



**Hardy Oil and Gas plc**

("Hardy" or "the Company")

**Interim Management Statement**

Hardy Oil and Gas plc (LSE: HDY), the oil and gas exploration and production company with assets in India, today issues its Interim Management Statement for the period from 1 July 2011 to the date of this announcement.

*\* All financial amounts are stated in US dollars unless otherwise noted.*

**Operational**

- PY-3: The PY-3 field has been temporarily shut-in from 30 July 2011 pending approval of the award of a contract for the lease of the offshore production facilities
- PY-3: Gross daily production in the third quarter of 2011 averaged 1,026 bbl/d (Q3 2010 3,367 bbl/d) (net: 185 bbl/d, Q3 2010: 606 bbl/d)
- D3: Continued prospect generation and the re-tendering of PSDM processing of 3D seismic data covering the east portion of the block
- D9: Following the A2 natural gas discovery the joint venture applied to extend the block for six months to the end of December 2011
- Assam: Upon review, the joint venture elected to relinquish the block

**Financial**

- Net sales of 44,826 bbl of oil were realised for the three months ended 30 September 2011 (Q3 2010: 40,974 bbl); the average price realised was \$111.93 per bbl (Q3 2010: \$75.93 per bbl)
- Capital expenditure amounted to \$2.0 million principally on exploration activities on the KG Basin blocks
- Cash and short term investments at 30 September 2011 amounted to \$40.3 million which is sufficient for the Company's committed exploration drilling programme; the Company has no long term debt

**Corporate**

- On 31 August 2011 Dinesh Dattani ceased to be an executive director of the Company
- Completion of BP's farm-in to the D3 and D9 exploration blocks

## Outlook

- PY-3: Seeking to secure approval of the field's proposed field re-development plan designed to increase gross production to approximately 8,000 bbld
- PY-3: Pending the approval of the field re-development plan production is expected to recommence at a rate of approximately 3,000 bbld. Any absence of consent may result in a prolonged shut-in
- D3: Drill one exploration well in 2012
- D3: Approval of commerciality for the Dhirubhai 39, 41 and 52 natural gas discoveries is expected following the Government of India's review
- D9: Following the KG-D9-A2 natural gas discovery in July, the joint venture is reviewing the programme for the block
- GS-01: Approval of commerciality for the GS-01 Dhirubhai 33 natural gas discovery is expected in the near future

Yogeshwar Sharma, Chief Executive Officer of Hardy, commented:

"In the third quarter of 2011 we welcomed BP into our D3 and D9 KG Basin joint ventures, whose expertise and experience will enhance the effectiveness of the joint ventures exploration strategy on these blocks. The Company will continue to focus on securing the necessary approvals to recommence PY-3 production, which is linked to a broader re-development programme of the field."

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## **FINANCIAL POSITION**

During the three months ended 30 September 2011, Hardy sold 44,826 bbl of oil (Q3 2010: 40,974 bbl). The average realised price in this period was \$111.93 per bbl (Q3 2010: \$75.93 per bbl).

Total capital expenditure incurred during the three months ended 30 September 2011 amounted to \$2.0 million principally on exploration activities on the Company's exploration assets.

As at 30 September 2011, the Company had cash and short term investments of \$40.3 million and no long-term debt.

## **CORPORATE**

**BP Farm-in** - On 9 August 2011 Reliance announced that the Government of India had approved the transfer of a 30 per cent participating interest in 21 exploration and production licences to BP. Prior to the Government of India approval, Hardy declined to exercise its option to increase its participating interest in D3 by three per cent for a cash payment of approximately \$150 million. The net consideration implied a gross value of approximately \$5.0 billion for the D3 exploration licence (\$500 million net to Hardy).

**Finance Director** - On 31 May 2011 Hardy had announced that the Company's Finance Director Mr Dinesh Dattani would be leaving the Company on 31 August 2011 to return to his permanent residence in Calgary, Canada.

**Executive Appointment** - Following Mr Dattani's departure, Mr Richard Galvin was appointed Treasurer & Corporate Affairs Executive and member of the Executive Committee of Hardy. He is responsible for investor relations, corporate planning and treasury management functions as well as managing the London office. Mr Galvin, who has over 15 years of oil industry experience, began his career at Encana Corporation (formerly AEC) working in progressively more senior commercial roles over 7 years. Mr Galvin holds an MBA from the London Business School and a B.Comm from the University of Calgary and joined Hardy in 2005.

## REVIEW OF OPERATIONS

To date, 2011 has been notable for the first natural gas discovery on the D9 exploration block, the submission of a declaration of commerciality proposal for the D3 block and the temporary shut-in of the PY-3 field from 30 July 2011. The Company's operations in India are conducted through its wholly owned subsidiary Hardy Exploration & Production (India) Inc (HEPI).

### **Block KG-DWN-2003/1 (D3): Exploration**

*(Hardy 10 per cent interest)*

Declaration of Commerciality - Earlier this year the D3 joint venture Operating Committee reviewed and recommended a Commerciality Report for the Dhirubhai 39, 41 and 52 natural gas discoveries subject to Government of India review. The proposed development is a dry gas, subsea cluster development with the flexibility to add in additional discoveries. The Government of India review is ongoing and is expected to continue through the remainder of 2011.

Exploration - Following the Government of India's approval of the Reliance BP farmout to BP, we have been delighted with BP's contribution to the prospect generation and evaluation process. The ongoing geotechnical evaluation of the block integrated with new regional data has identified a number of additional prospects and leads. The new prospectivity is primarily focused in thermogenic sourced plays. We expect further clarification of the plays and associated prospectivity to coincide with the on-going interpretation in the central area of the block and the PSDM seismic processing in the east portion of the block ("Pan Handle"). The prospective resource estimates associated with the new leads will be updated in our year end competent persons report (CPR).

Outlook – The joint venture will continue to undertake a number of geotechnical studies into 2012. Exploration activity is now focused on assessing the potential of the east portion of the block ("Pan Handle") and high grading prospects to test deeper play types within the central portion of the block. The fifth exploration well is expected to be drilled in 2012. At least one of the remaining two commitment wells is expected to be drilled in the Pan Handle area while the other will likely target a deeper play in the central block area.

Background - Situated in the emerging world class petroleum system of the Krishna Godavari Basin on the east coast of India, the D3 exploration licence encompasses an area of 3,288 km<sup>2</sup>, in water depths of 400 m to 2,200 m, and is located approximately 45 km offshore. The block is operated by Reliance, holding 60 per cent participating interest and BP holds the remaining 30 per cent.

### **Block KG-DWN-2001/1 (D9): Exploration**

*(Hardy 10 per cent interest)*

Exploration – The Company welcomed BP's participation in recent joint venture meetings following the Government of India's approval of Reliance's 30 per cent farmout to BP.

Following the KG-D9-A2 natural gas discovery (Dhirubhai 54), announced in June 2011, the D9 joint venture applied for an additional six month extension to phase one of the exploration licence, to the end of December 2011. The potential commerciality of the KG-D9-A2 natural gas discovery is being ascertained through more data gathering and analysis.

Outlook - Following the KG-D9-A2 natural gas discovery in July 2011, the joint venture is reviewing the programme for the block.

Background - Situated in the Krishna Godavari Basin in India, the licence encompasses 11,605 km<sup>2</sup> in the Bay of Bengal where water depths vary from 2,300 m to 3,100 m. The joint venture has acquired 4,188 km<sup>2</sup> of 3D seismic in the north-west quarter of the block. The D9 block is operated by Reliance holding a 60 per cent participating interest, and BP holds the remaining 30 per cent. The Dhirubhai 54 natural gas discovery encountered three gas bearing sand reservoirs with a gross thickness of approximately 22 m and were evaluated by wireline MDT.

### **Block AS-ONN-2000/1 (Assam): Exploration (Relinquished)**

Operations - The Assam block was awarded under India's NELP II bid round in 2000. The block is located on the western, undrilled margin of the Assam Basin. The nearest production is approximately 50 km distance. Hardy held a 10 per cent participating interest with the block operated by Reliance.

Following seismic acquisition, processing and interpretation, the geologic analysis of the area identified two structural prospects. The Company's published CPR listed gross best estimate prospective resources of 20 MMbbl and 5 MMbbl with a geological chance of success (GCOS) of ten per cent, due to petroleum system uncertainty in this undrilled part of the basin.

After carefully considering the block's low prospectivity in conjunction with the logistical challenges of the area, the joint venture has elected to relinquish the block.

### **Block GS-OSN-2000/1 (GS-01): Appraisal**

*(Hardy 10 per cent interest)*

Operations - The Operator is expecting the Government of India to communicate the acceptance of the commerciality proposal submitted by the joint venture, in respect to the GS-01 Dhirubhai 33 natural gas discovery, in the near future.

In August 2011, the GS-01 joint venture submitted a proposal to the Government of India for the pending development area to encompass approximately 600 km<sup>2</sup>. In the event that this proposal is accepted by the Government of India, the remaining area of the exploration licence (~5,290 km<sup>2</sup>) will be relinquished.

Background - In May 2010, the GS-01 joint venture submitted a proposal to DGH for declaration of commerciality for the Dhirubhai 33 natural gas discovery, and discussions have been ongoing to present. Following acceptance of the commerciality proposal by the GS-01 management committee, a development plan will be prepared and submitted to DGH. The GS-01 PSC provides the joint venture 12 months to develop a comprehensive development plan for review and approval.

*India (Operated)*

### **Block CY-OS 90/1 (PY-3): Developed Oil Field**

(Hardy 18 per cent interest – Operator)

Operations - On 3 August 2011, the Company announced that the PY-3 field was temporarily shut-in on 30 July 2011 pending approvals to award a contract for the lease of the floating production system currently utilised by the field. As a result of the shut-in gross daily production in the third quarter of 2011 averaged 1,026 bbl/d (Q3 2010: 3,367 bbl/d) (net: 185 bbl/d, Q3 2010: 606 bbl/d).

Outlook - The PY-3 field will remain shut-in until the necessary approvals are in place to award a contract to the provider of the field's floating production system, which is linked to the proposed field re-development plan. The joint venture expects to receive the necessary approvals in the fourth quarter of this year. The absence of any approval may result in a prolonged shut-in. The PY-3 oil field is currently capable of producing at a rate of 3,000 bbl/d.

Background - The PY-3 field is located off the east coast of India, 80 km south of Pondicherry in water depths of between 40 m and 450 m. The licence is operated by Hardy, covers 81 km<sup>2</sup>, and produces high quality light crude oil (49° API). The facility at PY-3 consists of the floating production unit, 'Tahara', and a 65,000 DWT tanker, 'Endeavor', which acts as a floating storage and offloading unit. There are four sub-sea wells tied back to Tahara, with one producer and two water injection wells.

### **Block CY-OS/2: Exploration**

(Hardy 75 per cent interest – Operator)

Operations - The Company holds a 75 per cent participating interest in its offshore block CY-OS/2 on the south east coast of India wherein a gas discovery (Ganesh) was announced on 8 January 2007. The exploration period for the block ended on 23 March 2007 and the MoPNG was requested to extend the block for appraisal and declaration of commerciality for its non-associated natural gas (NANG) discovery until January 2012 in accordance with the provisions of the CY-OS/2 production sharing contract.

In accordance with the provisions of the PSC a formal dispute resolution process, to seek to extend the expiry date of the licence to January 2012, is being adjudicated. The tribunal's ruling is expected in the second quarter of 2012.

Outlook - Following confirmation of the extension period, through the dispute resolution process, Hardy intends to undertake the activities necessary to appraise fully the Ganesha discovery.

## **OUTLOOK SUMMARY**

Hardy is seeking to secure approval of the field's proposed field re-development plan designed to increase gross production to approximately 8,000 bbl/d. Pending the approval of the field re-development plan production is expected to recommence at a rate of approximately 3,000 bbl/d. Any absence of consent may result in a prolonged shut-in.

The drilling of the fifth exploration well on the D3 exploration block is expected in 2012. The approval of declaration of commerciality proposal for the Dhirubhai 39, 41 and 52 natural gas discoveries is expected following the Government of India's review. Approval of commerciality for the GS-01 Dhirubhai 33 natural gas discovery is expected in the near future. Following the KG-D9-A2 natural gas discovery in July, the joint venture is reviewing the programme for the D9 block.

## GLOSSARY OF TERMS

Assam block	licence AS-ONN-2000/1
Board	the Board of Directors of Hardy Oil and Gas plc
BP	BP plc
the Company	Hardy Oil and Gas plc
D3	licence KG-DWN-2003/1 awarded in NELP V
D9	licence KG-DWN-2001/1 awarded in NELP III
Dhirubhai 33	gas discovery on GS-01-B1 well
Dhirubhai 39	gas discovery on KGV-D3-A1 well
Dhirubhai 41	gas discovery on KGV-D3-B1 well
Dhirubhai 41	gas discovery on KGV-D3-R1 well
Dhirubhai 52	gas discovery on KGV-D3-W1 well
Dhirubhai 54	gas discovery on KG-D9-A2 well
DGH	Directorate General of Hydrocarbons of the MoPNG
FPS	floating production system
Ganesh	gas discovery on Fan-A1 well located in CY-OS/2
GCA	Gaffney, Cline & Associates Ltd.
GOI	Government of India
GS-01	licence GS-OSN-2000/1
Hardy	Hardy Oil and Gas plc
HEPI	Hardy Exploration & Production (India) Inc
Management Committee	as per India PSC the committee is the authority to approve annual budgets and capital programmes, members comprise joint venture partners and two Government of India appointed representatives
NELP	New Exploration Licensing Policy of the Ministry of Petroleum and Natural Gas of India
Operating Committee	as per India PSC's the committee reviews and recommends annual budgets and exploration, appraisal and development programmes to the Management Committee
PSC	production sharing contract
PY-3	licence CY-OS-90/1
Reliance	Reliance Industries Limited
\$	United States dollars
2D/3D	two dimensional/three dimensional
bbl	stock tank barrel
bbl/d	stock tank barrel per day
km	kilometre
km <sup>2</sup>	kilometre squared
lkm	line kilometre
m	metre
MD	measured depth
MDT	modular formation dynamics tester
MMbbl	million stock tank barrels
NANG	non associated natural gas

Prospective Resources those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations

PSDM pre-stacked depth migration processing is a model-based seismic imaging methodology that works well for complex geological structures. PSDM is more time consuming to process than conventional time migration processing, but is better at determining sub-surface structure

## **NOTES TO THE EDITORS**

Hardy Oil and Gas plc is an upstream oil and gas company focused in India. Its portfolio includes a blend of exploration, appraisal, and production assets. Hardy's goal is to evaluate and exploit its asset base with a view to creating significant value for its shareholders.

Hardy Oil and Gas plc has existing production from an offshore field in India's Cauvery basin. Hardy also has interests in four offshore exploration blocks in India's Saurashtra, Cauvery, and Krishna Godavari basins.

Hardy is incorporated under the laws of the Isle of Man and headquartered in London, UK. Ordinary shares of Hardy were admitted to the Official List and the London Stock Exchange's market for listed securities effective 20 February 2008 under the symbol HDY.

The Company's Indian assets are held through the wholly owned subsidiary Hardy Exploration & Production (India) Inc, located in Chennai, India.

For further information please refer to our website at [www.hardyoil.com](http://www.hardyoil.com)

## **DISCLAIMER**

This "Interim Management Statement" contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. Whilst the Company believes the expectations reflected herein to be reasonable in light of the information available to it at this time, the actual outcome may be materially different owing to factors beyond the Company's control or within the Company's control where, for example, the Company decides on a change of plan or strategy.