, 2017	3,757	1,330	5,087	207,417	121,542	328,959	401	78	479
Production	(75)	-	(75)	(6,314)	-	(6,314)	(5)	-	(5)
Technical revisions <sup>(2)</sup>	(400)	63	(337)	(25,440)	1,918	(23,522)	(70)	(6)	(76)
Extensions and improved recovery	-	-	-	239	1,191	1,430	-	-	-
Discoveries	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions <sup>(3)</sup>	-	-	-	(8,119)	(8,975)	(17,094)	-	-	-
Economic factors	4	3	6	275	279	554	-	1	-
March 31, 2018	3,286	1,396	4,681	168,058	115,955	284,013	326	73	398

(3) Oil volumes reported as at March 31, 2018 reflect FPSO liquid production from the MA Field in the D6 Block and are a combination of volatile oil and field condensate produced, treated and sold as a single fluid at representative oil pricing.

(4) Includes negative revisions to proved reserves for the D1 D3 and MA fields in the D6 Block.

(5) Includes the relinquishment of two (2) Satellite fields in the D6 Block.

(6) Figures may not add up due to rounding.

## Undeveloped Reserves

The following table outlines the volumes for each product type of proved undeveloped and probably undeveloped reserves that were first attributed in each of the three (3) most recent financial years. First attributed refers to the initial allocation of an undeveloped volume of oil or gas reserves.

<b>Gross Undeveloped Reserves First Attributed Forecast Prices and Costs</b>			
	<b>Light and Medium Oil (Mbbbl)</b>	<b>Natural Gas (MMcf)</b>	<b>NGL (Mbbbl)</b>
Proved Undeveloped <sup>(1)</sup>			
2018	-	-	-
2017	-	-	-
2016	3,255	85,809	326
Probable Undeveloped <sup>(1)</sup>			
2018	-	-	-
2017	-	-	-
2016	4,540	126,828	398

(1) First attributed volumes include additions during the respective year and excludes revisions to undeveloped reserves in the prior years.

## Future Development Costs

The following table outlines the future development costs deducted in the estimation of net present value of future net revenue for the D6 Block attributable to proved reserves and proved plus probable reserves (estimated using undiscounted and forecast prices and costs):

<b>Future Development Costs</b>		
<b>(MM\$)</b>		
<b>Fiscal Year</b>	<b>Total Proved Reserves</b>	<b>Total Proved Plus Probable Reserves</b>
2019	54	55
2020	120	120
2021	138	138
2022	87	98
2023	3	7
Remainder	1	1
Total Undiscounted	403	419

(1) Figures may not add up due to rounding.

### *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 PSC after drilling for the R-Cluster development project commences. Under the terms of the 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 (60) 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.

### Significant Factors or Uncertainties

There are significant abandonment and reclamation costs for the Company's land, wells, facilities and pipelines. The Company completes an annual review of its estimates of abandonment and reclamation costs of wells, facilities and pipelines based on various underlying factors associated with abandonment and reclamation costs. The abandonment and reclamation costs are based on the costs included in the field development plans. The undiscounted abandonment costs for total proved reserves and total proved plus probable reserves for D6 Block is \$44 million and \$45 million, respectively. In Bangladesh, the undiscounted costs of abandonment and reclamation costs for wells and facilities in the Block 9 contract is \$9 million (Company share). For Block 9, a reserve fund (Company share of \$1.6 million) has been established to fund abandonment and reclamation costs with the remaining amount expected to be funded during a five (5) year period between 2020 and 2025. There are no unusual or significant abandonment and reclamation costs associated with its reserve properties or properties with no attributed reserves.

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.

Other economic factors or uncertainties that may affect the components of the reserves data are described under "Risk Factors – Risks Relating to Reserves".

### Oil and Gas Wells

The following table outlines the Company's interests of oil and gas wells in India and Bangladesh as at March 31, 2018:

Producing and Non-Producing Wells As at March 31, 2018						
	Oil Wells		Natural Gas Wells		Total	
	Gross	Net	Gross	Net	Gross	Net
<b>Producing</b>						
India – offshore	3.0	0.3	7.0	0.7	10.0	1.0
India - onshore	-	-	-	-	-	-
Bangladesh - onshore	-	-	5.0	3.0	5.0	3.0
<b>Total Producing</b>	<b>3.0</b>	<b>0.3</b>	<b>12.0</b>	<b>3.7</b>	<b>15.0</b>	<b>4.0</b>
<b>Non-Producing<sup>(1)</sup></b>						
India - offshore	4.0	0.4	11.0	1.1	15.0	1.5
India - onshore	-	-	-	-	-	-
Bangladesh - onshore	-	-	4.0	3.6	4.0	3.6
<b>Total Non-Producing</b>	<b>4.0</b>	<b>0.4</b>	<b>15.0</b>	<b>4.7</b>	<b>19.0</b>	<b>5.1</b>

(1) Includes wells that are temporarily shut-in but which may be capable of production and not yet abandoned. Wells will be abandoned at the end of the field or block life.



### Properties with No Attributed Reserves

The following table outlines the Company's properties to which no reserves have been specifically attributed:

Properties with No Attributed Reserves As at March 31, 2018				
(Acres)	Unproved Properties		Expiring by March 31, 2019	
	Gross	Net	Gross	Net
Bangladesh <sup>(1)(2)</sup>	533,213	359,201	-	-
India	261,109	26,111	-	-
Brazil	243,322	72,997	243,322	72,997
<b>Total</b>	<b>1,037,643</b>	<b>458,308</b>	<b>243,322</b>	<b>72,997</b>

(1) Includes Block 9, Chattak and Feni in Bangladesh.

(2) Block 9 has 7,471 gross acres (6,607 net acres) of proved developed properties with no attributed reserves as at March 31, 2018 as a result of the non-recognition of reserves.

### Costs Incurred

The Company incurred the following costs on each of its properties for the year ended March 31, 2018:

(MM\$)	Proved Properties	Unproved Properties	Exploration Costs	Development Costs	Total Costs
	Acquisition Costs	Acquisition Costs			
Bangladesh	-	-	-	2	2
India	-	-	-	4	4
Brazil	-	-	-	-	-
<b>Total</b>	-	-	-	<b>6</b>	<b>6</b>

(1) Figures may not add up due to rounding.

### Exploration and Development Activities

The Company did not complete any exploration and development wells during Fiscal 2018.

### Production Estimates

The following table outlines the Company's estimated D6 Block production for Fiscal 2019 derived from the Deloitte Report:

Estimated Production For the year ended March 31, 2019						
	Proved Reserves (Gross)	Proved Reserves (Net)	Probable Reserves (Gross)	Probable Reserves (Net)	Proved Plus Probable Reserves (Gross)	Proved Plus Probable Reserves (Net)
Natural Gas (MMcf)	3,852	3,428	1,338	1,191	5,190	4,619
NGL (Mbbbl)	-	-	-	-	-	-
Crude Oil (Mbbbl)	31	28	33	26	61	54
<b>Total - MMcf</b>	<b>4,040</b>	<b>3,595</b>	<b>1,513</b>	<b>1,348</b>	<b>5,553</b>	<b>4,943</b>

(1) Net reserves are defined as those accruing to the Company's working interest share after royalty interests owned by others have been deducted. Royalty interests owned by others are comprised of the government share of profit petroleum and royalty amounts that will be payable to the GOI.

(2) Figures may not add due to rounding.

## Production History

The following tables summarize the actual production volumes, average daily production volumes, average price received, royalties, profit petroleum, production and operating costs and the resulting netbacks for the periods indicated for the year ended March 31, 2018. Actual production volumes include production from the Hazira Field, D6 Block and Block 9.

<b>Actual Production Working Interest to Niko by Field and Product Type For the Year Ended March 31, 2018</b>				
	<b>D6 Block, India</b>	<b>Hazira Field, India<sup>(2)</sup></b>	<b>Block 9, Bangladesh</b>	<b>Total</b>
Crude Oil (Mbbbl)	75	6	-	81
NGL (Mbbbl)	5	-	61	66
Natural Gas (MMcf)	6,788	148	20,416	27,352
<b>Total (MMcfe)</b>	<b>7,268</b>	<b>182</b>	<b>20,782</b>	<b>28,232</b>

(1) Figures may not add due to rounding.

(2) Actual production in the Hazira field includes volumes from April 1, 2017 to September 30, 2017. The sale of Niko's thirty-three (33.33) percent interest in the Hazira Field in Fiscal 2018 was effective October 1, 2017.

<b>Quarterly Production History Working Interest to Niko by Field and Product Type For the Year Ended March 31, 2018</b>				
	<b>June 30, 2017</b>	<b>September 30, 2017</b>	<b>December 31, 2017</b>	<b>March 31, 2018</b>
<b>India<sup>(1)</sup></b>				
Oil (bbls/d)	251	195	190	186
NGL (bbls/d)	28	13	14	1
Natural Gas (Mcf/d)	22,208	18,874	16,244	14,113
<b>Total - Mcfe/d</b>	<b>23,883</b>	<b>20,118</b>	<b>17,469</b>	<b>15,232</b>
<b>Bangladesh</b>				
Oil (bbls/d)	-	-	-	-
NGL (bbls/d)	164	173	167	163
Natural Gas (Mcf/d)	58,305	55,881	56,171	53,353
<b>Total - Mcfe/d</b>	<b>59,291</b>	<b>56,917</b>	<b>57,175</b>	<b>54,333</b>
<b>Total - Mcfe/d</b>	<b>83,173</b>	<b>77,035</b>	<b>74,644</b>	<b>69,565</b>

(1) India volumes include production from the D6 Block and the Hazira Field. Actual production in the Hazira field includes volumes from April 1, 2017 to September 30, 2017. The sale of Niko's thirty-three (33.33) percent interest in the Hazira Field in Fiscal 2018 was effective October 1, 2017.

(2) Figures may not add up due to rounding.

**Quarterly Netback History  
For the Year Ended March 31, 2018**

(US\$/Mcf)	June 30, 2017	September 30, 2017	December 31, 2017	March 31, 2018
<b>India<sup>(1)</sup></b>				
Average Price Received <sup>(2)(3)</sup>	3.03	3.03	3.98	3.20
Royalties <sup>(4)</sup>	(0.30)	(0.31)	(0.35)	(0.39)
Profit Petroleum <sup>(4)</sup>	(0.03)	(0.05)	(0.04)	(0.03)
Production Costs <sup>(6)</sup>	(1.25)	(1.99)	(2.42)	(2.83)
<b>Netback</b>	<b>1.44</b>	<b>0.68</b>	<b>1.16</b>	<b>(0.05)</b>
<b>Bangladesh<sup>(7)</sup></b>				
Average Price Received <sup>(5)</sup>	-	-	-	-
Royalties <sup>(4)</sup>	-	-	-	-
Profit Petroleum <sup>(4)</sup>	-	-	-	-
Production Costs <sup>(6)</sup>	(0.25)	(0.20)	(0.31)	(0.21)
<b>Netback</b>	<b>(0.25)</b>	<b>(0.20)</b>	<b>(0.31)</b>	<b>(0.21)</b>

- (1) India includes sales from the D6 Block and Hazira Field.
- (2) The average price received in Hazira is subject to the terms and conditions of the respective sales contract. Refer to "Assets – India – Hazira Field, India".
- (3) The average price received in the D6 Block is subject to the terms and conditions of the sales contracts and the pricing notifications issued by the GOI in accordance to the Guidelines. Average price received also includes a marketing margin. Refer to "Assets – India – Domestic Gas Sales Pricing Policy".
- (4) The royalties and profit petroleum are subject to the terms and conditions as specified in the applicable PSCs. The GOI and GOB are entitled to a percentage share of the profit gas produced, which percentage is based upon the multiple of investment cost recovery by the Company. There are no royalties levied by the GOB related to Block 9 production. Refer to "Terms of Agreements Governing Exploration, Development and Production Activities – Terms of the D6 Block PSC" and "Terms of Agreements Governing Exploration, Development and Production Activities – Terms of the Block 9 PSC".
- (5) The average natural gas price received in Block 9 is subject to the terms and conditions of the sales contract as described in "Assets – Bangladesh".
- (6) Production costs are determined for the entire producing fields of the India and Bangladesh PSCs and is not allocated by product type.
- (7) Respective sales revenue and profit petroleum related to Block 9 in Bangladesh were not recognized from September 2016 to March 31, 2018 as a result of non-payments of amounts due from Petrobangla for natural gas and condensate sales. Refer to "Legal Proceedings and Regulatory Actions - Proceedings in Bangladesh".
- (8) Figures may not add up due to rounding.

## RISK FACTORS

The Company is exposed to a number of risks inherent in exploring, developing and producing crude oil, natural gas and NGLs. The following section describes significant risks and other matters that could cause actual results of the Company to differ materially from those reflected in the forward-looking statements. The following risk factors should be read in conjunction with other information contained herein and in the audited consolidated financial statements and Management's Discussion & Analysis for the year ended March 31, 2018.

### Business and Operational Risks

#### ***Going Concern and Liquidity Risk***

The Company's cash flow has been negatively impacted by the failure of 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 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 PSC after drilling for the R-Cluster development project commences. Under the terms of the 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 (60) 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 sixty (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 (60) 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 in Block 9. The impact on the Company's position in Block 9 of Petrobangla's actions is currently under evaluation.

#### *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 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 (3) PSCs. In the Company's view, the parent guarantees for unfulfilled exploration commitments for the three (3) PSCs have expired.

#### *Contingent Liabilities*

The Company and its subsidiaries are subject to various claims from other parties, 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.

#### **Legal Claims in Bangladesh**

NRBL is currently under two (2) arbitrations with the ICSID and three (3) legal proceedings filed before various courts in Bangladesh. The ultimate resolution of these claims and the timing of such resolution are uncertain. Any negative result from the claims could have a materially adverse impact on the Company including its ability to fund its operating and capital budgets if the Company is unable to lift the Stay Order issued in Bangladesh or otherwise receive amounts due to Niko Block 9 for gas and condensate supplied from the Block 9 PSC. Refer to "Legal Proceedings and Regulatory Actions - Proceedings in Bangladesh".

#### **Dependence on Key Customers**

From June 2016 to March 2018, Niko Block 9's share of gas revenues amounting to \$53 million have been withheld by Petrobangla. The Company impaired \$13 million of net revenue receivable from Petrobangla from March to August 2016 and the Company did not recognize \$40 million of net oil and condensate revenues from September 2016 to March 2018. If the Stay Order is not resolved or if the Company were to lose Petrobangla as a customer, it could have material adverse effect on the Company's ability to fund its operating and capital projects including the Company's going concern. Refer to "Legal Proceedings and Regulatory Actions - Proceedings in Bangladesh".

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%).

### ***Financial obligations and contractual commitments***

The ability of the Company to make scheduled payments on or refinance its debt obligations depends on the Company's financial condition and operating performance, which are subject to a number of factors beyond the Company's control. Niko may be unable to maintain a level of cash flows from operating activities sufficient to permit the Company to pay indebtedness to creditors. Under the Fourth Amendment and Indenture Amendments, the amended terms restricts the Company's ability to utilize potential proceeds from sales of assets, settlement of certain arbitration and/or income tax disputes, and excess operating cash above an agreed cash flow forecast, etc. as any proceeds from these types of transactions will be required to be distributed amongst the Lenders, the Noteholders and the Company according to the Waterfall Distribution.

The minimum work commitments disclosed herein are based on the Company's share of the estimated cost included in PSCs and represent the amounts the host government may claim if the Company does not perform the work commitments. As at March 31, 2018, the Company's subsidiaries in Indonesia recorded \$141 million of unfulfilled exploration commitments for all the PSCs that have either expired or relinquished. The Company's subsidiaries in Trinidad recorded \$129 million of unfulfilled exploration commitments that are parent guaranteed. Under the guarantees, the recipients of the guarantees have the right to collect on the guarantees if the Company's subsidiaries do not carry out the minimum work commitments required under the PSCs. In the Company's view, the parent company guarantees for unfulfilled exploration commitments in Trinidad have expired.

There can be no assurance that debt financings or cash generated by operations will be sufficient or available to meet obligations for debt repayments, work commitments, development, production and acquisition of oil and natural gas reserves in the future.

### ***Compliance under its Agreements***

The Company is required to comply with covenants and conditions under its original agreements (and applicable amendments) for the Facilities Agreement, Indenture Agreement and 2016 Settlement Agreement. In the event that the Company does not comply with the covenants and conditions, or triggers a default event, repayment could be required by the Lenders. Accordingly, failure to comply with the covenants could have a materially adverse effect on the Company and its financial condition. Refer to "Description of Capital Structure" for terms of each agreement.

### ***Termination of Rights under Joint Operating Agreements***

Under the various JOAs, a default arises if the Company's subsidiary fails to pay its financial obligations when due and, if such financial default continues for more than a specified period of time, there is a forfeiture option that is exercisable by the other parties to the joint operating agreement. The exercise of this forfeiture right in respect of the Company's interests in the D6 Block, if enforceable, would have a material adverse effect on the business, financial condition, results of operations and prospects of the Company. JOAs to which the Company's subsidiaries are a party also contain provisions which may facilitate the removal of the Company's subsidiary if it becomes insolvent.

Refer to risk discussion below "Termination of Production Sharing Contracts" for details on the termination of JOA and PSC of Block 9 in Bangladesh.

### ***Termination of Production Sharing Contracts***

The PSC for the D6 Block contains provisions that permit the GOI to give notice of termination of the PSC in the event that, among other things, the Company or its subsidiary who is a party to the PSC is adjudged bankrupt by a court of competent jurisdiction or enters into a scheme, arrangement or composition with its creditors or takes advantage of any law for the benefit of debtors, provided that the default is not cured within a specified time period or the other contracting parties do not satisfy the GOI that they are willing and would be able to carry out the obligations of the defaulting party or have, with the consent of the GOI, acquired the working interest of the defaulting party. Recent case law in India has also confirmed that the GOI could selectively terminate the rights of a defaulting PSC participant provided that the remaining PSC participants have the opportunity to exercise their rights under the PSC. This could have a material adverse effect on the rights of creditors in the event of the Company's bankruptcy or a filing pursuant to the CCAA.

The GOI may also provide notice of termination in the event that the Company or its subsidiary who is a party to the PSC intentionally and knowingly extracted or authorized the extraction of hydrocarbons without the authority of the GOI, other than as may be unavoidable as a result of operations conducted in accordance with generally accepted good international petroleum industry practice, or where a contracting party assigns any interest in the PSC without the prior written consent of the GOI, or where a contracting party or its parent, as applicable, fail to comply with the provisions of the PSC or its parental guarantee, as applicable,

in a material respect or fails to make any monetary payments required by law or the PSC. In each case, the GOI will not exercise its rights of termination if the defaulting party cures the default within the applicable cure period or the non-defaulting parties to the PSC satisfy the GOI that they are willing and would be able to carry out the obligations of the defaulting party or have, with the consent of the GOI, acquired the working interest of the defaulting party.

From June 2016 to March 2018, Petrobangla had 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 did not pay cash calls that were due and had been issued default notices by the operator of the Block 9 PSC.

Under the terms of the JOA between the participating interest holders in the Block 9 PSC, during the continuance of a default, the defaulting party shall not have a right to its share of gas and condensate sales proceeds, which shall vest in and be the property of the non-defaulting parties who have paid to cover the amount in default in order to recover the amounts owed by the defaulting party. In addition, if the defaulting party does not cure a default within sixty (60) 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 March 31, 2018, the non-defaulting parties had 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 in Block 9. Refer to "Legal Proceedings and Regulatory Actions - Proceedings in Bangladesh" and "Terms of Agreements Governing Exploration, Development and Production Activities – Terms of the Block 9 PSC."

The termination of the D6 Block and Block 9 PSCs would have a material adverse effect on the business, financial condition, results of operations and prospects of the Company including potential default on the Amendments under the Term Loan Facilities and Convertible Notes.

### ***International Operations***

International operations are subject to political, economic and social uncertainties, including, among others, risk of war, risk of terrorist activities, revolution, border disputes, expropriation, renegotiations or modification of existing contracts, freezing of bank accounts and other assets, restrictions on repatriation of funds, import, export and transportation regulations and tariffs, taxation policies, including royalty and tax increases and retroactive tax claims, exchange controls, limits on allowable levels of production, currency fluctuations, labour disputes, sudden changes in laws, government control over domestic oil and natural gas pricing and other uncertainties arising out of foreign government sovereignty over the Company's international operations.

With respect to taxation matters, the governments and other regulatory agencies in the foreign jurisdictions in which the Company operates may make sudden changes in laws relating to taxation or impose higher tax rates which may affect the Company's operations in a significant manner. These governments and agencies may not allow certain deductions in calculating tax payable that the Company believes should be deductible under applicable laws or may have differing views as to values of transferred properties. This can result in significantly higher tax payable than initially anticipated by the Company. In many circumstances, readjustments to tax payable imposed by these governments and agencies may occur years after the initial tax amounts were paid by the Company which can result in the Company having to pay significant penalties and fines. The Company's international operations may also be adversely affected by laws and policies of Canada, the United States and other jurisdictions affecting foreign trade, taxation and investment. The Company may be at a disadvantage in that it may be required to compete against corporations or other entities from countries that are not subject to Canadian laws and regulations, including the CFPOA (or similar legislation of other jurisdictions, including the United States *Foreign Corrupt Practices Act*). Residents or nationals of countries not subject to such legal regimes may offer inducements to foreign governments and foreign public officials to entice such governments and officials to deal with them to the disadvantage of the Company. Furthermore, in the event of a dispute arising from international operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada.

The Company has received unfavorable tax assessments relating to tax holidays claimed in India by the Company related to its previously held interests in the Hazira and Surat Fields and by its indirect subsidiary related to its interest in the D6 Block. There is a risk of penalties and interest on amounts assessed and the assessed amounts, the penalties and the interest may have a significant

adverse effect on the Company and its financial condition. Refer to "Legal Proceedings and Regulatory Actions - Proceedings in India".

### **Legal Risks**

Some of the jurisdictions in which the Company operates may have less developed legal systems than jurisdictions with more established economies which may result in risks such as (a) difficulty in obtaining effective legal redress in the courts of such jurisdictions, whether in respect of breaches of law or regulation or in an ownership dispute, being more difficult to obtain; (b) a higher degree of discretion on the part of governmental authorities; (c) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (d) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (e) relative inexperience of the judiciary and courts in such matters. There can be no assurance that joint operations, licenses, license applications or other legal arrangements will not be adversely affected by the actions of government authorities or other third parties and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Failure to comply with applicable laws, regulations and permit requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in oil and gas operations may be required to compensate those suffering loss or damage by reason of such activities and may have civil or criminal fines or penalties imposed.

Refer to "Legal Proceedings and Regulatory Actions" for the current proceedings and the risk associated with the current proceedings and litigations.

### **Operating Hazards**

The Company's oil and natural gas operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, pollution, seepage or leaks, earthquake activity and unusual or unexpected geological conditions, each of which could result in substantial damage to oil and natural gas wells, producing facilities, other property and the environment or in personal injury. The Company is not fully insured against all of these risks, nor are all such risks insurable. Although the Company maintains liability insurance in an amount that it considers adequate, the nature of these risks is such that liabilities could exceed policy limits or such insurance may not cover the consequences of such events. In addition, certain risks may be such that the Company may elect, because of the high cost of premiums, not to insure against such risks. In any of these circumstances, the Company could incur significant costs that could have a materially adverse effect upon its financial condition.

### **High Risk Activities of Drilling and Producing**

The Company's future financial condition and results of operations will depend on the success of its exploration, development and production activities. The Company's crude oil and natural gas exploration, development and production activities are subject to numerous risks, including the risk that drilling will result in dry holes or not result in commercially feasible oil or natural gas production. Furthermore, a significant portion of the Company's acreage is in unproven fields. The Company's decisions to acquire, explore, develop or otherwise exploit prospects or properties will depend, in part, on the evaluation of production data, engineering studies, and geological and geophysical analyses, the results of which are typically inconclusive or subject to varying interpretations. The cost to the Company of drilling, completing, equipping and operating wells is typically uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical or less economic than forecasted. Further, many factors may curtail, delay or cancel drilling, including the following:

- delays imposed by or resulting from compliance with regulatory and contractual requirements;
- pressure or irregularities in geological formations;
- shortages of qualified personnel or labour disputes;
- shortages or delays in installing and commissioning plant and equipment or import or custom delays;
- equipment failures or accidents;
- adverse climate and geographical conditions;
- reductions in crude oil, NGL and natural gas prices;
- surface access restrictions;
- the price and availability of competitors' supplies of crude oil, NGLs or natural gas in captive market areas;
- crude oil, NGL or natural gas gathering, transportation and processing availability restrictions or limitations; and
- limitations in the market for crude oil, NGLs and natural gas, including the price and availability of alternative fuels.



### ***Fluctuating Commodity Prices***

The prices of the Company's commodities can be influenced by global and regional supply and demand factors, which are factors that are beyond our control and can result in a degree of price volatility. Natural gas prices in India are determined in accordance with the Guidelines and New Guidelines and are dependent on the trailing prices in the market. Refer to "Legal Proceedings and Regulatory Actions - Proceedings in India" for the gas price arbitration.

The natural gas, crude oil and NGL prices that the Company receives for its production may vary based on a number of factors. These factors include, but are not limited to, the following:

- the domestic and foreign supply of oil, NGLs and natural gas;
- commodity processing, gathering and transportation availability, and the availability of refining capacity;
- the price and level of imports of foreign oil, NGLs and natural gas;
- the ability of the members of the Organization of Petroleum Exporting Countries ("OPEC") to agree to and maintain oil price and production controls;
- domestic and foreign governmental regulations and taxation;
- the price and availability of alternative fuel sources;
- weather conditions;
- political conditions or hostilities in oil, NGL and natural gas producing regions;
- technological advances affecting energy consumption and energy supply;
- variations between product prices and applicable index prices; and
- Global economic health and global economic growth.

Decrease in global crude oil and natural gas prices may result in a reduction of the Company's net revenue for both crude oil and natural gas and may change the economics of producing from some wells, which could result in a reduction in the volume of the Company's reserves. Substantial declines in the prices of crude oil or contract prices for natural gas could also result in delay or cancellation of existing or future drilling, development or exploration programs or the curtailment of production. All of these factors could result in a material decrease in the Company's net production revenue, cash flows and profitability and have a material adverse effect on the Company's operations, financial condition, proved reserves and the level of expenditures for the development of the Company's oil and natural gas reserves, causing a reduction in crude oil and natural gas acquisition and development activities.

Significant or extended price declines could also adversely affect the amount of oil and natural gas that the Company can produce economically. A reduction in production could result in a shortfall in expected cash flows funding for the projected capital expenditures related to planned drilling programs in India and Bangladesh. Any of these factors could negatively affect the Company's ability to continue as a going concern.

### ***Marketability of Crude Oil and Natural Gas***

The marketability of crude oil and natural gas acquired or discovered in the countries in which the Company operates will be affected by numerous factors beyond the control of the Company. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of crude oil and natural gas pipelines and processing equipment and government regulation. Crude oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. The Company's crude oil and natural gas operations are also subject to compliance with laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. The interpretation of, or changes to, such regulations may have a material adverse effect on the Company. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of the Company's reserves. The Company might also elect not to produce from certain wells at lower prices or may elect to defer capital expenditures during periods of low commodity prices or commodity price uncertainty. All of these factors could result in a material decrease in the Company's net production revenue, causing a reduction in its oil and gas acquisition and development activities.

### ***Guarantees***

The Company has provided performance and financial guarantees to the various governments guaranteeing the performance of the Company's subsidiaries' obligations under the PSCs. Under these financial guarantees, the recipients of the guarantees have the right to collect on the guarantees if the Company's subsidiaries do not carry out the minimum work commitments required under the PSCs. In the Company's view, the parent company guarantees for unfulfilled exploration commitments for Trinidad have expired.

### ***Licensing and Regulatory Requirements***

The Company's current operations are, and future operations will be, dependent upon the grant and maintenance of appropriate licenses, concessions, leases, regulations and approvals of governmental authorities for exploration, development, construction, operation, production, marketing, pricing, transportation and storage of oil and natural gas, taxation and environmental and health and safety matters. The Company cannot guarantee that authorizations will be granted, renewed, renewable, extended, or may be withdrawn, or made subject to limitations or onerous conditions. Many of the Company's projects are subject to minimum work commitments within the respective PSCs (refer to "Assets" for each country). Any changes to exploration, exploration and production, or production licenses, regulations and approvals, or their availability to the Company may adversely affect the Company's assets, plans, targets and projections. To the extent that such future approvals are required and not obtained, the Company may be prohibited from proceeding with planned exploration or development of its properties, or could potentially lose concessions due to not being able to fulfil requirements.

The Company is subject to extensive government laws and regulations governing prices, taxes, royalties, allowable production, waste disposal, pollution control and similar environmental laws, the export of oil and natural gas and many other aspects of the oil and natural gas business. Although the Company believes it has good relations with the governments of the countries in which it operates, there can be no assurance that the actions of present or future governments in these countries, or of governments of other countries in which the Company may operate in the future, will not materially adversely affect the business or financial condition of the Company.

### ***Anti-Corruption Violations***

The CFPOA, the *U.S. Foreign Corrupt Practices Act* and similar anti-bribery laws generally prohibit companies from making improper payments to foreign officials for the purpose of obtaining or retaining business. Given the nature of the Company's business and international operations, the Company has extensive regulatory and business interaction with governments and government-owned entities and frequent contact with persons who may be considered foreign officials in parts of the world that have experienced governmental corruption to some degree, and in which strict compliance with anti-bribery laws may conflict with local customs or practice. While the Company has had an anti-corruption compliance program in effect since 2009, and has improved and is in the process of continuing to improve this program, the Company has not conducted a comprehensive review of its historical activities in all jurisdictions in which it operates. The Company cannot guarantee that its employees, officers, directors, agents, or business partners have not in the past or will not in the future engage in conduct undetected by the Company's processes and procedures and for which the Company might be held liable under applicable anti-corruption laws. Violations of these laws, or allegations or investigations of allegations of such violations, could harm the Company's reputation, disrupt its business and result in a material adverse effect on the business, results of operations, and financial condition of the Company.

### ***Dependence on Key Personnel***

The Company's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. The contributions of these personnel to the Company's immediate operations are likely to be of central importance. There is strong competition for qualified personnel in the oil and natural gas industry, as such there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

### ***Environmental Concerns***

Crude oil and natural gas exploration is subject to extensive and changing international, national and local environmental and safety laws, regulations, treaties and conventions in force in the jurisdictions in which the Company operates (for example, in relation to the plugging and abandonment of wells, discharge of materials into the environment and otherwise relating to environmental protection). This legislation may change in a manner that may require additional or stricter standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. Such legislation or regulations may require additional capital expenditures or operating expenses in order for the Company to maintain compliance with international and/or national regulations. The Company may also become subject to additional laws and regulations if it enters new markets. There may be unforeseen environmental liabilities resulting from the Company's operations that may be costly to remedy. In particular, the acceptable level of pollution and the potential clean-up costs and obligations and liability for toxic or hazardous substances for which the Company may become liable as a result of its activities may be impossible to assess against the current legal framework and current enforcement practices of the various jurisdictions in which the Company operates. The Company could also become subject to personal injury or property damage claims relating to the release of or exposure to hazardous materials associated with its operations. In addition, failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of the Company's operations. The extent of potential liability, if any, for the costs of abatement of environmental hazards cannot be accurately

determined and consequently no assurances can be given that the costs of implementing environmental measures or meeting any liabilities in the future will not be material to the Company or affect its business or operations.

### ***Climate Change***

Due to concern over the risk of climate change, a number of countries have adopted, or are considering the adoption of, regulatory frameworks to reduce greenhouse gas emissions. These regulatory measures may include, among others, adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. Compliance with changes in laws and regulations relating to climate change could increase the Company's costs of operating and could require it to make significant financial expenditures that cannot be predicted with certainty at this time.

Additionally, adverse effects upon the oil and natural gas industry relating to climate change, including growing public concern about the environmental impact of climate change, may also adversely affect demand for the Company's services. For example, increased regulation of greenhouse gases or other concerns relating to climate change may reduce the demand for oil and natural gas in the future or create greater incentives for use of alternative energy sources. Any long-term material adverse effect on the oil and natural gas industry could have a significant financial and operational adverse impact on the Company's business that cannot be predicted with certainty at this time.

### ***Ban or Restriction on Offshore Drilling***

Protection of the environment continues to be a high and visible priority of many governments and public interest groups throughout the world. Offshore drilling in certain areas has been opposed by environmental groups and, in some areas, has been legally restricted. The Company's operations would be limited and adversely impacted and its assets could become more expensive to operate if new laws are enacted or other governmental actions are taken that prohibit or restrict offshore drilling or impose additional environmental protection requirements. Moreover, the Company may have no right to compensation from its customers if its costs are increased through such governmental actions, and its operating margins may fall as a result. In addition, significant changes in regulations regarding future international exploration and production activities or governmental or regulatory actions could require costly compliance measures.

### ***Government Approvals***

The Company is dependent on receipt and maintenance of government approvals, permits or "no objection" certificates to develop its properties. Any change in government or legislation or delays in receiving government approvals or permits or "no objection" certificates may delay the development of the Company's properties or may affect the status of its contractual arrangements or its ability to meet its contractual obligations. The Company's contractors and other counterparties who are subject to similar regulatory requirements may also face similar delays or fail to obtain or maintain the necessary approvals, licenses, registration or permits. If any of these occur, the Company or the sub-contractors or other counterparties that perform obligations for it may be subject to civil and administrative penalties, injunctions to limit or cease operations or suspension or revocation of permits, which could materially and adversely affect the Company's business, prospects, financial condition and results of operations.

The PSC contractor group submits annual expenditure budgets annually to the GOI and GOB for approval. Expenditures in excess of the budget are subject to approval by the GOI or GOB. The Company has compiled cost over-runs for prior years and is in the process of reviewing them with the GOI. If these expenditures are not ratified by the GOI or GOB, the allowable expenditure limit for any given year may be reduced and this would affect the investment multiple, potentially affecting the petroleum profit share calculation.

### ***Credit Risk***

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 "Legal Proceedings and Regulatory Actions - Proceedings in Bangladesh".

### ***Foreign Currency***

The majority of the Company's revenues and expenses are denominated in US Dollars. As a result, the Company has limited its cash exposure to fluctuations in the value of the US Dollar versus other currencies. However, the Company is also exposed to fluctuations in the value of the Indian Rupee and Bangladeshi Taka against the US Dollar on working capital of the Company's foreign

subsidiaries. Corporate operations in Canada include Canadian Dollar denominated accounts receivable, accounts payable and accrued liabilities and Convertible Notes, which are exposed to fluctuations against the US Dollar.

### ***Availability of Equipment***

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas in which such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment and may delay exploration and development activities. To the extent the Company is not the operator of its oil and natural gas properties, it will be dependent on such operators to comply with the terms of the agreements granting the interests in the Company's properties and for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators or the timing of capital expenditures.

### ***Infrastructure***

Infrastructure development in many of the countries in which the Company operates is limited. This may affect the Company's ability to explore and develop its properties and to store and transport its oil and natural gas production. There can be no assurance that lack of infrastructure in one or more of the countries in which the Company operates, actions by companies doing business there, or actions taken by the international community will not have a material adverse effect on the countries in question and in turn on the Company's ability to operate in such countries and on its financial conditions or operations.

### ***Joint Arrangements and Non-Operatorship***

The Company carries out a portion of its business through joint operations and similar arrangements with third parties. These arrangements involve a number of risks, including: disputes with partners in connection with the performance of their obligations under the relevant joint operating agreements, disputes as to the scope of each party's responsibilities under such arrangements, financial difficulties encountered by partners affecting their ability to perform their obligations under the relevant joint operating agreement, and conflicts between the policies or objectives adopted by partners and those adopted by the Company.

In joint operating agreements where the Company is a non-operator, there are risks of limited ability to influence or control operations or future development, safety and environmental standards, and timing and amount of capital expenditure spending. The Company's partners that operate these properties may not necessarily share the Company's health, safety and environmental standards or strategic or operational goals, which may result in accidents, regulatory misalignments, project delays or unexpected future costs, all of which may affect the viability of these projects.

In the event that the Company encounters any of the foregoing issues with respect to its joint operating partners, its business, prospects, financial condition and results of operation may be materially and adversely affected. As a result, the Company's ability to execute its business plan may be constrained by partner involvement and the action of its joint operating partners particularly where the joint operating partner is the operator and/or holds a significantly larger interest in the property than the Company.

### ***Competition***

The petroleum industry, in all countries in which the Company operates, is competitive in all its phases. The Company actively competes for capital, skilled personnel, undeveloped land, reserves acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations. The Company's competitors include oil and gas companies which many have greater technical and financial resources, staff and facilities than those of the Company. Some of those competitors not only explore for, develop and produce oil and natural gas but also carry on refining operations and market petroleum and other products on a world-wide basis and as such have greater and more diverse resources on which to draw. The Company's ability to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploration and development. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

### ***Reserves Risk***

#### ***No Ownership in Oil and Natural Gas Reserves***

Pursuant to the laws of India and Bangladesh, crude oil and natural gas reserves are considered assets of the applicable government. Therefore, the concessionaire owns only the crude oil and natural gas that it produces under the concession agreements. Oil and gas companies operating in these jurisdictions acquire the exclusive right to explore, develop and produce reserves discovered within certain concession areas pursuant to the applicable agreement awarded by the host government. However, if the host government

were to restrict or prevent concessionaires, including the Company, from exploiting these crude oil and natural gas reserves, or interfere in the sale or transfer of the production, the Company's ability to generate income would be materially adversely affected, and any such restriction or interference would have a material adverse effect on the Company's expected results of operations and financial condition. Refer to "Legal Proceedings and Regulatory Actions - Proceedings in Bangladesh".

### ***Availability of Additional Reserves***

There is no assurance that the Company will discover or acquire further commercial quantities of oil and natural gas. Exploration, appraisal and development of oil and natural gas reserves is speculative and involves a significant degree of risk. There is no guarantee that exploration or appraisal of the properties in which the Company holds an interest will lead to a commercial discovery or, if there is a commercial discovery, that the Company will be able to realize such reserves as intended. The Company may not be able to find reserves at a reasonable cost, develop reserves within required time-frames or at a reasonable cost, or sell these reserves for a reasonable profit. Reserves may be revised, deferred or be subject to material reductions due to economic and technical factors. If at any stage the Company is precluded from pursuing its exploration or development programs, or such programs are otherwise not continued, the Company's business, financial condition and/or results of operations are likely to be materially adversely affected.

### ***Uncertainty of Reserves Estimates***

There are numerous uncertainties inherent in estimating quantities of reserves and future net revenues to be derived therefrom, including many factors beyond the Company's control. The reserve and future net revenue information set forth herein represents estimates only and may ultimately prove to be inaccurate. Such estimates represent subjective judgments based on available data and the quality of such data. Different reserves engineers may make different estimates of reserves quantities and future net revenues attributable to the production of such quantities. Evaluations of reserves and future net revenues depend upon a number of variable factors and assumptions, including the following:

- historical production from the area compared with production from other producing areas;
- the assumed effects of regulations by governmental agencies;
- the quality, quantity and interpretation of available relevant data;
- assumptions on commercial feasibility and technical viability;
- assumptions concerning future commodity prices;
- assumptions made for pricing inputs going into the Indian Guidelines and New Guidelines;
- assumptions concerning future operating costs; development costs, workover costs and decommissioning obligations and;
- assumptions regarding various taxes including excise duty, service tax, sales tax, minimum alternate tax and income tax.

Future natural gas prices used in the Deloitte Report are based on prices currently in place and estimated gas prices based on the Guidelines and the New Guidelines, in respect of the D6 Block for periods after March 31, 2018, future natural gas prices reflect the Company's anticipated contractual prices upon redetermination. Future crude oil and NGL prices reflect Deloitte's current estimates, which are based on a number of assumptions that are subject to change and are beyond the control of the Company. Actual production and cash flow derived therefrom will vary from these evaluations, and such variations could be material. The Guidelines and New Guidelines are disclosed under "Assets – India – Domestic Gas Pricing Policy" and various reserve assumptions are discussed in the "Disclosure of Reserves".

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations, probabilistic methods and upon analogy to similar types of reserves, rather than upon actual production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated reserves. Furthermore, different reserve engineers may make different estimates of reserves and cash flows based on the same data.

Reserve estimates may require revision based on a number of factors, including the results of drilling, testing and production and changes in the assumptions regarding decline and production rates, taxes, royalties, prices and costs made after the date of a reserves estimate. Market price fluctuations of crude oil and natural gas prices may render the recovery of certain reserves uneconomic.

The present value of estimated future net revenue referred to herein should not be construed as the fair market value of estimated oil and natural gas reserves attributable to properties of the Company. The estimated discounted future revenue from reserves are based upon price and cost estimates which may vary from actual prices and costs and such variance could be material. Actual future net revenue will also be affected by factors such as the amount and timing of actual production, supply and demand for oil and natural gas, curtailments or increases in consumption by purchasers and changes in governmental regulations or taxation.

### **Seismic Data**

Even when properly used and interpreted, seismic data and visualization techniques are only tools used to assist geoscientists in identifying subsurface structures, as well as eventual hydrocarbon indicators, and do not enable the interpreter to know whether hydrocarbons are, in fact, present in those structures. In addition, the use of seismic and other advanced technologies requires greater pre-drilling expenditures than traditional drilling strategies, and the Company could incur losses as a result of such expenditures. As a result, some of the Company's drilling activities may not be successful or economical, and its overall drilling success rate or its drilling success rate for activities in a particular area could decline, which could have a material adverse effect on expected results of operations and financial condition of the Company.

## **DIVIDENDS**

In June 2001, the Company implemented a policy of paying quarterly dividends on the Common Shares. The Company declared and paid quarterly dividends until June 30, 2012. In September 2012, the Company's Board of Directors decided to suspend the Company's quarterly dividend in connection with the commencement of the Company's significant exploration drilling program in Indonesia. The level of future dividends, if any, will be reviewed periodically by the Company's Board of Directors.

## **DESCRIPTION OF CAPITAL STRUCTURE**

### **Share Capital**

The Company is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series. As at June 20, 2018, the Company has 94,049,967 Common Shares outstanding and issued one (1) Preferred Share.

### **Common Shares**

The Common Shares have the following rights, privileges, restrictions and conditions:

- (a) the right to receive notice of and to attend and vote at all meetings of holders of Common Shares except meetings of the holders of another class of shares, with each Common Share entitling the holder thereof to one vote;
- (b) subject to the preferences accorded to the holders of the preferred shares, the holders of Common Shares are entitled to receive such dividends as may be declared thereon by the Board of Directors of the Company from time to time; and
- (c) in the event of the liquidation, dissolution or winding up of The Company, whether voluntary or involuntary, the holders of Common Shares are entitled to receive pro rata all of the assets remaining for distribution after the payment to the holders of the preferred shares, in accordance with the preference on liquidation, dissolution or winding-up accorded to the holders of the preferred shares.

### **Preferred Shares**

The preferred shares in the capital of the Company have the following rights, privileges, restrictions and conditions:

- (a) the Board of Directors of The Company may issue the preferred shares in one or more series, each series to consist of such number of shares as may, before the issuance thereof, be determined by the Board of Directors;
- (b) the Board of Directors of The Company may fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to each series of preferred shares including (a) the amount, if any, specified as being payable preferentially to such series on a distribution of capital of The Company, (b) the extent, if any, of further participation in a distribution of capital, (c) voting rights, if any, and (d) dividend rights (including whether such dividends be preferential, or cumulative or non-cumulative), if any;
- (c) in the event of the liquidation, dissolution or winding-up of The Company, whether voluntary or involuntary, the holders of each series of preferred shares are entitled, in priority to the holders of Common Shares, on a

distribution of capital, to be paid rateably with the holders of each other series of preferred shares the amount, if any, specified as being payable preferentially to the holders of such series on a distribution of the capital of The Company; and

- (d) the holders of each series of preferred shares are entitled, in priority to the holders of Common Shares, with respect to the payment of cumulative dividends, to be paid, rateably with the holders of each other series of preferred shares, the amount of cumulative dividends, if any, specified as being payable preferentially to the holders of such series.

In connection with the execution of the Fourth Amendment, the Company issued one (1) Preferred Share to the Agent, on behalf of the Lenders. The Preferred Share has one (1) vote at each meeting of holders of Preferred Shares. Consent of the holder of the Preferred Share shall be required prior to: (a) altering, changing or amending the preferences, privileges or rights of the Preferred Share; (b) increasing or decreasing the authorized number of directors constituting the Board; (c) amending the Corporation's articles or bylaws, to the extent that any such amendment adversely affects the Preferred Share; or (d) authorizing, creating and/or issuing any new senior or pari passu class or series of securities of the Corporation. In the event of the liquidation, dissolution or winding-up of the Corporation, the holder of the Preferred Share shall be entitled to receive a distribution of capital in priority to the holders of common shares equal to \$1.00, and shall be entitled to receive an annual preferential cumulative dividend, when, as and if declared by the Board, at the rate of 0.00001 percent per annum on the redemption price of the Preferred Share. Upon the occurrence of the earlier of: (i) December 31, 2025; and (ii) the Release Date (as defined below), all voting rights attached to the Preferred Shares shall expire and the Preferred Share shall become redeemable.

## Facilities Agreement

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 seven (7) percent premium, decreasing to four (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 fifteen (15) percent per annum; commencing June 2014, additional interest payable upon repayment ("D6 PIK Interest") of five (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 twenty-five (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 (6) 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 (6) 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 ninety (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 one (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 six (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 (7) years. The terms of the deferred obligation were amended under the Fourth Amendment.

### *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 (fifteen (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 six (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 (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; 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.

## Convertible Notes

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 seven (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. 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 thirty (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 fifteen (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 twenty-five (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 fifty (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 (seven (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 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 released 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.

## MARKET FOR SECURITIES

The Common Shares have been listed and posted for trading on the TSX since December 11, 1998 under the trading symbol "NKO". The following table sets out the price range in Canadian Dollars for, and trading volume of, the Common Shares as reported by the TSX for the periods indicated:

	Trade Price (CAD\$)		Volume Traded
	High	Low	# of shares
March 2018	0.10	0.07	3,391,048
February 2018	0.11	0.07	5,675,599
January 2018	0.15	0.05	19,895,656
December 2017	0.06	0.05	1,557,976
November 2017	0.07	0.06	1,908,846
October 2017	0.06	0.05	1,289,771
September 2017	0.06	0.05	1,980,468
August 2017	0.06	0.05	2,316,079
July 2017	0.07	0.05	1,189,060
June 2017	0.08	0.06	2,118,546
May 2017	0.09	0.07	2,456,818
April 2017	0.10	0.08	1,895,603

The Convertible Notes have been listed and posted for trading on the TSX since December 4, 2012 under the trading symbol "NKO.NT". The following table sets out the price range in Canadian Dollars for, and trading volume of, the Convertible Notes as reported by the TSX for the periods indicated:

	Trade Price (CAD\$)		Volume Traded
	High	Low	# of notes <sup>(1)</sup>
March 2018	2.00	0.70	513,000
February 2018	1.00	1.00	200,000
January 2018	1.00	0.61	68,000
December 2017	0.61	0.60	103,000
November 2017	0.60	-	55,000
October 2017	1.00	1.00	67,000
September 2017	1.00	1.00	233,000
August 2017	1.01	0.43	222,000
July 2017	0.61	0.40	227,000
June 2017	0.20	0.20	100,000
May 2017	1.00	0.99	383,000
April 2017	2.10	2.00	208,000

(1) The Convertible Notes were issued in denominations of \$1,000. Trading on the TSX allows for the trading of fractional interests in notes. The reported volumes on the TSX represent 1/10<sup>th</sup> of an interest in the Convertible Notes. Volumes have not been adjusted from the TSX reported volumes to reflect the original denomination.

(2) On June 3, 2015, the Company announced that the Convertible Notes will commence trading on an interest flat basis on June 5, 2015.

## PRIOR SALES

The Company has not issued any other Common Shares or securities convertible or exchangeable into Common Shares during the past twelve (12) month period.

## PERSONNEL

The following table summarizes the number of employees, contractors and consultants of the Company including its subsidiaries as at March 31, 2018.

		March 31, 2018
Canada		
Employees		6
Contractors		1
Consultants		3
Bangladesh		
Contractors		3
India		
Employees		6
Contractors		4
Consultants		2
<b>Total</b>		<b>25</b>

## DIRECTORS AND OFFICERS

### Directors

The following table sets out the name, city, province or state and country of residence, first year elected or appointed to the Board of Directors, and principal occupation during the past five (5) years and educational qualifications. The term of each director is from the date of the meeting at which he is elected or appointed until the next annual meeting of shareholders or until a successor is elected or appointed.

Name and Jurisdiction of Residence	Independent Status / Year of Directorship	Principal Occupation(s) and Other Relevant Experiences <sup>(1)</sup>
Christopher H. Rudge Toronto, Ontario, Canada	Independent Director September 2015	Mr. Rudge was the Executive Chairman and Chief Executive Officer of the Toronto Argonauts Football Club and Chairman of the Canadian Sport Institute, Ontario. Previously he was Chairman of the 100th Grey Cup Festival in November 2012.
Scott K. Brandt Chicago, IL, USA	Independent Director November 2016	Mr. Brandt is currently President of Manta Advisory Corporation, a management consultancy based in Chicago, Illinois. Mr. Brandt served as Senior Consultant for Niko from 2013 to 2015, advising Niko on its restructuring strategy and related strategic options. Prior to his Niko assignment, Mr. Brandt was Senior Consultant for ICF International, and held various executive positions in finance with The Great Atlantic & Pacific Tea Company (A&P Grocery) and United Airlines. Mr. Brandt holds an MBA from Northwestern University's Kellogg School of Management and a BS in Aeronautical Engineering from the University of Illinois at Urbana-Champaign.
Glenn Carley Calgary, Alberta, Canada	Independent Director September 2016	Mr. Carley is the President of Selinger Capital Inc., a private investment company, for more than the last five (5) years. Mr. Carley currently serves as the Chairman of Painted Pony Resources Ltd. and previously served as the Chairman of Marquee Energy Ltd. Mr. Carley has an ICD.D. designation from the Institute of Corporate Directors. He holds a Masters of Business Administration degree, a Juris Doctor degree and a Bachelor of Arts degree, all from the University of Saskatchewan. Mr. Carley is a member of the Law Society of Alberta and the Law Society of Saskatchewan.
William T. Hornaday Calgary, Alberta, Canada	Non-independent Director August 2007	Mr. Hornaday was appointed Chief Executive Officer of the Company since November 2016. Prior thereto, Mr. Hornaday was the Chief Operating Officer of Niko Resources Ltd. since 2005. Mr. William Hornaday is a professional engineer with over forty (40) years of industry experience and is a member of the Institute of Corporate Directors.
E. Alan Knowles Calgary, Alberta, Canada	Independent Director September 2014	Mr. Knowles has eighteen (18) years of experience as oil and gas analyst, most recently from 2000 to 2014 with Haywood Securities Inc. Mr. Knowles earned a Bachelor of Commerce from the University of Calgary, and holds Chartered Financial Analyst (CFA) and Chartered Professional Accountant (CPA, CMA) designations. He is a member of the Institute of Corporate Directors.

(1) Each of the above persons has held the principal position shown opposite his name for the last five (5) years, unless otherwise noted.

## Committees of the Board of Directors

As at March 31, 2018	Audit Committee	Reserves and Health, Safety & Environmental Committee
Christopher Rudge	√	
Scott K. Brandt		√
Glenn Carley	√	Chair
William T. Hornaday		√
E. Alan Knowles	Chair	

(1) The Company does not have an executive committee. In March 2018, the Board disbanded its corporate governance and compensation committee effective April 1, 2018, with the previous roles and responsibilities of this committee to be handled by the Board.

## Executive Officers

The following table sets out the name, city, province and country of residence and office held for each of the executive officers of the Company as at March 31, 2018.

Name and Jurisdiction of Residence	Positions Held With Niko	Principal Occupation(s)
William T. Hornaday Calgary, Alberta, Canada	Chief Executive Officer	Mr. Hornaday was appointed Chief Executive Officer of the Company since December 19, 2016. Prior thereto, Mr. Hornaday was the Chief Operating Officer of Niko Resources Ltd. since 2005.
Glen R. Valk Calgary, Alberta, Canada	Vice President Finance and Chief Financial Officer and Corporate Secretary	Mr. Valk has been the Vice President Finance and Chief Financial Officer of Niko Resources Ltd. since January 2013 and Corporate Secretary of Niko Resources Ltd. since January 2015. Prior thereto, Corporate Treasurer of Niko Resources Ltd. since August 2012. Prior thereto, Vice President Finance and Chief Financial Officer of a private oil and gas entity since December 2011.

## Shareholdings of Directors and Executive Officers

The following directors and executive officers own, directly or indirectly, Common Shares of the Company as at March 31, 2018:

Name	Number of Common Shares
E. Alan Knowles	58,900
William T. Hornaday	108,017
Glen R. Valk	10,000

## Orders

No director is, as at the date hereof, or has been within ten (10) years before the date hereof: (a) a director, chief executive officer or chief financial officer of any company (including Niko), that (i) was subject to an order that was issued while the director was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer. For the purposes hereof, "order" means (a) a cease trade order, (b) an order similar to a cease trade order, or (c) an order that denied the relevant company access to any exemption under securities legislation that was in effect for a period of more than thirty (30) consecutive days.

## Bankruptcies

No director of the Company (a) is, as at the date hereof, or has been within the ten (10) years before the date hereof, a director or executive officer of any company (including Niko) that, while that person was acting in that capacity, or within a year of that person

ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (b) has, within the ten (10) years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director.

## Penalties and Sanctions

To the knowledge of management of the Company, no director or executive officer or shareholder holding a sufficient number of Common Shares to affect materially the control of the Company, has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

## Majority Voting for Directors

The Board has adopted a policy (the "**Majority Voting Policy**") that will permit a Shareholder to vote for, or withhold from voting for, each director nominee separately. If a director nominee has more votes withheld than are voted in favor of him, such nominee will be expected to forthwith submit his resignation to the Board, effective on acceptance by the Board. The Board will refer the resignation to the Corporate Governance Committee of the Board (the "**Corporate Governance Committee**") for consideration. The Corporate Governance Committee will consider all factors deemed relevant by the members of the Corporate Governance Committee, including, without limitation, the stated reason or reasons why Shareholders who cast "withhold" votes for the director did so, the qualifications of the director, including, without limitation, the impact the director's resignation would have on the Company, and whether the director's resignation from the Board would be in the best interest of the Company and the Shareholders. Within ninety (90) days of receiving the final voting results, the Board will issue a press release announcing the resignation of the director or explaining the reasons justifying its decision not to accept the resignation. The Majority Voting Policy does not apply in circumstances involving contested director elections.

## AUDIT COMMITTEE INFORMATION

The Audit Committee Charter is included as Appendix "C" to this AIF.

### Composition of the Audit Committee

The Audit Committee is comprised of E. Alan Knowles (Chair), Glenn Carley and Christopher Rudge as at March 31, 2018. All members are independent and financially literate in accordance with NI 52-110. The education and expertise of each member including the determination of financial literacy is described under "Directors and Officers".

### Pre-Approval Policies and Procedures

The Audit Committee pre-approves engagements for non-audit services provided by the external auditors or their affiliates, together with estimated fees and potential issues of independence. Refer to section 5.2.9 of the Audit Committee Charter under Appendix "C" to this AIF.

### Auditor Service Fees

The aggregate fees paid or payable to the Company's auditors, KPMG LLP, for audit and professional services in the last two (2) fiscal years are as follows:

Thousands (CAD\$)	2018	2017
Audit Fees	287	456
Audit-related Fees	-	3
Tax Fees	-	6
Total	287	465

Audit fees were paid, or are payable, for professional services rendered by the auditors for the audit and quarterly reviews of the Company's consolidated financial statements, or services provided in connection with statutory and regulatory filings or engagements. Audit-related fees are related to professional services with respect to prospectuses, translation of foreign language

financial statements and audit certifications. Tax fees are related to professional services including tax compliance, tax advice, tax planning and corporate tax filings.

## CONFLICTS OF INTEREST

Certain directors and officers of the Company and its subsidiaries are associated with other reporting issuers or other corporations, which may give rise to conflicts of interest. Some of these private and public companies may, from time to time, be involved in business transactions or banking relationships or other business relationships which may create situations in which conflicts may arise. In accordance with the ABCA, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with The Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of The Company. Certain of the directors of The Company have either other employment or other business or time restrictions placed on them and, accordingly, these directors will only be able to devote part of their time to the affairs of The Company.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

### Proceedings in Bangladesh

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

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

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

For the Payment Claim, i) in September 2014, the Tribunals decided that Petrobangla owed NRBL for the gas delivered and accrued interest, ii) in September 2015, the Tribunals decided that Petrobangla shall pay the amounts owed into escrow accounts, and iii) in May 2016, the Tribunals decided that Petrobangla shall pay the amounts owed to NRBL forthwith and free of any restrictions. The amounts owed to date total approximately \$38 million. There is no assurance that Petrobangla will comply with the decision of the Tribunals.

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

#### (ii) *Lawsuits in Local Courts - Bangladesh*

NRBL is named as a defendant in three (3) 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.

### **Proceedings in India**

#### **(a) 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.

#### **(b) 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.

(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.

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 US\$ 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 US\$ 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.

(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.

## **Other**

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.

Other than the foregoing or as otherwise disclosed herein, to the knowledge of management of the Company, there are no material legal proceedings to which it, or to which any of its property, is the subject, nor are any such proceedings contemplated.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

None of the directors or executive officers of the Company, any person or company that is a direct or indirect beneficial owner of, or who exercises control or direction over, more than ten (10) percent of any class or series of outstanding voting securities of the Company, nor any associate or affiliate of the foregoing persons has had any material interest, direct or indirect, in any transactions during the three (3) most recently completed financial years or during the current financial year that has materially affected or will materially affect the Company.

## **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar of the Common Shares and Convertible Notes is Computershare Trust Company of Canada at its offices in Calgary, Alberta and Toronto, Ontario.

## **MATERIAL CONTRACTS**

The following is a list of the material contracts that the Company has entered into within the last financial year or before the last financial year which remain in effect:

- Facilities Agreement as described under "Description of Capital Structure";
- D6 Royalty Agreement as described under "Development of the Business - History";
- Indenture relating to the Convertible Notes as described under "Description of Capital Structure – Convertible Notes";
- Fourth Amendment to Facilities Agreement as described under "Description of Capital Structure – Facilities Agreement";
- Intercreditor Agreement to the Convertible Notes as described under "Description of Capital Structure – Convertible Notes";
- Supplemental Note Indenture to the Convertible Notes as described under "Description of Capital Structure – Convertible Notes";
- 2016 Settlement Agreement as described under "Description of Capital Structure – Facilities Agreement";

Additional details regarding the following material change reports are as filed on SEDAR at [www.sedar.com](http://www.sedar.com):

- Fourth Amendment to Facilities Agreement dated July 18, 2016
- Intercreditor Agreement to the Convertible Notes dated July 18, 2016
- Supplemental Note Indenture dated July 18, 2016
- 2016 Settlement Agreement dated October 20, 2016

## **INTERESTS OF EXPERTS**

KPMG LLP are the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

Deloitte LLP prepared the Reserve Report as referred in "Statement of Reserves Data and Other Oil and Gas Information". Deloitte signed their Report on Reserves Data by Independent Qualified Reserves Evaluators - Form 51-102F2 under Appendix "A". As of the date hereof, the partners, employees and consultants of Deloitte who participated in or who were in a position to directly influence the preparation of the Deloitte Report own less than one (1) percent of the securities of the Company.

## **ADDITIONAL INFORMATION**

Additional information, including information directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Management Information Circular and Proxy Statement of the Company prepared in connection with the most recent annual meeting of shareholders of the Company that involved the election of directors. Additional financial information is provided in the Company's Consolidated Financial Statements and Management's Discussion and Analysis for the year ended March 31, 2018. These documents and additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Copies of these documents may be obtained, in some cases upon payment of a reasonable charge, upon request to:

Niko Resources Ltd.  
Suite 1500, 205 - 5 Avenue SW  
Calgary, Alberta T2P 2V7  
Phone: 403-262-1020  
Attention: Glen R. Valk, Vice President Finance, Chief Financial Officer, and Corporate Secretary

## APPENDIX "A"

### FORM 51-101F2 REPORT ON RESERVES DATA BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

Terms to which meanings are ascribed in National Instrument 51-101 have the same meanings herein.

To the Board of Directors of Niko Resources Ltd. (the "Company"):

1. We have evaluated the Company's reserves data as at March 31, 2018. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at March 31, 2018, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.
3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter).
4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
5. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of ten (10) percent, included in the reserves data of the Company evaluated by us for the year ended March 31, 2018, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management/Board of Directors.

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, ten (10) percent discount rate)			
			Audited (US\$000s)	Evaluated (US\$000s)	Reviewed (US\$000s)	Total (US\$000s)
Deloitte LLP	Niko Resources Ltd. Reserve estimation and economic evaluation March 31, 2018	India	-	\$972,445	-	\$972,445
		<b>Total</b>	<b>\$972,445</b>		<b>\$972,445</b>	

6. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
7. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
8. Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

Deloitte LLP  
700, 850 – 2<sup>nd</sup> Street S.W.  
Calgary, Alberta  
T29 0R8

Original signed by: "Andrew R. Botterill"  
Andrew Botterill, P.Eng.  
Partner

Execution Date: June 1, 2018

## APPENDIX "B"

### FORM 51-101F3 REPORT OF MANAGEMENT AND DIRECTORS ON RESERVES DATA AND OTHER INFORMATION

*Terms to which meanings are ascribed in National Instrument 51-101 have the same meanings herein.*

Management of Niko Resources Ltd. (the "Company") are responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator will be filed with securities regulatory authorities concurrently with this report.

The Board of Directors of the Company and the Reserves and Health, Safety & Environmental Committee of the Company has:

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluators;
- (b) met with the independent qualified reserves evaluators to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data, with management and the independent qualified reserves evaluator.

The Board of Directors of the Company and the Reserves and Health, Safety & Environmental Committee of the Company has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserves and Health, Safety & Environmental Committee, approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing reserves data, and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data and
- (c) the content and filing of this report.

Because the reserves data, are based on judgements regarding future events, actual results will vary and the variations may be material.

(Signed) William T. Hornaday

William T. Hornaday  
Chief Executive Officer

(Signed) Glenn R. Carley

Glenn R. Carley  
Chairman, Reserves and Health, Safety &  
Environmental

(Signed) Glen R. Valk

Glen R. Valk  
VP Finance, Chief Financial Officer,  
Corporate Secretary

(Signed) E. Alan Knowles

E. Alan Knowles  
Director

(Signed) Scott K. Brandt

Scott K. Brandt  
Director

(Signed) Christopher H. Rudge

Christopher H. Rudge  
Director

June 20, 2018

# APPENDIX "C"

## NIKO AUDIT COMMITTEE CHARTER

### 1.0 Constitution

A standing committee of the Board of Directors ("Board") of Niko Resources Ltd. (the "Company") consisting of members of the Board is hereby appointed by the Board from among their number and complying with all other legislation, regulations, TSX and NYSE listing standards agreements, articles and policies to which the Company and its business is subject is hereby established and designated as the "Audit Committee" (the "Committee").

### 2.0 Overall Purpose/Objectives

The Committee will assist the Board in fulfilling its oversight responsibilities, including:

- 2.1 the integrity of the Company's financial statements;
- 2.2 the integrity of the financial reporting process;
- 2.3 the system of internal control and management of financial risks;
- 2.4 the external auditors' qualifications and independence;
- 2.5 the external audit process and the Company's process for monitoring compliance with laws and regulations;
- 2.6 internal audit & reviews as required or scheduled;
- 2.7 disclosure of any material information;
- 2.8 information systems and office operation disaster recovery program; and
- 2.9 review and approve equity offering prospectus.

In performing its duties, the Committee will maintain effective working relationships with the Board, management and the external auditors. To perform his or her role effectively, each Committee member will obtain an understanding of the Company's business, operations, risks and related legislation, regulations and industry standards. So that the Audit Committee can discharge its duties as a whole, all Audit Committee members must be financially literate, and at least one member must have accounting or related financial management expertise.

### 3.0 Authority

The Board authorizes the Committee, within its scope of duties and responsibilities, to:

- 3.1 seek any information it requires from any employee of the Company (whose employees are directed to co-operate with any request made by the Committee);
- 3.2 seek any information it requires directly from external parties including the external auditors and independent engineer; and
- 3.3 obtain outside legal or other professional advice without seeking Board approval (however providing notice to the Chair of the Board).

### 4.0 Organization

The following provisions and regulations shall apply to the composition of the Committee:

- 4.1 the Committee shall consist of not less than three (3) members of the Board of the Company;

- 4.2 the members of the Committee shall be independent members and unrelated to Management;
- 4.3 the Chair of the Committee shall be determined by the Board of the Company;
- 4.4 as a minimum, one (1) member must be viewed as a financial expert;
- 4.5 two members of the Committee shall constitute a quorum thereof;
- 4.6 no business shall be transacted by the Committee except at a meeting of its members at which a quorum is present in person or by telephone or by a resolution in writing signed by all members of the Committee;
- 4.7 the meetings and proceedings of the Committee shall be governed by the provisions of the by-laws of the Company that regulate meetings and proceedings of the Board;
- 4.8 the Committee may invite such directors, officers or employees of the Company, the external auditors and independent engineer as it may see fit, to attend its meetings and take part in the discussion and consideration of the affairs of the Committee;
- 4.9 meetings shall be held not less than four times per year, generally coinciding with the release of interim or year-end financial information. Special meetings may be convened as required upon the request of the Committee Chair or any member. The external auditors and independent engineer may convene a meeting if they consider that it is desirable or necessary;
- 4.10 the proceedings of all meetings will be minuted;
- 4.11 the Committee shall meet separately, at least quarterly, with:
  - (a) management;
  - (b) external auditors.

## **5.0 Duties and Responsibilities**

The Board hereby delegates and authorizes the Committee to carry out the following duties and responsibilities to the extent that these activities are not carried out by the Board as a whole:

- 5.1 Corporate Information and Internal Control
  - 5.1.1 review and recommend for approval of the quarterly and annual financial statements, MD&A, press releases, annual report, Annual Information Form and Management Proxy Circular (salary and related benefit information will be reviewed and approved by the Compensation Committee) of the Company;
  - 5.1.2 review of internal control systems maintained by the Company;
  - 5.1.3 review of major changes to information systems;
  - 5.1.4 review of spending authority and approval of limits;
  - 5.1.5 review of significant accounting and tax compliance issues where there is choice among various alternatives or where application of a policy has a significant effect on the financial results of the Company;
  - 5.1.6 review of significant proposed non-recurring events such as mergers, acquisitions or divestitures; and
  - 5.1.7 review press releases or other publicly circulated documents containing financial information.
- 5.2 External Auditors
  - 5.2.1 retain and terminate the external auditors (subject to shareholder approval);



- 5.2.2 review the terms of the external auditors' engagement and the appropriateness and reasonableness of the proposed engagement fees;
  - 5.2.3 annually, obtain and review a report by the external auditors describing the firm's internal quality control procedures; any material issues raised by the most recent internal quality control review (or peer review) of the firm or by any inquiry or investigation by governmental or professional authorities;
  - 5.2.4 annually, a certificate attesting to the external auditors' independence, identifying all relationships between the external auditors and the Company;
  - 5.2.5 annually, evaluate the external auditors' qualifications, performance and independence;
  - 5.2.6 annually, to assure continuing auditor independence, consider the rotation of lead audit partner or the external auditor itself;
  - 5.2.7 where there is a change of auditor, review all issues related to the change, including information to be included in the notice of change of auditors (National Policy #31 as adopted by the Canadian Securities Regulatory Authorities), and the planned steps for an orderly transition;
  - 5.2.8 review all reportable events, including disagreements, unresolved issues and consultations, as defined in National Policy #31, on a routine basis, whether or not there is a change of auditors;
  - 5.2.9 pre-approve engagements for non-audit services provided by the external auditors or their affiliates, together with estimated fees and potential issues of independence; and
  - 5.2.10 set hiring policies for employees or former employees of the external auditors.
- 5.3 Audit
- 5.3.1 review the audit plan for the coming year with the external auditors and with management;
  - 5.3.2 review with management and the external auditors any proposed changes in major accounting policies, the presentation and impact of significant risks and uncertainties, and key estimates and judgements of management that may be material to financial reporting;
  - 5.3.3 question management and the external auditors regarding significant financial reporting issues during the Fiscal period and the method of a resolution;
  - 5.3.4 review any problems experienced by the external auditors in performing the audit, including any restrictions imposed by management or significant accounting issues in which there was a disagreement with management;
  - 5.3.5 review audited annual financial statements and quarterly financial statements with management and the external auditors (including disclosures under "Management Discussion & Analysis"), in conjunction with the report of the external auditors, and obtain explanation from management of all significant variances between comparative reporting periods;
  - 5.3.6 review the auditors' report to management, containing recommendations of the external auditors', and management's response and subsequent remedy of any identified weaknesses; and
  - 5.3.7 confirm with the external auditors, grants and payouts made, from time to time, under the Company's Long Term Incentive Plan, including those made to the senior officers.
- 5.4 Risk Management and Controls
- 5.4.1 review hedging strategies, policies, objectives and controls;
  - 5.4.2 review, not less than quarterly, a mark to market assessment of the Company's hedge positions and counter party credit risk and exposure;

- 5.4.3 review adequacy of insurance coverage, outstanding or pending claims and premium costs;
- 5.4.4 review loss prevention policies and programs in the context of competitive and operational consideration; and
- 5.4.5 annually review authority limits for capital expenditures sales and purchases.

**6.0 Other Duties and Responsibilities**

- 6.1 The responsibilities, practices and duties of the Committee outlined herein are not intended to be comprehensive. The Board may, from time to time, charge the Committee with the responsibility of reviewing items of a financial or control nature, of a risk management nature and of a reserves nature; and
- 6.2 The Committee shall periodically report to the Board the results of reviews undertaken and any associated recommendations.