

## **Hardy Oil and Gas plc**

("Hardy" or "the Company")

### **Interim Management Statement**

Hardy Oil and Gas plc (LSE: HDY), the India focused oil and gas exploration and production company, today issues its Interim Management Statement for the period from 1 July 2010 to date.

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

#### **Operational Highlights**

- PY-3: Gross daily production in the third quarter of 2010 averaged 3,367 stbd (Q3 2009 155 stbd) (net: 606 stbd, Q3 2009: 28 stbd). Average gross daily production for the month of October 2010 was 3,420 stbd.
- D3: Hardy announced the KGV-D3-W1 natural gas discovery (Dhirubhai 52), the fourth consecutive discovery on the block.
- GS-01: The DGH continued to review the proposal for commerciality submission provided for the Dhirubhai 33 natural gas discovery.
- CY-OS/2: The formal dispute resolution process to extend the expiry date of this licence is progressing.
- Drilling Moratorium: The Government of India granted a three year drilling moratorium on all deepwater blocks including D3 and D9 to the end of 2010.

#### **Financial Highlights**

- Net sales of 40,974 stb of oil was realised for the three months ended 30 September 2010 (Q3 2009: 28,165 stb); the average price realised was \$75.93 per stb (Q3 2009: \$71.75 per stb).
- Capital expenditure amounted to \$1.8 million principally on exploration activities.
- Cash and short term investments at 30 September 2010 amounted to \$23.2 million; the Company has no long term debt.

#### **Corporate**

- On 27 October 2010, the Company completed the sale of its wholly owned subsidiary Hardy Oil (Africa) Limited for gross proceeds of \$4.6 million cash.
- On 2 November 2010, the Company announced the resignation of Mr Sastry Karra as Non-Executive Director of Hardy, effective 30 November 2010.

## Outlook

- PY-3: Gross daily production from PY-3 is estimated to average 3,100 stbd (net: 564 stbd) in 2010.
- D9: One exploration well is expected to commence drilling before the end of 2010.

Yogeshwar Sharma, Chief Executive Officer of Hardy, commented:

*“We are pleased with the fourth consecutive natural gas discovery on our D3 block as it underlines the prospectivity of this region. The proceeds from the sale of our Nigerian assets will be used to fund our ongoing exploration activities in the Krishna Godavari Basin and the Company’s focus is now exclusively on India.”*

For further information please contact:

**Hardy Oil and Gas plc**

Yogeshwar Sharma, Chief Executive Officer  
Dinesh Dattani, Finance Director

**020 7471 9850**

**Arden Partners plc**

Richard Day

**020 7614 5917**

**Buchanan Communications**

Mark Edwards  
Ben Romney

**020 7466 5000**

## **FINANCIAL POSITION**

During the three months ended 30 September 2010, Hardy sold 40,974 stb of oil (Q3 2009: 28,165 stb). The average realised price in this period was \$75.93 per stb (Q3 2009: 71.75 per stb).

In 2009 the PY-3 field had experienced a prolonged shut-in due to unscheduled repair and maintenance of the field's offshore mooring facility. This resulted in nominal production being realised in Q3 2009. The PY-3 field recommenced production in January 2010.

Total capital expenditure incurred during the three months ended 30 September 2010 amounted to \$1.8 million principally on the drilling of the exploration well KGV-D3-W1, which resulted in a natural gas discovery (Dhirubhai 52).

As at 30 September 2010, the Company had cash and short term investments of \$23.2 million and no long-term debt.

On 27 October 2010, the Company completed the sale of its wholly owned subsidiary Hardy Oil (Africa) Limited for gross proceeds of \$4.6 million cash. As a result of this disposition, the Company's focus is now exclusively on its operations in India.

## **REVIEW OF OPERATIONS**

### ***Non-operated***

#### **D3 (10%)**

The well KGV-D3-W1, the fourth exploration well in this block, was drilled to a total measured depth of 3,501 m at a water depth of 1,653 m. A gross gas pay zone of 37.5 m was encountered in Pliocene aged sands. The potential of the pay was evaluated by wire-line based modular pressure testing tool (MDT) and the collection of gas samples. The potential commerciality of the discovery is being ascertained through more data gathering and analysis. The KDV-D3-W1 gas discovery (Dhirubhai 52) is the fourth consecutive gas discovery on the D3 block (Dhirubhai 39, 41 and 44).

PSDM processing of the 3D seismic data gathered over the eastern portion of the block ("Toe Thrust Area") continued through the period. Further geological, geophysical, and engineering studies are ongoing in the appraisal of the gas discoveries Dhirubhai 39 and 41.

On 8 July 2010, the Cabinet Committee on Economic Affairs of the Government of India approved the grant of a drilling moratorium of three years up to 31 December 2010 to all deepwater block Production Sharing Contracts (PSCs) signed until the NELP- V rounds, where drilling commitments were pending as on 1 January 2009 including the D3 block. The D3 licence can be extended by up to 18 months through three separate 6 month extensions under the current policies of the Government of India.

## 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.

Exploration: The minimum work programme for phase one of the licence requires the drilling of six exploration wells. To date, four consecutive gas discoveries have been made and the joint venture has acquired 3,250 km<sup>2</sup> of 3D seismic data over the block.

Appraisal (Dhirubhai 39 and 41): In 2009, the D3 joint venture reviewed and approved an appraisal programme for the evaluation of the Dhirubhai 39 and 41 gas discoveries. The proposed appraisal area comprises 750 km<sup>2</sup>, covering a large portion of the North West corner of the block. The appraisal programme provides for the initial undertaking of various geological, geophysical and development concept studies by early 2011.

## **D9 (10%)**

Hardy expects the second exploration well on D9 to commence drilling by the end of 2010.

On 8 July 2010 The Cabinet Committee on Economic Affairs of the Government of India approved the grant of a drilling moratorium of three years up to 31 December 2010 to all deepwater block PSCs signed until the NELP-V rounds, where drilling commitments were pending as on 1 January 2009 including the D9 block. The D9 licence can be extended up to one year through two separate 6 month extensions under the current policies of the Government of India.

## 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 block is immediately adjacent to the Reliance operated D6 block, where over 2 BCF per day is being produced from Tertiary aged sediments. The joint venture has acquired 4,188 km<sup>2</sup> of 3D seismic in the NW quarter of the block and 2,087 km of 2D seismic over the remainder of the block. Subsequent interpretation of the seismic data has identified leads at Pliocene, Miocene, Oligocene and Cretaceous levels. In 2009 the joint venture drilled KG-D9-A1 to a depth of 4,875 m MD in a water depth of 2,754 m which was plugged and abandoned.

## **Assam (AS-ONN-2000/1) (10%)**

The Assam joint venture submitted various applications for approvals of drilling in the second half of 2011. The approval process is expected to continue through the first half of 2011. Further surface geochemical sample analysis continued through the period.

## Background

The AS-ONN-2000/1 exploration licence is located in the north eastern state of Assam, India, north of Brahmaputra River. The exploration licence covers an area of 5,754 km<sup>2</sup> in the districts of Darrang and Sonitpur. The block is in phase one of the three-phase exploration licence. Phase one has a three year term which expires in January 2011. Initial interpretation of the acquired 390 lkm of 2D seismic has been completed and incorporated with the regional geological model. The Assam joint venture has met the minimum work

commitment for phase one. Hardy holds a 10 per cent participating interest with Reliance holding 90 per cent as operator.

### **GS-01 (10%)**

In May 2010, the GS-01 joint venture submitted a proposal to DGH for declaration of commerciality (“DOC”) for the Dhirubhai 33 natural gas discovery. Following acceptance of the commerciality proposal by the GS-01 management committee, the joint venture will be required to prepare and submit a development plan to DGH.

#### **Background**

The GS-01 exploration licence is located in the Gujarat-Saurashtra offshore basin, off the west coast of India, directly adjacent to the prolific Bombay High oil field. The original licence encompassed an area of 8,841 km<sup>2</sup>, with water depths varying between 80 m and 150 m. The joint venture has previously acquired 2,216 km<sup>2</sup> of 3D seismic data. In May 2007, the Company announced a discovery from the GS01-B1 exploration well and flow-tested the well at a rate of 18.6 MMscfd gas with 415 bbl/d of condensate through a 56/64” choke at flowing tubing head pressure of 1,346 psi.

#### ***Operated***

### **PY-3 (18%)**

For the three months ended 30 September 2010 the average daily production on a participating interest basis was 606 stbd (Q3 2009: 28 stbd). Gross production for October 2010 was 3,420 stbd.

In 2009 the PY-3 field had experienced a prolonged shut-in due to unscheduled repair and maintenance of the field’s offshore mooring facility. This resulted in nominal production being realised in Q3 2009. The PY-3 field recommenced production in January 2010.

#### **Operations**

Hardy continues to work closely with its partners to finalise a full field redevelopment plan to enhance production and the ultimate recovery from the PY-3 field. The joint venture is currently considering the drilling of two further lateral production wells with appropriate facilities to include gas compression for gas lift and sales gas evacuation.

The timing of commencement of drilling has not yet been finalised pending budget approvals. Due to limited weather window and the time required for planning, it is now likely that drilling will commence in 2012.

#### **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 field was developed using floating production facilities and subsea wellheads, a first for an offshore field in India. 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 and one suspended well awaiting gas lift facilities.

## **CY-OS/2 (75%)**

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 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 discovery until January 2012 in accordance with the provisions of the CY-OS/2 production sharing contract (PSC). The Company has initiated a formal dispute resolution process in accordance with the PSC.

### **Background**

The CY-OS/2 block is located in the northern part of the Cauvery Basin immediately offshore from Pondicherry and covers approximately 859 km<sup>2</sup>. Hardy is the operator of this block. The CY-OS/2 licence comprises the appraisal area, which includes the Ganesha (Fan-A1) non-associated gas discovery.

## **CORPORATE**

As announced on 27 October 2010, the Company sold its interest in the wholly owned subsidiary Hardy Oil (Africa) Limited (HOA) for gross proceeds of \$4.6 million. The primary assets of HOA were the Oza and Atala fields located in Nigeria and held through the wholly owned subsidiary Hardy Oil Nigeria Limited.

The sale of HOA is in line with the Company's stated strategy of focusing time and resources on developing its business in India, where it has a high impact exploration portfolio, valuable experience and strong relationships. Net proceeds from the disposal are added to its cash resources for continued investment in Hardy's assets in India.

On 2 November 2010 the Company announced the resignation of Mr Sastry Karra as Non-Executive Director of Hardy, effective 30 November 2010.

Mr Karra co-founded the Company in 1997 and was the Chief Executive Officer of the Company until 31 March 2010 and has been a Non-Executive Director since that time. He has been instrumental in establishing Hardy and its focused asset portfolio in India. The Board wishes to thank Sastry for his immense contribution to Hardy over the past thirteen years and wishes him well in his future endeavours in Nigeria.

## **OUTLOOK**

The Company anticipates production on PY-3 to average approximately 3,100 stbd in 2010. Hardy will continue to work with its partners on advancing further development of the PY-3 field.

In addition, Hardy expects drilling of the second exploration well on D9 to commence by the end of 2010. Thereafter, the remaining phase one minimum work programmes for D3 and D9 comprises the further drilling of two exploration wells on each block.

## GLOSSARY OF TERMS

\$	United States Dollar
2D	two dimensional
Assam block	Exploration licence AS-ONN-2000/1
D3	Exploration licence KG-DWN-2003/1
D9	Exploration licence KG-DWN-2001/1
DGH	Directorate General of Hydrocarbons of the Government of India
Dhirubhai 33	gas discovery on GS-01-B1 announced on 15 May 2007
Dhirubhai 39	gas discovery on KGV-D3-A1 announced on 13 February 2008
Dhirubhai 41	gas discovery on KGV-D3-B1 announced on 1 April 2008
Dhirubhai 44	gas discovery on KGV-D3-R1 announced on 22 December 2009
Dhirubhai 52	gas discovery on KGV-D3-W1 announced on 31 August 2010
Ganeshha	non-associated gas discovery announced on 8 January 2007
GS-01	Exploration licence GS-OSN-2000/1
HOA	Hardy Oil (Africa) Limited
km	kilometre
km <sup>2</sup>	square kilometre
lkm	line kilometre
m	metre
MDRT	measured depth from rotary table
MOPNG	Ministry of Petroleum and Natural Gas of the Government of India
PSC	production sharing contract
PSDM	pre-stacked depth migration
PY-3	licence CY-OS-90/1
Q3	the third quarter of the calendar year
Reliance	Reliance Industries Limited
stb	stock tank barrel
stbd	stock tank barrel per day

## **NOTES TO THE EDITORS**

Hardy Oil and Gas plc is an upstream international oil and gas company whose assets are principally in India. Its portfolio includes a blend of exploration, appraisal, development, 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 and one onshore exploration block in the Assam basin.

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 its 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.