

7 March 2013



Hardy Oil and Gas plc
(“Hardy”, the “Company” or the “Group”)

Preliminary Results for the year ended 31 December 2012

Hardy Oil and Gas plc (LSE: HDY), the oil and gas exploration and production company focused in India, reports its Preliminary Results for the year ended 31 December 2012.

All financial amounts are stated in US dollars unless otherwise indicated.

SUMMARY

2012 operational summary

- D3 - Submitted a revised Declaration of Commerciality proposal for the Dhirubhai 39 and 41 natural gas discoveries
- D3 - Completed PSDM processing of 3D data covering the eastern area of the block
- CY-OS/2 - Hon'ble tribunal ruled in the Company's favour, allowing for a further three years to appraise the Ganesha-1 natural gas discovery and awarded interest and costs to the Company (contingent asset - \$24.8 million)
- GS-01 – Submitted field development plan for the Dhirubhai 33 natural gas discovery
- PY-3 - Secured partner consensus on the field's facility technical specifications and continued work towards the submission of a full field development plan
- D9 - Relinquished the block due to poor hydrocarbon potential of the block

2013 outlook

- D3 - Drill the fifth exploration well in the first half of 2013, GOI review of declaration of commerciality proposal
- GS-01 – Secure approval of field development plan in latter part of 2013
- PY-3 - Submit a redevelopment plan for approval and secure timely approvals
- CY-OS/2 – Re-engage with the regulator and initiate planning for the appraisal of the Ganesha-1 natural gas discovery

Commenting on the results, Alasdair Locke, Chairman of Hardy, said: “In 2013, our primary objectives will be to build on current momentum by securing key stakeholders' approvals and initiating activity to take us closer to realising production from our D3, PY-3 and GS-01 blocks. We have clear deliverables for each asset in 2013 and management has built positive momentum going into an important year for Hardy.”

2012 Financial summary

- Cash used from continuing operations before movements in working capital of \$6.8 million (2011: used \$0.9 million)
- Cash and short-term investments at 31 December 2012 amounted to \$29.1 million (2011: \$36.5 million) and no debt
- Loss before taxation amounted to \$12.7 million (2011: loss of \$4.6 million)

Corporate

- In January 2012 the Company announced the appointment of Alasdair Locke as non-executive Chairman
- In March 2012 the Company announced the appointment of Ian MacKenzie as Chief Executive Officer and Peter Milne as a non-executive Director
- Completed a comprehensive review of the Company's assets, strategy and resources. Relocating corporate office to Aberdeen
- Cost rationalisation exercise undertaken resulting in a reduction in annual overhead costs of approximately \$1.0 million

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2012 FULL YEAR RESULTS AND STATEMENT

CHAIRMAN'S STATEMENT

Overview

Early in 2012, I accepted an appointment to Hardy's Board and assumed the Chairmanship shortly thereafter. I was very pleased with the Board's prompt appointment of Ian MacKenzie as Chief Executive Officer. Ian has an exceptional track record of delivering results in a competitive industry and his experience and leadership qualities are well suited to implement our objectives.

With the Board's support, an early priority for Ian was to oversee a strategic review which resulted in two key conclusions; the Company's India focused asset portfolio has good underlying value and there were opportunities to implement organisational efficiencies to reduce overhead expenditures. Drawing on these conclusions we have subsequently put in place clear business plans for each asset and taken steps to conserve capital through cutting organisational overhead.

Management has built positive momentum going into an important year for Hardy, specifically;

On D3, we expect the recommencement of exploration drilling, of the fifth well, in the second quarter of 2013 and the sixth and final committed exploration well due later in the year. In 2012 the D3 joint venture Operating Committee reviewed and resubmitted a declaration of commerciality proposal for the Dhirubhai 39 and 41 natural gas discoveries subject to a Government of India ("GOI") review. The proposed development is a dry gas, subsea cluster development with the flexibility to add in additional discoveries. The GOI's review is ongoing.

On PY-3 we will submit a comprehensive full field development plan to the GOI for approval after which we expect to secure appropriate offshore production and storage facilities and initiate planning for a development drilling programme to recommence production in 2014.

On GS-01 we intend to conclude discussions with our joint venture partner to increase our interest in the block. A priority in 2013 will be to secure GOI approval of the field development plan and initiate planning for development.

Finally, on CY-OS/2, an early priority of the Company is to have the block restored to the joint venture, as per the Hon'ble Tribunal's award, which provides for a further three years to complete the appraisal of the Ganesha-1 natural gas discovery. Once restored to the Company, as operator, will initiate planning for the appraisal programme. The joint venture was also awarded interest cost on its Rs5.0 billion (approximately \$90 million) investment in the block (Interest Cost) and various costs associated with the arbitration process (Cost). The Interest Cost of \$24.6 million and Cost of \$0.2 million that were awarded are currently considered as contingent assets in the financial statements for the year 2012 (note 13). Interest has accrued at simple interest rate of 9 per cent per annum on the joint venture's investment.

Key results

No revenue was realised in 2012 compared to \$11.3 million in 2011 (in July 2011 the PY-3 field was shut-in). Administrative expenses increased to \$7.5 million compared to \$6.9 million in 2011. The Company made a total comprehensive loss of \$11.1 million in 2012.

The Group started 2012 with cash reserves of \$36.5 million. Net cash used in continuing operating activities was \$6.5 million. Exploration related expenditures amounted to \$1.5 million and interest

and investment income was \$0.9 million. As a result, the Group's cash reserves at the end of 2012 fell to \$29.1 million. The Group remains in a strong financial position with no debt.

Our Business Model and Strategy

Model - Hardy creates value through the exploration and production of hydrocarbons. In order to explore we must first be granted a licence by the Government of the countries in which we choose to invest. After extensive analysis, exploration campaigns are planned to try to discover oil and gas fields within underexplored sedimentary basins. When we have a significant discovery we undertake appraisal programmes which may include the drilling of wells and further geotechnical analysis to determine the size and quality of the discovery.

If the appraisal programme confirms that development of a discovery will be commercially and financially viable, we begin work on a development plan. This maps out how we will get the hydrocarbons into production to generate revenue and cash flow. We also create value through the implementation of enhanced production strategies to optimise the value of recoverable hydrocarbons from existing producing fields.

Strategy - We undertook a strategic review through 2012, following which, we have concluded that Hardy's India focused portfolio has the potential to add significant shareholder value and our medium-term focus will therefore remain on India. The outcome of planned activity through 2013 is expected to confirm our view on the longer-term prospects of our portfolio. In the interim we will continue to consider all opportunities to accelerate value creation for our shareholders.

India energy demand – India's demand for natural gas is expected to grow by about 19 per cent per annum (from 194 in 2013 to 466 mmscmd in 2017) to meet the incremental requirement of the power, fertiliser and other industries. The CNG and city gas sector will also see a quantum growth in natural gas use. It is expected that by 2017, 300 cities will be covered with city gas distribution. Domestic supply is projected to be 231 mmscmd falling well short of expected demand creating a robust environment in which to monetise the Company's current and potential gas discoveries.

Outlook

The D3 exploration licence in the Krishna Godavari Basin remains at the core of our organic growth potential and we expect drilling to recommence in the second quarter of 2013. The Krishna Godavari Basin is an emerging world-class petroleum province and, together with rapidly improving Indian gas pipeline infrastructure and high demand for gas, the prospects for the economic development of gas resources in this area are excellent. The CY-OS/2 award is very encouraging and we will provide updates as we re-engage with the GOI to advance appraisal activity on this block.

In 2013, our primary objectives will be to build on the current momentum by securing key stakeholder's approvals and initiating activity to take us closer to realising production from our D3, PY-3 and GS-01 blocks. We have clear deliverables for each asset in 2013 and management are fully accountable for the implementation of agreed plans. Energy demand in India is growing at an exceptional rate and there are indications that a more collaborative environment is taking hold in India. We believe that these external factors should complement our efforts.

The Company remains in a strong working capital position from which to fund its planned work activity.

Alasdair Locke – Chairman

CHIEF EXECUTIVE'S STATEMENT

Overview

I joined Hardy early in 2012 and, following a comprehensive induction process, I assumed the Chief Executive Officer role at the Company's AGM in May. At the time, the PY-3 oil field had been shut-in since July 2011 and the Company had recently announced the relinquishment of the D9 exploration block. Consequently, my first priority was to undertake a strategic review to identify the key value drivers of the Company's asset portfolio and establish a clear business plan to optimise shareholder value. Our efforts have started to generate positive momentum for the year ahead as we continue to implement our plan.

Strategic Review

With the guidance of the Board, management initiated a strategic review. Our review was focused on assessing Hardy's existing assets, organisational competencies and opportunities to create value for shareholders. The Board concurred with management that Hardy's India focused asset portfolio provides a good platform from which to create significant shareholder value.

India's improving investment climate – throughout 2012 we have observed robust public debate regarding the performance and practices of India's upstream oil and gas sector. We welcome a higher level of transparency which should result in an increase in investment in the sector and the streamlining of various approval processes. India's gas market fundamentals remain strong and the gap between demand and supply is expected to increase with consequent upward pressure on future gas pricing.

Reorganisation – As a result of the shut-in of the Company's producing assets, an early objective of our review was to align our underlying overheads with value creating activities without compromising the competencies required to remain an offshore operator. Based on our review, the Company's UK corporate office was relocated to Aberdeen, Scotland. The new location is in close proximity to industry expertise in designing, planning and executing complex offshore hydrocarbon projects. In addition annualised overhead reduction of approximately \$1.0 million has been achieved. We also modified the Company's internal budgeting and financial reporting practices to enhance transparency and accountability.

Ongoing assessment – We intend to undertake further direct recruitment or engagement of support personnel and resources, as we advance execution of our plans for the PY-3, GS-01 and CY-OS/2 assets. We continue to assess and evaluate further opportunities that complement our existing portfolio in India and identify longer term upstream opportunities to diversify the Company's portfolio.

Implementation

In 2012 we secured agreement, from the PY-3 joint venture on the technical specification of the PY-3 field production system. We are now in the process of gaining consensus with our partners for the submission of a comprehensive full field development plan. Once partner and GOI approvals are secured we can initiate planning to fast-track recommencement of production.

Extensive reprocessing of 3D seismic data was completed by the D3 joint venture in 2012. As a result, a number of prospects have been high-graded and, with the arrival of the deepwater drillship, Dhirubhai Deepwater KG2, we are expecting two exploration wells to be drilled in 2013. Once these wells have been drilled the joint venture will compile data collected, including the four previous

natural gas discoveries, and set out to engineer a comprehensive development strategy for all proven hydrocarbon accumulations.

Near the end of 2012, a full field development plan for GS-01 was submitted for the shallow water, natural gas discovery, Dhirubhai 33 offshore the west coast of India. We had worked closely with the operator to have the full field development plan submitted by the prescribed deadline to the respective department of GOI. Early in 2013 the Company confirmed that it was in discussions with Reliance to increase our participating interest. These discussions are ongoing and we will provide an update once discussions are concluded. As approvals are secured we will be able to advance planning for the development of the asset.

As announced in February 2013, the Hon'ble Tribunal issued an award in the CY-OS/2 joint venture's favour. The ruling entitles the joint venture to undertake appraisal of the Ganesha-1 natural gas discovery over a three year period from the date the block is restored to the joint venture. Our immediate priority is to re-engage with the regulator and initiate planning for the appraisal of the Ganesha-1 natural gas discovery.

A common theme with our assets is dependence on securing approvals from partners and various GOI authorities. We fully recognise the impact that extended delays have to the valuation of our assets and we are making it our priority to utilise all acceptable avenues to secure approvals in a timely manner.

Health Safety and Environment

As an offshore operator, the Company is committed to excellent health and safety practices which are at the forefront in all of our activities. Although all offshore activities were suspended in March 2012 we intend to initiate activities in the future and will continue our robust commitment to maintain high HSE standards throughout the organisation. The Company's HSE policy document was reviewed and amended with increased focus on leadership and accountability. Subsequently the revised policy was rolled out and discussed with all staff.

2013 Programme

The D3 exploration licence in the Krishna Godavari Basin remains at the core of our near term growth potential. The Krishna Godavari Basin is a world-class petroleum province and together with rapidly improving Indian gas pipeline infrastructure and the high demand for gas, the prospects for the economic development of gas resources in this area are excellent.

Through 2013, we will continue to collaborate actively with our partners Reliance and BP to optimise the exploration programme for this highly prospective block. The declaration of commerciality proposal for the D3 block is being reviewed by the GOI and this process is expected to continue through 2013. Processing of 3D seismic data covering the eastern area of the D3 block was completed in 2012 and interpretation continues. With the arrival of the drillship Dhirubhai Deepwater KG2 in Indian waters, drilling of the fifth exploration well is expected to commence in the second quarter of 2013 and the sixth and final committed exploration well scheduled later in 2013.

The working capital position of the Company remains strong and we are well funded to meet our planned work programmes. We will continue to seek opportunities to build value for shareholders.

Staff and Outlook

Following the Company's strategic review the decision was taken to implement cost reducing measures which resulted in the regrettable reduction of staff in some areas. We have also committed to a plan with set timetables, deliverables and accountability and we are confident we have the right people in place to meet our objectives.

I would like to acknowledge the high level of professionalism, commitment and patience demonstrated by our employees during a year of transition and uncertainty. Our methodical approach has built up positive momentum and I expect Hardy to build on this through the year.

Ian MacKenzie – Chief Executive Officer

REVIEW OF OPERATIONS

Hardy's key activities in 2012 were the progression of the D3 exploration programme; the submission of a field development plan for GS-01; CY-OS/2 dispute resolution; deliberation with the PY-3 joint venture partners and rationalisation of corporate overhead.

The Company's exploration and production assets are based in India and are held through its wholly owned subsidiary Hardy Exploration & Production (India) Inc. ('HEPI').

2012 Performance

Health, Safety and Environment - The Company had zero recordable injuries to report in 2012 compared to two for the same period in 2011. All offshore activities were suspended in March 2012.

The Board has tailored the Group's Health, Safety and Environment (HSE) policy and management system taking reference from world class operations to suit Indian conditions. Hardy's HSE policy was reviewed and amended in early 2013. The revised policy has subsequently been presented and explained to all employees and contractors.

Exploration - At the beginning of 2012 the Company's exploration plans were to carry out special processing (pre-stack depth migration) 3D seismic data covering the phase-II are of D3 exploration block and possibly drill an exploration well in D9. Subsequently the D9 joint venture elected to relinquish the D9 block due to poor hydrocarbon potential and made a payment for the unfinished MWP. Special processing of the D3 seismic data progressed and exploration drilling is expected to recommence in the second quarter of 2013.

Development - The D3 joint venture re-submitted a proposal for the declaration of commerciality (DOC) for the Dhirubhai 39 and 41 natural gas discoveries to the Government of India (GOI). The proposed development plan provides for a dry gas, subsea cluster development with the flexibility to add in additional zones and future area discoveries. Near the end of 2012, Hardy submitted a field development plan for the Dhirubhai 33 natural gas discovery (well name GS01-B1) in the GS-01 exploration block. The development plan provides for dry-tree completions to an unmanned platform and multi-phase pipeline to shore with onshore processing and export facilities.

Production - The PY-3 oil field remained shut-in pending stakeholder approval for the drilling of additional wells and the procurement of suitable production facilities. Throughout 2012 the Company worked closely with all stakeholders to advance the approval process for a comprehensive full field development plan. The field's existing wells are capable of producing at a daily rate of over 3,000 bbl/d and additional wells are expected to increase the daily production rate to over 8,000 bbl/d.

Arbitration - Through 2012 the Company continued to participate in a formal dispute resolution process to extend the expiry date of the CY-OS/2 licence. Early in 2013 the Hon'ble tribunal, hearing our dispute, issued an award in the joint venture's favour which provides for the GOI to restore the joint venture's interest and a further three years to complete appraisal activity for the Ganesha-1 natural gas discovery.

Summary table - The table below provides a brief comparison of our stated operational objectives for 2012 and our subsequent accomplishments through the year:

Block	Objective	Execution
D3	Complete PSDM seismic processing and interpretation	PSDM seismic processing was completed in 2012 and interpretation is on-going
D3	Secure approval of proposed DOC	Submitted a revised DOC proposal which is currently under review by the GOI
D9	Drill one exploration well and assess B3 discovery	Relinquished the block and made payment for outstanding MWP
GS-01	Submit a field development plan to GOI	A field development plan was submitted to the GOI in 2012
PY-3	Secure MC approval for 2012 drilling programme	Stakeholders agreed to a timeline for the submission of a comprehensive full field development plan
CY-OS/2	Completion of dispute resolution	Arbitration award, in favour of the Company, was received in Q1 2013
CPR	Updated the Company's CPR report in 2012	CPR will likely be updated following planned exploration drilling in 2013

Key Performance Indicators

The Board recently reviewed its key performance indicators (KPI). Taking into account the challenges facing the Company today the Board has identified two financial and three non-financial measures as key performance indicators for Hardy. The measures reflect the Company's exploration focused strategy, the importance of a positive cash position and our underlying commitment to ensuring safe operations. In addition to the five key measures the Company also recognises that timely stakeholder approvals of our field development plans are important milestones in our pursuit of realising production and creating significant shareholder value.

The key performance indicators for 2012 are summarised below;

Category	KPI	2012 Aim/target	2012	2011	2010
HSE	Total Recordable Injuries	Reduction	0	2	7
Operations	Contingent Resource	Increase	174	174	174
	Wells drilled	no wells planned in 2012	0	1	2
Financial	Cash and short-term investments	> than \$10 million	\$29.1	\$36.5	\$36.5
	Cash flow Overhead*	Reduce	\$4.7 ^Δ	\$6.2	\$6.5

* Administrative expense less – share based payments, foreign exchange charges, partner recharge

^Δ exclude restructuring charge of \$0.7 million

Outlook for 2013

D3 - Recommencement of exploration drilling, of the fifth well, in the second quarter of 2013 and the sixth and final committed exploration well due later in the year. In 2012 the D3 joint venture Operating Committee reviewed and resubmitted a declaration of commerciality proposal for the Dhirubhai 39 and 41 natural gas discoveries subject to a Government of India ("GOI") review. The proposed development is a dry gas, subsea cluster development with the flexibility to add in additional discoveries. The GOI's review is ongoing.

PY-3 - Submit a comprehensive full field development plan to the GOI for approval after which we expect to secure appropriate offshore production and storage facilities and initiate planning for a development drilling programme to recommence production in 2014.

GS-01 - Conclude discussions with our joint venture partner to increase our interest in the block. A priority in 2013 will be to secure GOI approval of the field development plan and initiate planning for development.

CY-OS/2 - Have the block restored to the joint venture, as per the Hon'ble tribunal's award, which provides for a further three years to complete the appraisal of the Ganesha-1 natural gas discovery. Once restored to the Company, as operator, will initiate planning for the appraisal programme. The joint venture was also awarded interest cost on its Rs5.0 billion (approximately \$90 million) investment in the block (Interest Cost) and various costs associated with the arbitration process (Cost). The Interest Cost of \$24.6 million and Cost of \$0.2 million that were awarded are currently considered as contingent assets in the financial statements for the year 2012 (note 13). Interest has accrued at simple interest rate of 9 per cent per annum.

Competent persons report update

Due to limited drilling activity in 2011 and 2012 and the uncertainty regarding the timing of PY-3 oil field's recommencement of production, the Company has not undertaken the updating of a CPR. The Board will re-evaluate following the completion of exploration drilling on the D3 block.

A summary of the Company's 2011 CPR as on 31st December 2010 is provided below and the complete report can be downloaded from www.hardyoil.com.

		2P
Reserves (net entitlement)	MMbbls	2.1
		2C
Contingent Resources (net)	BCF	174
	MMbbls	0.2
		Best
Risked Prospective Resources (net)*	BCF	494

* Aggregated risked Prospective Resources have been derived by Hardy and are not aggregated or provided as risked volumes by GCA.
Note - Subsequent to the effective date of the Company's 2011 CPR, the Company has relinquished the Assam and D9 exploration blocks

ASSET REVIEW

The Company's operations in India are conducted through its wholly-owned subsidiary Hardy Exploration & Production (India) Inc.

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

(Hardy 10 per cent interest)

Operations - The joint venture continued to undertake a number of geotechnical studies including the PSDM reprocessing of over 1,292 km² of 3D data. Geotechnical studies have been focused on assessing the potential of the eastern area of the block and high grading prospects, including deeper plays.

A revised proposal for the DOC for the Dhirubhai 39 and 41 natural gas discoveries, submitted earlier this year, remain under review by the GOI. The proposed development plan provides for a dry gas, sub-sea cluster development with the flexibility to add in additional wells and to include possible adjoining area of discoveries.

Outlook - The deep-water drillship Dhirubhai Deepwater KG2, contracted to the D3 joint venture operator, Reliance Industries Limited (Reliance), is currently operating in Indian waters. Drilling of a fifth exploration well is expected to commence in the second quarter of 2013.

The GOI's review of the D3 DOC proposal will likely continue through 2013.

Background - Situated in the Krishna Godavari Basin, a prolific petroleum province on the East coast of India, the D3 exploration licence encompasses an area of 3,288 km², in water depths of 400 m to 2,200 m, and is located approximately 45 km offshore. The D3 block is operated by Reliance which holds a 60 per cent participating interest, BP and Hardy hold participating interests of 30 per cent and 10 per cent respectively. To date, four consecutive gas discoveries have been made via the Dhirubhai 39, 41, 44 and 52 (KGV-D3-A1, B1, R1 and W1) exploration wells. The joint venture has acquired approximately 3,250 km² of 3D seismic data over the block.

Block GS-OSN-2000/1 (GS-01): Development

(Hardy 10 per cent interest)

Operations - Hardy continued discussions with the operator to facilitate the preparation of a detailed field development plan for the Dhirubhai 33 natural gas discovery. As a result of our efforts the field development plan was submitted to GOI for review prior to the end of the year. The development plan provides for several dry tree wells, and unmanned platform, multiphase pipeline to shore and onshore processing and export facilities.

Early in 2013 the Company confirmed that it was in discussions with its partner, Reliance to increase our participating interest. These discussions are ongoing and we will provide an update once discussions are concluded.

Outlook – The GOI's review of the field development plan will likely continue through 2013.

Background – In 2011, the GS-01 joint venture secured the GOI's approval for a DOC proposal for the Dhirubhai 33 discovery (GS01-B1, drilled in 2007) which flow-tested at a rate of 18.6 mmscfd gas with 415 bbl/d of condensate through a 56/64 inch choke at flowing tubing head pressure of

1,346 psi. The GS-01 licence is located in the Gujarat- Saurashtra offshore basin off the west coast of India, northwest of the prolific Bombay High oil field, with water depths varying between 80 m and 150 m. The retained discovery area covers 600 km²

Block CY-OS 90/1 (PY-3): Oil Field (*shut-in July 2011*)

(Hardy 18 per cent interest – Operator)

As previously announced, the PY-3 field remained shut-in throughout the year and no production was realised by the Company. We continued to work closely with partners and government authorities to plan for the timely recommencement of production. We have held a number of constructive meetings with partners and the India upstream oil and gas regulator ('DGH'). As a result we have agreed to a timeline to submit a comprehensive full field development plan early in 2013.

Outlook - Assuming timely approvals from partners, a comprehensive full field development plan is to be submitted for the GOI's review and approval by the end of the second quarter of 2013. Once the revised plan is approved, we intend to initiate a tendering process for the required production facility and drilling services. Based on current assumptions, production could recommence in the first half of 2014. The field's existing well is capable of producing at a gross daily rate of over 3,000 bbl/d and with future planned wells, the field has the potential to reach 8,000 bbl/d.

Background - The PY-3 field is located off the east coast of India 80 km south of Pondicherry in water depths between 40 m and 450 m. The Cauvery Basin was developed in the late Jurassic / early Cretaceous period and straddles the present-day east coast of India. The licence, which covers 81 km², produces high quality light crude oil (49° API).

Block CY-OS/2: Exploration

(Hardy 75 per cent interest – Operator)

Operations – The formal dispute resolution process, to extend the expiry date of the CY-OS/2 licence, progressed throughout the year. On 4 February 2013 the Company announced that the joint venture was successful in obtaining an extension of the CY-OS/2 licence. A brief summary of the Hon'ble Tribunal's award is provided below;

Dispute - Hardy along with Gas Authority of India Limited (GAIL) and Oil & Natural Gas Corporation (ONGC) are a party and operator to a Production Sharing Contract (PSC) for the CY-OS/2 block. Hardy holds 75 per cent participating interest¹ in the block. Hardy and GAIL declared a gas discovery on 8 January 2007 which discovery qualified as Non Associated Natural Gas (NANG) under the terms of the PSC. The Government of India, Ministry of Petroleum and Natural Gas (MOPNG) however, stated that the discovery being Oil and the commerciality of the block not having been declared within 24 months from the date of the notification of the discovery, the block stood relinquished. Hardy had disputed the characterisation of the discovery as oil and the consequential relinquishment.

Hon'ble Tribunal - This dispute was referred to Arbitration under the PSC to a Tribunal consisting of 3 Arbitrators who were former Chief Justices of India. The Hon'ble Tribunal passed the award on 2 February 2013 at Kuala Lumpur, Malaysia.

Award summary - The Hon'ble tribunal has awarded and directed as follows:

- a) The Ganesha-1 discovery made by Hardy and GAIL is NANG;
- b) The order of relinquishment by the MOPNG was illegal, being on the erroneous impression that the discovery was Oil;
- c) That the parties shall be immediately relegated to the position in which they stood prior to the order of relinquishment and the block shall be restored to Hardy and GAIL;
- d) Hardy shall be entitled to a period of 3 years from the date on which the block is restored to it, to carry out further appraisal;
- e) MOPNG shall pay to Hardy and GAIL interest at the simple rate of 9 per cent per annum on the amount of Rs.5.0 billion spent by them on the block, from the date of relinquishment till the date on which the block is restored (approximately \$24.6 million net to Hardy).

Outlook – Once the MOP&NG has restored the licence to the CY-OS/2 joint venture, Hardy will recommence work on the appraisal of the Ganesha-1 natural gas discovery.

Background – Hardy is the operator of the CY-OS/2 exploration block and holds a 75 per cent participating interest¹, through its wholly owned subsidiary Hardy Exploration & Production (India) Inc and GAIL holds the remaining 25 per cent participating interest. The block is located in the northern part of the Cauvery Basin immediately offshore from Pondicherry, India and covers approximately 859 km². The licence comprises of two retained areas with the Ganesha-1 natural gas discovery located in the northern area, which comprises an area of approximately 300 km².

Ganesha-1 - The natural gas discovery Ganesha-1, announced in January 2007, was drilled to a depth of 4,089 metres, encountering sandstone reservoir within the Cretaceous section. The well flow tested at a peak rate of 10.7 mmscfd. The Company published a competent person report, prepared by Gaffney, Cline & Associates, dated March 2011, which estimates gross 2C Contingent Resources of approximately 130 BCF.

Block KG-DWN-2001/1 (D9): Relinquished in 2012
(Hardy 10 per cent interest)

Operations – The D9 joint venture elected to surrender the off-shore exploration block in the Krishna Godavari basin. Following the integration of all geoscientific data and the results of the three exploration wells, including the KG-D9-A2 natural gas discovery, the block's hydrocarbon potential was deemed low. The MOPNG of the GOI has subsequently been notified of the joint venture's election to relinquish the block and payment has been made toward the unfinished minimum work programme.

¹ CY-OS/2 – In the event of a declaration of commerciality, the Government of India's nominee is entitled to assume a 30 per cent participating interest in the block. As a result Hardy's participating interest would be 52.5 per cent.

FINANCIAL REVIEW

Overview

During 2012, the Company recorded an operating loss of \$13.2 million and exited the year with cash and short-term investments of \$29.1 million with no debt. The Company currently plans to drill up to two exploration wells in 2013 which will be funded from existing cash resources.

Results for the year

The Company recorded a total comprehensive loss of \$11.1 million for the year ended 31 December 2012. No dividends were paid or declared during the period.

As a result of the extended shut-in of the PY-3 oil field no revenue from production was realised in 2012 compared to \$11.3 million revenue in 2011. The average sales price realised in 2011 was \$110.54 per barrel.

Cost of sales

Production cost amounted to \$0.3 million for the twelve months ended 31 December 2012. The cost is attributed to support services required during the shut-in of the PY-3 field.

Unsuccessful exploration costs

In April 2012 the Company surrendered its 10 per cent interest in the D9 exploration licence resulting in an unsuccessful exploration charge of \$5.4 million for the twelve months ended 31 December 2012 (2011: \$3.4 million).

Administrative expenses

Administrative expense was \$7.5 million compared to \$6.9 million for the same period in 2011. As part of the Company's strategic review we have moved our corporate office to Aberdeen, Scotland from London and reduced staff in the UK and India. These initiatives have reduced our underlying overhead expenditures leading into 2013.

Operating loss

The Company is reporting an operating loss of \$13.2 million for the twelve months ended 31 December 2012 compared with a loss of \$4.7 million for the same period in 2011.

Investment and other income

Investment and other income increased to \$0.8 million for the twelve months ended 31 December 2012 compared to \$0.4 million in 2011. The increase is mainly due to \$0.3 million interest received on tax refunds.

Taxation

No current tax was payable for the twelve months ended 31 December 2012. The Company has recorded a current tax credit of \$0.2 million and deferred tax credit of \$1.4 million against the pre tax loss of \$12.7 million for the year ended 31 December 2012. This compared to current tax credit of \$ 1.3 million a deferred tax credit of \$1.3 million for the same period in 2011.

Total Comprehensive loss

The Company recorded total comprehensive loss of \$11.1 million for the year ended 31 December 2012 compared to a total comprehensive loss of \$1.9 million for the same period in 2011.

Cash Flow from operating activities

The Company's cash outflow from operating activities \$7.1 million for the year ended 31 December 2012 compared with cash outflow from operating activities of \$3.4 million for the same period in 2011.

Capital Expenditure

The Group's capital expenditure during the twelve months ended 31 December 2012 amounted to \$1.5 million compared to \$6.5 million incurred for the same period in 2011. Capital expenditure was primarily associated with the compensation paid to the GOI towards the unfinished minimum work programme for the surrendered D9 exploration block. This capital expenditure was subsequently written-off.

Cash and Short-term Investments

The Company has cash and short-term investments of \$29.1 million on 31 December 2012 compared to \$36.5 on 31 December 2011. The Company has no debt.

Summary statement of financial position

The Company's non-current assets decreased from \$97.3 million at 31 December 2011 to \$95.1 million at 31 December 2012. This decrease is principally due to the write-off of the unsuccessful exploration cost of block D9 net of the deferred tax credit. Current assets represent the Group's cash resources, trade and other receivables and inventories which have decreased from \$39.7 million as at 31 December 2011 to \$32.5 million as at 31 December 2012. Current liabilities are principally trade and other account payables which remained unchanged at \$6.1 million at the end of 2012. . The Group has considered a contingent asset of \$24.6 million on the interest cost awarded by the arbitration tribunal for the block CY-OS/2 (note 13).

Dividend

The Directors do not recommend the payment of a dividend in the foreseeable future.

Accounting policies

The Company's significant accounting policies and details of the significant judgements and critical accounting estimates are disclosed within the note to the financial statements. In 2011 the Company changed to the successful efforts method of accounting for its oil and gas assets which allows for the capitalisation of successful exploration costs, whereas the dry hole and its associated geological and geophysical costs are written-off. The Company has not made any material changes to its accounting policies in the year ended 31 December 2012.

Liquidity risk management and going concern

The Company closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including changes in timing of developments and cost overruns of our exploration activity. At 31 December 2012, the Company had liquid resources of approximately \$29.1 million, in the form of cash and short-term investments, which is available to meet ongoing capital, operating and administrative expenditures. The Company's forecasts, taking into account reasonably possible changes as described above, show that the Company will have sufficient financial resources for the 12 months from the date of approval of the 2012 Annual Report and Accounts. At the present time, the Company does not have any debt.

2013 principal risks and uncertainties

The Board identifies the key risks for the Company and monitors mitigation plans and performance

on a regular basis. The Company has identified its principal risks for the next 12 months as being;

- Strategic risk – Asset portfolio over-weighted to long-cycle appraisal and development, sub-commercial exploration results
- Financial risk – Absence of stakeholder approvals for proposed development and appraisal programmes; liquidated damages for incomplete minimum work programmes
- Operational risk – A lose of well control could occur during offshore drilling operations, securing timely approval for a PY-3 full field development plan; lack of control of timing of exploration drilling, staff retention
- Compliance – Deteriorating stakeholder sentiment; changing regulatory and political environment in India

HARDY OIL AND GAS plc**Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012**

	Notes	2012 US\$	2011 US\$
Continuing Operations			
Revenue	3	-	11,279,596
Cost of Sales			
Production costs	4	(277,100)	(4,045,717)
Unsuccessful exploration costs		(5,358,471)	(3,432,734)
Depletion		-	(1,377,228)
Decommissioning charge		-	(210,303)
Gross (loss) profit		(5,635,571)	2,213,614
Administrative expenses		(7,516,316)	(6,877,035)
Operating loss	5	(13,151,887)	(4,663,421)
Interest and investment income	9	848,850	445,026
Finance costs	10	(361,224)	(382,569)
Loss before taxation		(12,664,261)	(4,600,964)
Taxation	11	1,595,070	2,723,010
Total comprehensive loss for the year attributable to owners of the parent		(11,069,191)	(1,877,954)
Loss per share			
Basic and diluted	12	(0.15)	(0.03)
Comprehensive loss per share			
Basic & diluted	12	(0.15)	(0.03)

HARDY OIL AND GAS plc**Consolidated Statement of Changes in Equity**

For the year ended 31 December 2012

	Share capital US\$	Share Premium US\$	Shares to be issued US\$	Retained earnings US\$	Total US\$
At 1 January 2011	719,225	117,940,279	5,596,421	3,014,004	127,269,929
Changes in equity for the year 2011					
Total comprehensive loss for the year	-	-	-	(1,877,954)	(1,877,954)
Share based payment	-	48,196	(1,339,895)	-	(1,291,699)
Share options exercised	250	57,979	-	-	58,229
Restricted shares issued	220	59,861	-	-	60,081
Issue of share capital	8,157	1,889,769	-	-	1,897,926
At 31 December 2011	727,852	119,996,084	4,256,526	1,136,050	126,116,512
Changes in equity for the year 2012					
Total Comprehensive loss for the year	-	-	-	(11,069,191)	(11,069,191)
Share based payment	-	5,654	757,785	-	763,439
Adjustment of lapsed vested options	-	-	(415,566)	415,566	-
Share options exercised	100	22,600	-	-	22,700
Restricted shares issued	2,375	587,613	-	-	589,988
At 31 December 2012	730,327	120,611,951	4,598,745	(9,517,575)	116,423,448

HARDY OIL AND GAS plc
Consolidated Statement of Financial Position
As at 31 December 2012

	Notes	2012 US\$	2011 US\$
Assets			
Non-Current assets			
Property, plant and equipment		5,947,203	5,886,118
Intangible assets – exploration	13	77,818,796	81,701,488
Intangible assets – others		4,536	10,380
Site restoration deposits		3,970,628	3,737,505
Deferred tax asset		7,385,911	6,001,302
Total non-current assets		95,127,074	97,336,793
Current assets			
Inventories		2,024,502	2,068,524
Trade and other receivables		1,410,976	1,129,872
Short-term investments		26,032,807	29,693,968
Cash and cash equivalents		3,052,150	6,804,018
Total current assets		32,520,435	39,696,382
Total assets		127,647,509	137,033,175
Equity and Liabilities			
Equity attributable to owners of the parent			
Share capital		730,327	727,852
Share premium		120,611,951	119,996,084
Shares to be issued		4,598,745	4,256,526
Retained (loss) earnings		(9,517,575)	1,136,050
Total equity		116,423,448	126,116,512
Non-current liabilities			
Provision for decommissioning		5,152,050	4,815,000
Current liabilities			
Trade and other payables		6,072,011	6,101,663
Total current liabilities		6,072,011	6,101,663
Total liabilities		11,224,061	10,916,663
Total equity and liabilities		127,647,509	137,033,175

HARDY OIL AND GAS plc
Consolidated Statement of Cash Flows
For the year ended 31 December 2012

	Notes	2012 US\$	2011 US\$
Operating activities			
Cash flow (used in) operating activities	6	(7,059,025)	(3,441,912)
Taxation refund / (paid)		606,926	(52,751)
Net Cash (used in) operating activities		(6,452,099)	(3,494,663)
Investing activities			
Expenditure on property, plant and equipment		-	727,734
Expenditure on intangible assets – exploration		(1,475,779)	(7,301)
Purchase of other fixed assets		(108,165)	(6,339)
Site restoration deposit		(233,123)	347,425
Short term investments		3,661,161	(1,544,472)
Net cash from (used in) investing activities		1,844,094	(482,953)
Financing activities			
Interest and investment income		857,611	457,579
Financial costs		(24,174)	(67,569)
Issue of shares		22,700	2,016,236
Net cash from financing activities		856,137	2,406,246
Net decrease in cash and cash equivalents		(3,751,868)	(1,571,370)
Cash and cash equivalents at the beginning of the year		6,804,018	8,375,388
Cash and cash equivalents at the end of the year		3,052,150	6,804,018

1. Accounting Policies

The following accounting policies have been applied in preparation of consolidated financial statements of Hardy Oil and Gas plc (“Hardy” or the “Group”). The domicile, country of incorporation, address of the registered office and a description of the Group’s principal activities can be found in the Director’s Report.

a) Basis of measurement

Hardy prepares its financial statements on a historical cost basis except as otherwise stated

b) Going Concern

The Group has in the past generated working capital from its production activities and successfully raised finance to provide additional funding for its ongoing exploration and development programmes. The Directors, having considered the guidance given in the document “Going concern and liquidity risk; Guidance for Directors” issued in October 2009 by the Financial Reporting Council, having reviewed the Group’s ongoing activities including its future intentions in respect of the drilling of exploration wells, having regard to the Group’s existing working capital position and its ability to potentially raise finance, if required, are of the opinion that the Group has adequate resources to enable it to undertake its planned work programme of exploration, appraisal and development activities over the next 12 months from the date of these financial statements.

c) Basis of Preparation

Hardy prepares its financial statements in accordance with applicable International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board as adopted by the European Union.

As at the date of approval of these financial statements, the following standards and interpretations were in issue but not yet effective:

Issued but not yet EU adopted

IFRS 9 - Financial instruments

Issued and EU adopted

IFRS 1 Amendments – Severe hyper inflation and removal of fixed dates for first time adoption

IFRS 7 (amended) - Financial instruments disclosures

IFRS 10 - Consolidated Financial Statements

IFRS 11 - Joint Arrangements

IFRS 12 - Disclosure of Interests in other entities

IFRS 13 - Fair Value Measurement

IAS 1 - (amended) – Presentation of items of other comprehensive income

IAS 12 - (amended) – Deferred tax: Recovery of underlying Assets

IAS 19 - (amended) – Employee Benefits
IAS 27 - Separate Financial Statements
IAS 28 – Investments in Associates and Joint Ventures
IAS 32 – (amended) –Financial instruments presentation
IFRIC 20 - Stripping costs in the production Phase of a surface mine

The Directors do not anticipate that the adoption of these standards and interpretations in future reporting periods will have a material impact on the Group's results.

d) Functional and presentation currency

These financial statements are presented in US dollars which is the Group's functional currency. All financial information presented is rounded to the nearest US dollar.

e) Basis of consolidation

The consolidated financial statement includes the results of Hardy Oil and Gas plc and its subsidiary undertakings. The Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows include the results and cash flows of subsidiary undertakings up to the date of disposal.

The Group conducts the majority of its exploration, development and production through unincorporated joint arrangements with other companies.

The consolidated financial statements reflect the Group's share of production revenues and costs attributable to its participating interest under the proportional consolidation method.

f) Revenue and other income

Revenue represents the sale value of the Group's share of oil (which excludes the profit oil sold and paid to the Government of India as a part of profit sharing) and the income from technical services to third parties if any. Revenues are recognized when crude oil has been lifted and title has been passed to the buyer or when services are rendered.

g) Joint ventures

The Group participates in several unincorporated joint ventures which involve the joint control of assets used in the Group's oil and gas exploration and production activities. The Group accounts for its share of assets, liabilities, income and expenditure of joint ventures in the Statement of Financial Position and Statement of Comprehensive Income as appropriate.

h) Oil and gas assets

i) *Exploration and evaluation assets*

Hardy has adopted the successful efforts based accounting policy for its oil and gas assets.

HARDY OIL AND GAS PLC
Notes to the Consolidated Financial statements - continued
For the year ended 31 December 2012

Costs incurred prior to acquiring the legal rights to explore an area are expensed immediately in the income statement.

Expenditure incurred in connection with and directly attributable to the acquisition, exploration and appraisal of oil and gas assets are capitalised for each licence granted under the production sharing contracts and are undepleted within intangible exploration assets until the validity to explore the contract area is ended or commercial reserves have been discovered.

Exploration expenditure incurred for geological and geophysical activities before the commencement of exploratory drilling is initially capitalised within intangible exploration assets. Exploration drilling costs are initially capitalised on a well-by-well basis until the success or otherwise of the well has been established. The success or failure is assessed on a well-by-well basis. Exploration well costs are written off on completion of the well unless the results indicate the presence of hydrocarbons which have reasonable commercial potential.

Following appraisal of successful exploration, if commercial reserves are established and technical feasibility for extraction is demonstrated, the related capital intangible exploration and appraisal costs are transferred into a cost centre within the Property Plant and Equipment – development assets after testing for impairment, if any. Where exploration well results indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs will be written-off to the income statement.

ii) Oil and gas development and producing assets

Development and production assets are accumulated on a field-by-field basis. These comprise the cost of developing commercial reserves discovered to put them on production and the exploration and evaluation costs transferred from intangible exploration and evaluation assets, as stated in the policy above. In addition, interest payable and exchange differences incurred on borrowings directly attributable to development projects, if any, and assets in the production phase, as well as cost of recognising provision for future restoration and decommissioning, are capitalised.

iii) Decommissioning

At the end of the producing life of a field, costs are incurred in removing and decommissioning facilities, plugging and abandoning wells. The full discounted cost of decommissioning is estimated and considered as an asset and liability. The decommissioning cost is included within the cost of property, plant and equipment development assets. Any revision in the estimated cost of decommissioning which alters the provisions required also adjusted in the cost of asset. The amortisation of the asset, calculated on a unit of production basis based on proved reserves, is shown as 'Decommissioning charge' in the Statement of Comprehensive Income and unwinding of the discount on the provision is included in the finance costs.

iv) Disposal of assets

Proceeds from any disposal of assets are credited against the specific capitalised costs included in the relevant cost pool and any loss or gain on disposal is recognised in the Statement of Comprehensive Income. Gain or loss arising on disposal of a subsidiary is also recorded in the Statement of Comprehensive Income.

i) Depletion and impairment

i) Depletion

The net book values of the producing assets are depreciated on a field by field basis using the unit of production method, based on proved and probable reserves. Hardy periodically obtains an independent third party assessment of reserves which is used as a basis for computing depletion.

ii) Impairment

Exploration assets are reviewed regularly for indications of impairment following the guidance in IFRS 6 Exploration and Evaluation of Mineral Resources, where circumstances indicate that the carrying value might not be recoverable. In such circumstances, if the exploration asset has a corresponding development / producing cost pool, then the exploration costs are transferred to the cost pool and depleted on unit of production. In cases where no such development/producing cost pool exists, the impairment of exploration costs is recognized in the Statement of Comprehensive Income. Impairment reviews on development / producing oil and gas assets for each field is carried out on each year by comparing the net book value of the cost pool with the associated discounted future cash flows. If there is any impairment in a field representing a material component of the cost pool, an impairment test is carried out for the cost pool as a whole. If the net book value of the cost pool is higher than the associated discounted future cash flows, the excess amount is recognized in the Statement of Comprehensive Income as impairment and deducted from the pool value.

j) Property, plant and equipment

Property, plant and equipment other than oil and gas assets are measured at cost and depreciated over their expected useful economic lives as follows:

	Annual Rate (%)	Depreciation Method
Leasehold improvements	over lease period	Straight line
Furniture and fixtures	20	Straight line
Information technology and computers	33	Straight line
Other equipment	20	Straight line

k) Intangible assets

Intangible assets other than oil and gas assets are measured at cost and depreciated over their expected useful economic lives as follows:

	Annual Rate (%)	Depreciation Method
Computer software	33	Straight line

Amortisation charges included within the administrative expenses.

l) Investments

Investments by the parent company in its subsidiaries are stated at cost.

m) Short term investments

Short term investments are regarded as “financial assets at fair value through profit or loss” and are carried at fair value. In practice, the nature of these investments is such that the fair value equates to the value of initial outlay and therefore in normal circumstances no fair value gain or loss is recognized in the Statement of Comprehensive Income.

n) Inventory

Inventory of crude oil is valued at the lower of average cost and net realizable value. Average cost is determined based on actual production cost for the year. Inventories of drilling stores are recorded at cost including taxes duties and freight. Provision is made for obsolete or defective items where appropriate, based on technical evaluation.

o) Financial instruments

Financial assets and financial liabilities are recognized at fair value in the Group’s Statement of Financial Position based on the contractual provisions of the instrument.

Trade receivables are not interest bearing and their fair value is deemed to be their nominal value as reduced by necessary provisions for estimated irrecoverable amounts.

Trade payables are not interest bearing and their fair value is deemed to be their nominal value.

p) Equity

Equity instruments issued by Hardy and the Group are recorded at net proceeds after direct issue costs.

q) Taxation

The tax expense represents the sum of current tax and deferred tax.

HARDY OIL AND GAS PLC
Notes to the Consolidated Financial statements - continued
For the year ended 31 December 2012

Current tax is based on the taxable profit of the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income as it excludes certain item of income or expenses that are taxable or deductible in years other than the current year and it further excludes items that are never taxable or deductible. The current tax liability is calculated using the tax rates that have been enacted or substantially enacted by the year end date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred income tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Deferred income tax liabilities are recognized for all temporary differences except in respect of taxable temporary differences associated with investment in subsidiaries, associates and interest in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is possible that the temporary differences will not reverse in the foreseeable future.

Deferred tax is recognized in respect of all temporary differences that have originated but not reversed at the year end date, where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted at the year end date.

r) Foreign currencies

Foreign currency transactions are accounted for at the exchange rate prevailing on the date of the transaction. At the year end date, all foreign currency monetary assets and monetary liabilities are restated at the closing rate. Exchange difference arising out of actual payments / realisations and from the year end restatement are reflected in the Statement of Comprehensive Income.

Rate of exchanges were as follows:

	31 December 2012	31 December 2011
£ to US\$	1.62	1.55
US\$ to Indian Rupees	55.01	53.24

s) Leasing commitments

Rental charges or charter hire charges payable under operating leases are charged to the Statement of Comprehensive Income as part of production cost over the lease term.

t) Share based payments

Hardy issues share options to Directors and employees, which are measured at fair value at the date of grant. The fair value of the equity settled options determined at the grant date is expensed on a straight line basis over the vesting period. In performing the valuation of these options, only conditions other than market conditions are taken into account. Fair value is derived by use of the binomial model. The expected life used in the model is based on management estimates and considers non-transferability, exercise restrictions and behavioural considerations. In case of lapsed vested options, the amount recognised in the shares to be issued is adjusted to the retained earnings as a reserve movement.

u) Contingent assets

Contingent assets are disclosed but not recognised where the receipt of income is probable but not virtually certain. The asset and related income is only then recognised in the period when the change occurs and the receipt becomes virtually certain.

2. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Intangible assets- exploration

Hardy has been awarded costs and interest after the conclusion of the arbitration on the CY-OS/2 block, in which it holds a 75 per cent participating interest. Hardy's share of these awards totals approximately \$24.8 million and has been disclosed as a contingent asset. This is regarded as a significant area of judgment and full details are disclosed in note 15 to these financial statements.

ii) Decommissioning

The liability for decommissioning is reviewed based on the updated current cost estimates of the decommissioning, which is predominated by the charter hire charges of drill ship and supply boats. Accordingly, the provision made in the books will reflect the risk free discounted future cost for decommissioning and this is an annual adjustment based on the changes in costs as a result of technical advancements and other factors. Further details are contained in note 23.

iii) Deferred Tax Asset

HARDY OIL AND GAS PLC
Notes to the Consolidated Financial statements - continued
For the year ended 31 December 2012

The deferred tax asset will be realised with the recommencement of production from PY-3 field and also from the production of oil and gas from those areas which are available for commercial development. Further details are contained in note 13.

3. Segment analysis

The Group is organised into two business units as at end of the year: India and United Kingdom. The India business unit is operated by the wholly owned subsidiary, Hardy Exploration & Production (India) Inc. and Hardy Oil and Gas plc operates in the United Kingdom.

The India business unit focuses on exploration and production of oil and gas assets in India. The United Kingdom business unit is the holding company. Management monitors these business units separately for resource allocation, decision making and performance assessment.

	India	UK	2012 US\$ Inter-Segment elimination	Total
Revenue				
Other income	-	-	-	-
Operating loss	(9,223,442)	(3,928,445)	-	(13,151,887)
Interest income	754,707	94,143	-	848,850
Interest on inter corporate loan	-	1,121,145	(1,121,145)	-
Finance costs	(361,224)	-	-	(361,224)
Interest on inter corporate loan	(1,121,145)	-	1,121,145	-
Loss before taxation	(9,951,104)	(2,713,157)	-	(12,664,261)
Taxation	793,183	801,887	-	1,595,070
Loss for the year	(9,157,921)	(1,911,270)	-	(11,069,191)
Segment assets	102,570,256	25,077,253	-	127,647,509
Inter Corporate loan	-	100,661,878	(100,661,878)	-
Segment liabilities	(11,003,670)	(220,391)	-	(11,224,061)
Inter corporate borrowings	(100,661,878)	-	100,661,878	-
Capital Expenditure	1,475,779	108,165	-	1,583,944
Unsuccessful exploration costs	(5,358,471)	-	-	(5,358,471)
Depreciation, depletion and amortisation	(17,828)	(35,096)	-	(52,924)

HARDY OIL AND GAS PLC
Notes to the Consolidated Financial statements - continued
For the year ended 31 December 2012

	India	UK	2011 US\$ Inter- Segment elimination	Total
Revenue				
Oil sales	15,796,702	-	-	15,769,702
Profit oil to government	(4,732,595)	-	-	(4,732,595)
Management fees	-	180,000	(180,000)	-
Management fees	(180,000)		180,000	-
Other income	46,038	169,451	-	215,489
	10,930,145	349,451	-	11,279,596
Operating loss	(2,886,699)	(1,776,722)	-	(4,663,421)
Interest income	366,657	78,369	-	445,026
Interest on inter corporate loan	-	1,119,894	(1,119,894)	-
Interest on inter corporate loan	(1,119,894)		1,119,894	-
Finance costs	(382,569)	-	-	(382,569)
Loss before taxation	(4,022,505)	(578,459)	-	(4,600,964)
Taxation	2,709,935	13,075	-	2,723,010
Loss for the year	(1,312,570)	(565,384)	-	(1,877,954)
Segment assets	104,569,369	32,463,806	-	137,033,175
Inter Corporate loan	-	93,842,704	(93,842,704)	-
Segment liabilities	(10,761,308)	(155,355)	-	(10,916,663)
Inter corporate borrowings	(93,842,704)	-	93,842,704	-
Capital Expenditure	(718,138)	4,044	-	(714,094)
Unsuccessful exploration costs	(3,432,734)	-	-	(3,432,734)
Depreciation, depletion and amortization	(1,609,225)	(29,199)	-	(1,638,424)

The Group is engaged in one business activity, the production of and exploration for oil and gas. Other income relates to technical services to third parties, overhead recovery from joint venture operations and miscellaneous receipts, if any. Revenue arises from the sale of oil produced from the contract area CY-OS-90/1 India and the revenue by destination is not materially different from the revenue by origin.

HARDY OIL AND GAS PLC
Notes to the Consolidated Financial statements - continued
For the year ended 31 December 2012

4. Cost of Sales

Production cost included in the cost of sales consists of:

	2012	2011
	US\$	US\$
Opening stock of crude oil	-	389,801
Cost of crude oil produced	277,100	3,655,916
Closing stock of crude oil	-	-
Production cost	277,100	4,045,717

5. Operating loss

Operating loss is stated after charging:

	2012	2011
	US\$	US\$
Unsuccessful exploration costs	5,358,471	3,432,734
Depletion charge of property, plant and equipment-producing	-	1,377,228
Decommissioning charge of property, plant and equipment-producing	-	210,303
Depreciation charge of property, plant and equipment-others	52,924	50,893
Provision for irrecoverable costs	1,073,402	2,333,148
Movement in inventory of oil	-	389,801
Operating lease costs		
- Plant and machinery	-	2,207,631
- Land and buildings	358,631	440,732
External auditors' remuneration		
- Fees payable to the company's auditors for the audit of the Company's annual accounts.	72,655	61,910
- Fees payable to the company's auditors and its associates for other services.	-	-
- Audit related assurance services	13,103	13,021
Exchange loss	142,373	910,641

The provision for potentially irrecoverable costs relates to the costs potentially irrecoverable from the parties to a production sharing contract for which budget approval is pending from the concerned parties. This provision is contained in administrative costs.

The Group has a policy in place for the award of non-audit services to be provided by the auditors, which requires approval of the Audit Committee.

HARDY OIL AND GAS PLC
Notes to the Consolidated Financial statements - continued
For the year ended 31 December 2012

6. Reconciliation of operating profit (loss) of continuing operations to operating cash flows

	2012	2011
	US\$	US\$
Operating loss	(13,151,887)	(4,663,421)
Unsuccessful exploration costs	5,358,471	3,432,734
Depletion and depreciation	52,924	1,428,121
Decommissioning charge	-	210,303
Share based payments	972,464	(1,269,420)
	(6,768,028)	(861,683)
Decrease in inventory	44,022	430,667
(Increase) / decrease in trade and other receivables	(305,367)	4,223,777
(Decrease) in trade and other payables	(29,652)	(7,234,673)
Cash (used in) operating activities	(7,059,025)	(3,441,912)

7. Staff costs

	2012	2011
	US\$	US\$
Wages and salaries	2,363,548	3,003,506
Social security costs	269,081	292,388
Share based payments charge	419,254	(1,291,699)
	3,051,883	2,004,195

Staffs costs, including executive Directors' salaries, fees, benefits and share based payments, are shown gross before amounts recharged to joint ventures.

The average monthly number of employees, including executive Directors and individuals employed by the Group working on joint venture operations are as follows:

	2012	2011
Management and administration	17	19
Operations	12	18
	29	37

8. Share based payments

Share options have been granted to subscribe for Ordinary Shares of US\$0.01 each in the capital of the Company, which are exercisable between 2012 and 2023 at prices of £1.19 to £7.69 per Ordinary Share.

HARDY OIL AND GAS PLC
Notes to the Consolidated Financial statements - continued
For the year ended 31 December 2012

Hardy has an unapproved share option scheme for the Directors and employees of the Group. Options are exercisable at the quoted market prices of the Company's shares on the date of grant. The vesting period is three years with a stipulation that the options are granted in proportion to the period of employment after the grant subject to a minimum of one year, or, with respect to options from 2010 onwards, the period is three years. The options are exercisable for a period of 10 years from the date of grant. Details of the share options outstanding during the years are as follows:

	2012		2011	
	Number of options	Weighted average price	Number of options	Weighted average price
Outstanding at beginning of the year	3,393,399	£ 2.64	4,453,399	£ 2.80
Granted during the year	800,000	£ 1.52	-	-
Forfeited/lapsed during the year	(556,466)	£ 2.15	(1,035,000)	£ 3.85
Exercised during the year	(10,000)	£ 1.44	(25,000)	£ 1.44
Outstanding at the end of the year	3,626,933	£ 2.47	3,393,399	£ 2.64
Exercisable at the end of the year	2,147,933	£ 2.94	2,708,399	£ 2.77

The aggregate of the estimated fair values of the options granted and outstanding as at 31 December 2012 is US\$ 6,235,811. The inputs into the binomial model for computation of value of options are as follows:

Share price at grant date	Varies from £ 1.19 to £ 7.69
Option exercise price at grant date	Varies from £ 1.19 to £ 7.69
Expected volatility	8%– 40%
Expected life	6 - 8 years from grant date
Risk free rate	0.50% - 4.70%
Expected dividend	Nil

Expected volatility was determined by calculating Hardy's historical volatility. The expected life used has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. Details of outstanding options at the end of the year with the weighted average exercise (WAEP) price as follows:

	2012		2011	
	Number	WAEP	Number	WAEP
2005-2016	1,240,933	£ 1.51	1,771,399	£ 1.68
2006-2017	30,000	£ 3.02	30,000	£ 3.02
2007-2018	600,000	£ 3.70	630,000	£ 3.67
2008-2019	277,000	£ 7.69	277,000	£ 7.69
2010-2021	679,000	£ 2.12	685,000	£ 2.12
2012-2023	800,000	£ 1.52	-	-

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On 14 March 2012, the Company issued 182,342 restricted Ordinary Shares having a face value of US\$0.01 per share and an aggregate market value of US\$ 452,963 (£ 282,630) to Mr. Alasdair Locke and issued 30,000 restricted Ordinary Shares having a face value of US\$0.01 per share and an aggregate market value of US\$ 74,524 (£ 46,500) to Mr. Peter Milne upon their appointments as a Non-Executive Directors. The cost of issuing such shares is charged to the Statement of Comprehensive Income over a three year period from the date of issue. During 2012, an amount of US\$ 146,524 has been expensed with the remaining amount of US\$ 380,963 transferred to prepayments.

The Group has expensed a net amount of US\$ 972,464 in the current year (2011: (US\$ 1,269,420) towards equity settled share based payments. Equity shares to be issued are re-valued at the exchange rate as at 31 December 2012. The revaluation loss for the year 2012 is US\$ 252,665 (2011: US\$ 411,475). The value of shares to be issued as at 31 December 2012 is US\$ 4,598,745 (2011: US\$ 4,256,526).

9. Interest and investment income

	2012	2011
	US\$	US\$
Bank interest	525,481	409,180
Other interest income	273,243	-
Dividend	50,126	35,846
	848,850	445,026

10. Finance costs

	2012	2011
	US\$	US\$
Bank guarantee charges	24,174	67,569
Other finance costs	337,050	315,000
	361,224	382,569

HARDY OIL AND GAS PLC
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11. Taxation

a) Analysis of taxation (credit) for the year

	2012	2011
	US\$	US\$
Current tax charge		
UK corporation Tax	-	-
Foreign Tax – India	(180,912)	-
Minimum alternate tax	(29,549)	(1,359,390)
Foreign tax - USA	-	-
Total current tax (credit)	(210,461)	(1,359,390)
Deferred tax (credit)	(1,384,609)	(1,363,620)
Taxation (Credit)	(1,595,070)	(2,723,010)

	2012	2011
	US\$	US\$
Deferred tax (credit) charge	-	-
Origination and reversal of temporary differences	(1,384,609)	(1,363,620)

Deferred tax analysis:

	2012	2011
	US\$	US\$
Difference between accumulated depletion, depreciation and amortization and capital allowances	3,909,448	2,811,865
Other temporary differences	3,476,463	3,189,437
Deferred tax asset	7,385,911	6,001,302

b) Factors affecting tax charge for the year

	2012	2011
	US\$	US\$
Loss before taxation from continuing operations	(12,664,261)	(4,600,964)
Profit before taxation multiplied by the rate of tax in UK of 23%	-	-
Foreign tax on overseas income – current year	-	-

Indian operations of the Group are subject to a tax rate of 42.024 per cent which is higher than UK and US corporations tax rates. To the extent that the Indian profits are taxable in the US and/or the UK, those territories should provide relief for Indian taxes paid, principally under the provisions of double taxation agreements. Based on the current expenditure plans, the Group anticipates that the tax allowances will continue to exceed the depletion charge of each year, though the timing of related tax relief is uncertain.

HARDY OIL AND GAS PLC
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12. Loss per share

Loss per share is calculated on a loss of US\$ 11,069,191 for the year 2012 (2011; US\$ 1,877,954) on a weighted average of 72,984,352 Ordinary Shares for the year 2012 (2011: 72,531,961). No diluted loss per share is calculated.

Comprehensive loss per share is calculated on a loss of US\$ 11,069,191 for the year 2012 (2011; US\$ 1,877,954) on a weighted average of 72,984,352 Ordinary Shares for the year 2012 (2011: 72,531,961).

No diluted loss per share on loss attributable to parent company for the year 2012 and 2011 is calculated.

13. Intangible assets - exploration

	India US\$
Costs and net book value	
At 1 January 2011	85,126,921
Additions	6,503,223
Reversal of charges	(6,495,922)
Unsuccessful exploration costs	(3,432,734)
At 1 January 2012	81,701,488
Additions	1,475,779
Unsuccessful exploration cost	(5,358,471)
At 31 December 2012	77,818,796

In March 2009, Hardy were informed by the Government of India that the block CY-OS/2, in which Hardy holds a 75 per cent participating interest, was relinquished as Hardy had failed to declare commerciality within the two years from the date of discovery which is applicable to an oil discovery. Hardy disputed this ruling believing that the discovery was a gas discovery and consequently that it was entitled to a period of five years from the date of discovery to declare commerciality. As no agreement was reached the dispute was referred to arbitration under the terms of the PSC.

The arbitrators ruled on 2 February 2013 that the discovery was a gas discovery and consequently that the order for the relinquishment of the block was illegal. The arbitrators have ordered the Government of India to restore the block to Hardy and its partners and to allow them a period of three years from the date of restoration to complete the appraisal programme. In addition, the arbitrators awarded costs of \$0.2 million and interest on the exploration expenditure incurred to date. Hardy's 75 per cent share of the interest awarded is approximately \$24.6 million. As the award was only received in February 2013 and as the Government of India has not yet indicated to Hardy the acceptance of the arbitration award the above amounts will be accounted for when their receipt is virtually certain and therefore it is currently treated as a contingent asset.

HARDY OIL AND GAS PLC
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The details of the intangible assets stated above are as follows:

	US\$
Exploration expenditure – block CY-OS/2	51,023,493
Exploration expenditure – block KG-DWN-2003/1 (D3)	21,746,583
Exploration expenditure – block GS-OSN	5,048,720
Total	77,818,796

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RESERVES AND RESOURCES

Due to limited drilling activity in 2012 and the uncertainty surrounding the recommencement of production in the PY-3 asset, the Company has taken the decision to postpone the updating of a competent person's report until further data is acquired. The estimates provided in the Company's 2011 CPR are provided below.

Reserves (Proven Plus Probable)

Net PY-3 oil production from 31 December 2010 to 31 December 2012 was 129 MBbl.

				31 December 2010	
RESERVES (Proven + Probable) ¹				Gross	Net⁴
PY-3 ²	Producing	Oil	MMBbl	15.1	2.1
Total Reserves (Proven + Probable)				15.1	2.1

Notes:

1. The GCA has used the Petroleum Resources Management System published by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers in March 2007 (SPE PRMS) as the basis for its classification and categorisation of hydrocarbon volumes.
2. On 19 April 2007, the PY-3 joint venture management committee had approved gross expected ultimate 2P oil Reserves of 44.4 MMBbl. As of 31 December 2010 the field had produced 24.1 MMBbl giving 2P oil Reserves of 20.3 MMBbl, about 5 MMBbl higher than the 2P estimate by GCA.
3. The Company has filed the GCA Competent Persons Report (March 2011) with the Directorate General of Hydrocarbons, of the Ministry of Petroleum and Natural Gas, of the Government of India ('DGH').
4. Net entitlement reserves are reserves based on Hardy's entitlement of cost oil plus a share of profit oil.

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Contingent Resources (2c)

Net 2C gas Contingent Resources are 175 BCF.

CONTINGENT RESOURCES (2C) ¹				31 December 2010	
				Gross	Net
GS-01	B1 (Dhirubhai 33)	Gas	BCF	83.0	8.3
CY-OS/2 ^{2,3}	Ganesh 1	Gas	BCF	130.0	97.5
D3	A1 (Dhirubhai 39)	Gas	BCF	210.0	21.0
D3	B1 (Dhirubhai 41)	Gas	BCF	213.0	21.3
D3	R1 (Dhirubhai 44)	Gas	BCF	98.0	9.8
D3	W1 (Dhirubhai 52)	Gas	BCF	162.4	16.2
GS-01	B1 (Dhirubhai 33)	Oil	MMBbl	1.85	0.19

Total Contingent Resources ¹ (2C)	Gas	BCF	896.4	174.1
	Oil	MMBbl	1.85	0.19

Notes

1. GCA has used the Petroleum Resources Management System published by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers in March 2007 (SPE PRMS) as the basis for its classification and categorisation of hydrocarbon volumes.
2. With respect to Ganesh-1 (CY-OS/2) non-associated natural gas discovery, in 2010 the Group formally commenced arbitration proceedings pursuant to dispute resolution provisions of the governing PSC regarding a licence extension request.
3. In the event of a commercial development of a discovery, ONGC has the option to back-into the CY-OS/2 licence at an interest of 30 per cent.

HARDY OIL AND GAS PLC
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Prospective Resources

Net Best Estimate Risked Prospective Resources are 494 BCF

				31 December 2010	
Risked Prospective Resources (Best Estimate)^{1, 2}				Gross	Net
CY-OS/2 ^{3, 4}	Prospects	Gas	BCF	113	84
GS-01	Prospects	Gas	BCF	142	14
D3	Prospects and Leads	Gas	BCF	3,959	396

Total Risked Prospective Resources (Best Estimate)^{1, 2}		Gas	BCF	4,214	494
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Notes:

- 1. Aggregated risked Prospective Resources have been derived by Hardy and are not aggregated or provided as risked volumes by GCA.**
- The GCA has used the Petroleum Resources Management System published by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers in March 2007 (SPE PRMS) as the basis for its classification and categorisation of hydrocarbon volumes.
- With respect to Ganesha-1 (CY-OS/2) non-associated natural gas discovery, in 2010 the Group formally commenced arbitration proceedings pursuant to dispute resolution provisions of the governing PSC regarding a licence extension request.
- In the event of a commercial development of a discovery, ONGC has the option to back-into the CY-OS/2 licence at an interest of 30 per cent.

DEFINITIONS & GLOSSARY OF TERMS:

Board	the Board of Directors of Hardy Oil and Gas plc
BP	BP plc
the Company	Hardy Oil and Gas plc
CPR	Competent Persons Report
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
Group	the Company and its subsidiaries
GS-01	licence GS-OSN-2000/1
Hardy	Hardy Oil and Gas plc
HEPI	Hardy Exploration & Production (India) Inc
HSE	Health Safety and Environment
LSE	London Stock Exchange
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
MoPNG	Ministry of Petroleum and Natural Gas of the Government of India
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
Ordinary Shares	the ordinary share of US\$0.01 each in the capital of the Company
PSC	production sharing contract
PY-3	licence CY-OS-90/1
Reliance	Reliance Industries Limited

Glossary of terms:

\$	United States dollars
2D/3D	two dimensional/three dimensional
API°	American Petroleum Institute gravity
bbl	stock tank barrel
bbl/d	stock tank barrel per day
DST	drill stem test
DWT	dead weight tonne
GOR	gas to oil ratio
km	kilometre
km ²	squared kilometre
m	metre
MD	measured depth
MDT	modular formation dynamics tester
MMscfd	million standard cubic feet per day
MMbbl	million stock tank barrels
MMbbl/d	million stock tank barrels per day
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
psi	pounds per square inch
scf	standard cubic feet
scfd	standard cubic feet per day

NOTES TO THE EDITORS

Hardy Oil and Gas plc is an upstream oil and gas company focused on 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 is the operator of an offshore oil field and an exploration block in India's Cauvery basin. Hardy also has interests in two offshore exploration blocks in India's Saurashtra and Krishna Godavari basins.

Hardy is incorporated under the laws of the Isle of Man and headquartered in Aberdeen, 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.



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