Niko Announces Government of India's Revision of Domestic Gas Prices

CALGARY, ALBERTA (October 20, 2014) – Niko Resources Ltd. ("Niko" or the "Company")(TSX – "NKO") announces that on October 18, 2014, the Cabinet Committee of Economic Affairs of the Government of India approved the new domestic gas pricing policy for India. The press release issued by the Press Information Bureau of the Government of India is attached.

The Company will be evaluating the impact of the new domestic gas pricing policy on its assets in India.

About Niko Resources Ltd.:

With its head office in Calgary, Alberta, Canada, Niko is focused on value generation in the D6 Block in India, while maintaining optionality to benefit from the exploration potential in its portfolio.

For further information, please contact:
Niko Resources Ltd. (403) 262-1020, Glen Valk, VP Finance & CFO, or visit the Company's website at www.nikoresources.com

Forward-Looking Information

Certain statements in this press release constitute forward-looking information. Specifically, this press release contains forward looking information relating to the Company's evaluation of the impact of the new domestic gas pricing policy on its assets in India. Undue reliance should not be placed on forward-looking information. Such forward-looking information reflects the Company's current beliefs and assumptions and is based on information currently available to the Company. These forward looking statements are based on certain key expectations and assumptions. The reader is cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be incorrect. The forward-looking information is presented as of the date of this press release, and the Company assumes no obligation to update or revise such information to reflect new events or circumstances, except as required by law.

Press Information Bureau
Government of India
Cabinet Committee on Economic Affairs (CCEA)
18-October-2014 20:29 IST

Revision of Domestic Gas Prices

The Cabinet Committee of Economic Affairs, chaired by the Prime Minister Shri Narendra Modi, today approved the new domestic gas pricing policy.

The salient features of the new Gas Pricing Policy are follows:

(i) As per the formulation approved by the CCEA today, upward revision in gas prices will be approximately 75% less as compared to the price arrived at using Rangarajan formula.
(ii) Approximately 80% of the additional revenue due to revision in gas price will go to the Government companies.
(iii) Government will get additional revenue of approximately Rs. 3800 crore per annum on account of higher royalty, higher profit petroleum and higher taxes.

After the new Government took over, a decision was taken to defer the Domestic Natural Gas Pricing Guidelines, 2014 and to get the matter re-examined. For this purpose, a Committee which, included, Secretaries of the Ministries/Departments of Power, Expenditure and Fertilizer as Members with Additional Secretary, Ministry of Petroleum and Natural Gas as Member Secretary was appointed.

The Committee has recommended an approach for gas price determination, which is based on the modification to the Rangarajan formula by:

(i) Removal of both the Japanese and Indian LNG import components in the formula.
(ii) Consideration of Alberta Gas Reference price in place of Henry Hub Prices for Canadian consumption.
(iii) Consideration of Russian actual price in place of National Balancing Point price for the Russian consumption considered under Former Soviet Union (FSU) countries.
(iv) Consideration of appropriate deductions on account of transportation and treatment charges, etc., for different hub prices.
(v) The options of bi-annual and annual price revision instead of quarterly revision may be considered.

The Committee also recommended applicability of the modified approach prospectively and to apply it uniformly to all sectors of the economy, along with prevailing gas allocation policy of the Government. The Committee was of the view that the National Oil Companies (NOCs) may also get the same price as determined under the proposed dispensation, including the gas from the nomination fields. In addition, the Committee also drew attention to the fact that although in India gas is historically being priced on National Calorific Value (NCV), the input prices being used in the Rangarajan formula are based on Gross Calorific Value (GCV).

The following has been approved by the CCEA:-

(i) The gas price is proposed to be determined as per the formula given below

$$P = \frac{VHH\ PHH + VAC\ PAC + VNBP\ PNBP + VR\ PR}{VHH + VAC + VNBP + VR}$$

Where

(a) VHH = Total annual volume of natural gas consumed in USA & Mexico.
(b) VAC = Total annual volume of natural gas consumed in Canada.
(c) VNBP = Total annual volume of natural gas consumed in EU and FSU, excluding Russia.
(d) VR = Total annual volume of natural gas consumed in Russia.
(e) PHH and PNBP are the annual average of daily prices at Henry Hub (HH) and National Balancing Point (NBP) less the transportation and treatment charges.
(f) PAC and PR are the annual average of monthly prices at Alberta Hub and Russia respectively less the transportation and treatment charges.

(ii) The periodicity of price determination/notification shall be half yearly. The price and volume data used for calculation of applicable price shall be the trailing four quarter data with one quarter lag. The first price would be determined on the basis of price prevailing between 1st July, 2013 and 30th June, 2014. This price would come into effect from 1st November, 2014 and would be valid till 31st March, 2015. Thereafter, it would be revised for the period 1st April, 2015 to 30th September, 2015 on the basis of prices prevalent between 1st January, 2014 and 31st December, 2014, i.e., with the lag of a quarter and so on. The prices would be announced 15 days in advance of the half year, for which it is applicable.

(iii) The price so notified would be applied prospectively with effect from 1st November, 2014 and would be on GCV basis as input prices in the formula are on GCV basis.

(iv) The revised gas price, so determined would be applicable to all gas produced from nomination fields given to ONGC and OIL India, NELP blocks, such Pre-NELP blocks where PSC provides for Government approval of gas prices and CBM blocks. The following are the exceptions to which this policy would not apply:-
   (a) Small and isolated fields in nomination blocks, given their peculiar conditions, guidelines for pricing of gas were issued in 2013 would continue to apply.
   (b) Where prices have been fixed contractually for a certain period of time, till the end of such period.
   (c) Where the PSC provides a specific formula for natural gas price indexation/fixation.
   (d) Such Pre-NELP blocks where Government approval has not been provided under the Production Sharing Contract (PSC).

(v) The matter relating to cost recovery on account of shortfall in envisaged production from D1, D3 discoveries of Block KG-DWN-98-3 is under arbitration. Hence the operator would be paid the earlier price of US $ 4.2/MMBTU till the shortfall quantity of gas is made good. It is proposed that the difference between the revised price and the present price (US $ 4.2 per million BTU) would be credited to the gas pool account maintained by GAIL 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 pending arbitration and any attendant legal proceedings.

(vi) For all discoveries after this decision, in Ultra Deep Water Areas, Deep Water Areas and High Pressure-High Temperature areas, a premium would be given on the gas price to be determined as per the prescribed procedure.

(vii) In the NER region, the 40% subsidy would continue to be available for gas supplied by ONGC/OIL. However, as private operators are also likely to start production of gas in NER, and would be operating in the same market, this subsidy should also be available to them to incentivize exploration and production.

*****

AK/SH/SK