



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

Preliminary Results for the period ended 31 March 2014

Hardy Oil and Gas plc (LSE: HDY), the oil and gas exploration and production company focused in India, reports its Preliminary Results for the fifteen months ended 31 March 2014.

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

SUMMARY

- India's demand for natural gas is expected to more than triple to 500 MMscmd by 2022 with domestic supply projected to fall well short of expected demand, creating a robust environment in which to monetise the Company's current and potential gas discoveries.
- The recent national elections in India have provided a clear majority government with an unprecedented mandate to see through its plans. Energy supply and security is continuing to be an active topic on the national agenda. Realising the full potential of India's hydrocarbon resources will require continued participation of independent operators, service providers and government.

2013/14 - Operations

Through 2013/14 we have made progress on a number of initiatives set out for our India focused portfolio.

- The Company's activities have been focused on the finalisation of the PY-3 comprehensive Field Development Plan (FDP) that will enable us to meet our target to recommence production in early 2015.
- The GS-01 operator notified the Government of India (GOI) that it intends to relinquish its participating interest in the block. Hardy is continuing to pursue the acquisition of the operator's participating interest and progress the approval of the proposed FDP. Dialogue with government bodies continues regarding the approval of this transfer, and consideration of the Field Development Plan submitted by Hardy in late 2012.
- The CY-OS/2 arbitration award in our favour was a very positive development.
- The exploration drilling programme at D3 was pushed to 2014 due to the lack of rig availability. The joint venture applied for a 12 month extension to exploration Phase I and the Declaration of Commerciality for the Dhirubai 39 and 41 natural gas discoveries is with the GOI.

2013/14 – Financial/Corporate

- To improve reporting efficiencies the Board agreed to synchronise the Group's accounting reference date to 31 March.
- No revenue was realised due to the continued shut-in of PY-3. Net cash used in continuing operating activities was \$4.7 million and exploration related expenditures amounted to \$0.2 million.
- Cash and short-term investments at 31 March 2014 amounted to \$24.7million (2012: \$29.1 million) and no debt
- Loss before taxation for the 15 months ended 31 March 2014 amounted to \$5.4 million (12 months ended 31 December 2012: loss of \$12.7 million)
- The Group remains in a strong financial position with no debt.

- The Board adopted a new Code of Business Conduct and amended its Committees' terms of reference in accordance with the UK Corporate Governance Code.
- In February 2014 the Company announced the appointment of Mr Ananth Kumar as a non-executive director of HEPI (a wholly owned subsidiary of Hardy).

2014 Outlook

Our primary objectives remain to secure key stakeholders' approvals and initiate activity that will take us closer to realising production from our portfolio of assets.

- PY-3 - Secure approval of the FDP from the GOI after which we intend to target the recommencement of production in early 2015.
- GS-01 - Conclude discussions with our joint venture partner to acquire their participating interest in the block.
- CY-OS/2 - Hardy will recommence work on the appraisal of the Ganesha-1 natural gas discovery once the block has been restored to the CY-OS/2 joint venture.
- D3 - exploration drilling is expected to re-commence by the end of 2014.

The working capital position of the Company remains strong and we are well funded to meet our planned work programmes.

Commenting on the results, Alasdair Locke, Chairman of Hardy, said: "While the Company faced a series of headwinds over the past 15 months, our commitment to developing our assets and meeting the growing energy demands in India remains steadfast. We have strengthened our Corporate Governance practices and are well positioned to undertake our planned work programme of exploration, appraisal and development activities over the next 12 months as well as benefit from the significant changes in the political and wider economic environment taking place in our target market. It is because of this back-drop that we are indeed optimistic."

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CHAIRMAN'S STATEMENT

Introduction

In general, listed independent exploration and production companies underperformed against the market in the past year and unfortunately Hardy is no exception. The Company's India focused asset portfolio has good underlying value and our objectives for realising this have not changed, however advancement of our strategy has been slower than we had hoped. We have in place clear business plans for each asset and continue to focus on conservation of capital whilst these plans develop.

Markets – India focus

India's demand for natural gas is expected to more than triple to 500 MMscmd by 2022. This will be driven by requirements of the power, fertiliser and other industries. Furthermore, the CNG and city gas sector is projected to see a quantum growth in natural gas use and it is expected that by 2017, over 300 cities will be covered with city gas distribution.

Currently India is the fifth largest importer of LNG which accounts for approximately 35 per cent of supply. Global LNG markets are expected to remain constrained through 2020 due to environmental concerns of other energy sources in other Asian countries and the uncertainty regarding Japan's energy supply strategy. Domestic supply is projected to be 231 MMscmd in 2022, falling well short of expected demand and creating a robust environment in which to monetise the Company's current and potential gas discoveries.

Importantly, the general election has given a clear majority to a new government based on an aspirational platform with a key objective to accelerate economic growth. Energy supply is expected to be an important consideration and in particular policy and regulation to optimise domestic production. Leading economists and industry analysts concur that timely migration to a "free market" pricing mechanism will facilitate long term objectives of the Government.

It is with this back-drop that we are indeed optimistic. The interests and objectives of the ministry and regulator may be better aligned going forward. Additionally, the Association of Oil and Gas Operators (AOGO) has developed into an effective platform for the industry to articulate a common view on effective policies to complement efforts to fully explore and develop India's natural resource potential.

Performance

To improve reporting efficiencies the Board agreed to synchronise the Group's accounting reference date to 31 March. As a result, we are publishing 15 month results for the period ending 31 March 2014. No revenue was realised due to the continued shut-in of PY-3. Net cash used in continuing operating activities was \$4.7 million. Exploration related expenditures amounted to \$0.2 million and interest and investment income was \$0.7 million. As a result, the Group's cash reserves at 31 March 2014 decreased to \$24.7 million. The Group remains in a strong financial position with no debt.

Governance

We undertook a number of initiatives to improve our corporate governance practices. Earlier in the period the Board adopted a new Code of Business Conduct (the Code). The Board also amended its Committees' terms of reference in accordance with the UK Corporate Governance Code (the UK Code). I maintain contact with major shareholders and we continue to evaluate our governance practices to ensure they are appropriate for a Company of our size and resources.

Following the resignation of the CFO of Hardy Exploration & Production (India) Inc (HEPI), Mr MacKenzie, Chief Executive Officer, and Mr Galvin, Treasurer & Corporate Affairs Executive, assumed his responsibilities regarding management oversight and leadership of our Indian operation. As an interim measure Hardy has secured the services of India based financial consultants to oversee and manage the running of the accounting function.

We are pleased that Mr Ananth Kumar agreed to join as a non-executive director of HEPI. Mr Kumar has over 30 years' experience in the oil and gas sector in financial, commercial and business aspects. He is a former Director of Finance of Oil India Limited, India's second largest exploration and production state enterprise. He is a qualified chartered accountant and a member of the Institute of Chartered Accountants of India.

Risk management

The Board has established a clear and robust process to identify and manage keys risks to our business objectives. We have formed a sub-committee to monitor the Group's risk and uncertainties processes. The Risk Committee is chaired by the Executive Director and reports its findings to the Audit Committee. The following principal risks facing the Group in the near-term remain: exploration risk inherent to any oil and gas business; the timing or execution of activities may not commence as forecast and delays may be experienced; and, the possible relinquishment of exploration and appraisal acreage.

Outlook

This year our objectives are to secure the necessary approvals, and commence planning, for development drilling in PY-3; conclude the transfer of interest from our partner in GS-01; and, participate in the drilling of an exploration well on our D3 block. Activity on CY-OS/2 will recommence subject to restoration of the block in accordance with the arbitration award. We will continue to reassess our overall strategic objectives to ensure that they remain relevant and achievable with the Company's current portfolio. The Board's monitoring of risk and uncertainties will be enhanced and management have been provided with a regular reporting structure from the executive.

The Company is in good financial health and the Directors 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.

On behalf of the Board I would like to thank our shareholders for their continued support.

Alasdair Locke

Chairman

11 June 2014

CHIEF EXECUTIVE'S STRATEGIC REVIEW

Introduction

Through 2013/14 we have made progress on a number of initiatives set out for our India focused portfolio. The CY-OS/2 arbitration award in our favour was very positive and we have made good progress with advancing the PY-3 field development plan. The exploration drilling programme at D3 was pushed to 2014, due to the lack of rig availability. The Group realised a reduction in loss due in part to measures taken in the second half of 2012 to minimise administrative expenditure.

Our Strategy

Hardy's India focused asset portfolio provides a good platform from which to create significant shareholder value. The outcome of planned activity through 2014 and 2015 is expected to verify 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.

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 potentially diversify the Company's portfolio.

Health Safety and Environment (HSE)

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 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.

Implementation

The Company's activities have been focused on the finalisation of the PY-3 comprehensive Field Development Plan (FDP) which will enable us to meet our target to recommence production in 2015. The cooperation of our joint venture partners has allowed Hardy to make good progress towards this goal although there remain key commercial considerations regarding levy obligations which need to be resolved by and between the Licensee and the GOI prior to the FDP being formally considered. In this regard we were moving towards a consensus amongst the partners unfortunately the duration of India's national election process combined with the Country's Model Code did taper momentum over the past months. There remain some contractual clarifications required particularly surrounding term of the PSC, quantum of levies to apply and their treatment as a contract cost. We are optimistic that progress will be made in the near future.

The KG-D3 joint venture continued to progress a number of geotechnical studies focused on assessing the potential of the eastern area and the high grading of identified prospects. In accordance with GOI policy, an application to extend the exploration phase of the block to the end of 2014 was submitted to the GOI. Confirmation of extension is outstanding however the approval of the initial six month extension was received in the first quarter of 2014. India's Ministry of Defence (MOD) notified the joint venture that a portion of the southwest area of the block has been identified as a Defence Research & Development Organisation (DRDO) impact zone. As a result, access to this portion of the block may be restricted from time-to-time.

CY-OS/2 arbitration concluded with the Hon'ble Tribunal award in favour of the joint venture. The GOI has subsequently filed an appeal against the international award in the High Court of Delhi and

this action has caused a delay in the restoration of the block and recommencement of appraisal activity. We have filed an execution application in the Delhi High Court since the Company believes that the unanimous international tribunal award is well reasoned and, as per the India Arbitration & Conciliation Act 1996, may not be subject to appeal in Indian courts. Hardy currently recognises a contingent asset of \$36.0 million associated with the Tribunal's award of interest on investment.

The GS-01 operator notified the GOI that it intends to relinquish its participating interest in the block. In accordance with our joint operating agreement, Hardy is entitled to assume the interest of a withdrawing party. The Company is continuing to pursue the acquisition of the operator's participating interest and progress the approval of the proposed FDP. Dialogue with government bodies continues regarding the approval of transfer and consideration of the Field Development Plan submitted by Hardy in late 2012.

Financial Results

The Group is reporting a total comprehensive loss of \$4.8 million for the fifteen months ended 31 March 2014. In 2012 we successfully implemented steps to reduce our overhead. Administrative expense for the reporting period was \$6.2 million in 2013/14. As a result the Group's cash and short-term investments position reduced by \$4.4 million to \$24.7 million. Capital expenditure was nominal due to limited exploration activity. The Group has no debt, and is well funded to meet its future work commitments.

Outlook

Our primary objectives remain to secure key stakeholders' approvals and initiate activity that will take us closer to realising production from our portfolio of assets and recommence D3 exploration drilling by the end of 2014. We have clear deliverables for each asset and management are fully accountable for the implementation of the agreed plans. Energy demand in India continues to grow at an exceptional rate and the GOI has stated that energy security is a priority. We are optimistic that policy will continue to evolve to facilitate the timely exploitation and development of the country's natural resources.

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.

Ian MacKenzie

Chief Executive Officer

11 June 2014

MARKET OVERVIEW

Hardy's assets are based solely in India and the Company is contractually obliged to sell all produced petroleum into the Indian market.

India

Over the next five years India's annual GDP growth is projected to average 6.5 per cent¹, domestic gas supply is projected to fall short of expected demand creating a robust environment to monetise gas discoveries.

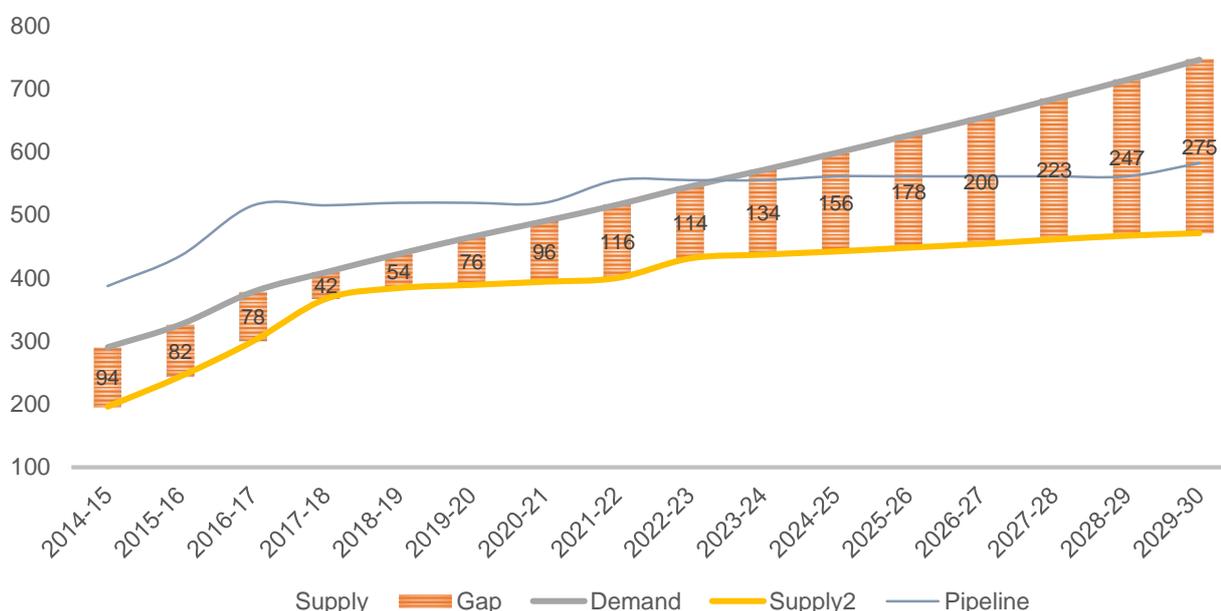
¹ *Global Economic Prospects, World Bank, January 2014*

India is the fourth largest consumer of energy in the world and India and China accounted for 90 per cent of the net increase in global energy consumption². India's demand for natural gas is expected to more than triple by 2022 to over 500 MMscmd and domestic supply is projected to fall well short of expected demand (see Fig. 1).

² *Statistical Review of World Energy, BP, 2013*

India's sedimentary basins are under-explored and significant accumulations of hydrocarbons remain to be found. India has an estimated sedimentary area of 3.14 million km² comprising 26 sedimentary basins. Estimates suggest that as much as 130 billion barrels of oil and gas equivalent are yet to be found.

Fig. 1, India natural gas supply vs demand projections



Source: "Vision 2030" Natural gas infrastructure in India, Petroleum & Natural Gas Regulatory Board (PNGRB)

Gas pricing

The NELP production sharing contract (PSC), that governs the Group's assets, provides for natural gas to be sold at arm's length prices, with "arm's length" defined as sales made freely in the open market between willing and unrelated sellers and buyers, and that the pricing formula be approved by the GOI taking into account the prevailing policy on natural gas.

In June 2013, the Cabinet Committee of Economic Affairs of the GOI approved a new pricing formula for domestic gas sales in India, based on the recommendations of the Rangarajan Committee. The pricing formula is based on the average of the prices of imported LNG into India and the weighted

average of gas prices in North America, Europe and Japan. Using the approved price formula, the price effective for April 1, 2014 is estimated at around \$8.40/MMbtu, double the price of \$4.20/MMbtu for current gas sales from Reliance Industries Ltd's KG-D6 Block. The pricing terms of the Petronet contracts are expected to result in further increases in the gas prices in future quarters, assuming current pricing levels of JCC, U.S. Henry Hub, U.K. National Balancing Point and Japan LNG imports.

Global oil pricing

Brent oil prices continued to trade in a relatively narrow band between \$100 and \$110 per barrel as the perception of a slowdown in demand growth, particularly in China, India and the Middle East, was offset by supply side concerns driven by potential political instability in the Middle East and North Africa. Global economic activity and world trade are showing signs of a measured recovery. There is evidence that the upstream cost environment is stabilising following several years of considerable cost inflation.

Empowered

The recent national elections have provided a clear majority government with an unprecedented mandate to see through its plans. Energy security is continuing to be an active topic on the national agenda. Industry has been providing a more coordinated voice through the Association of Oil and Gas Operators (AOGO). These developments are encouraging and may result in a more collaborative and streamlined regulatory environment. Realising the full potential of India's hydrocarbon resources will require continued participation of independent operators, service providers and government.

OPERATIONAL SUMMARY

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).

Summary table - The table below provides a brief comparison of our stated operational objectives for 2013/14 and our progress to date:

Block	Objective	Status
D3	Recommence exploration drilling programme	Finalising the prospects with associated risk estimates towards completion of the balance of the MWP
PY-3	Submission of FDP to the management committee for final approval	Technical consensus has been achieved. Commercial considerations are being finalised with partners
GS-01	Facilitate the GOI review of the proposed development plan	GOI review is pending resolution of acquisition discussions between Hardy and the operator
CY-OS/2	GOI to reinstate block to Hardy and the resumption of appraisal planning	GOI has filed an appeal in the High Court, Delhi. Execution application filed by the Company

Health Safety and Environment

The Company is committed to excellent health and safety practices which are at the forefront in all of our activities. Although all offshore activities are currently suspended, maintaining high HSE standards throughout the organisation remains core to all our undertakings. The Company's HSE policy document was reviewed and amended with increased focus on leadership and accountability.

Block KG-DWN-2003/1 (D3): Exploration (HEPI 10 per cent interest)

Operations - The joint venture continued to undertake a number of geotechnical studies, including the interpretation of PSDM seismic data, with a focus on assessing the potential of the eastern area of the block and high grading prospects, including testing deeper plays.

In accordance with the GOI extension policy, the joint venture applied to extend the block's Phase I exploration period to December 2014. Confirmation of the extension to the end of 2014 is outstanding however the approval of the initial six month extension to December 2013 was received in the first quarter of 2014.

The Ministry of Defence (via the Directorate General of Hydrocarbons (DGH)) has communicated that the southwest portion of the D3 block falls under a DRDO designated impact zone. The operator continued discussions with DGH and DRDO to clarify any conditions that may be imposed on the impact zone and to agree a way forward.

A DOC proposal for the Dhirubhai 39 and 41 natural gas discoveries, submitted in 2012, remained 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 discoveries in the adjoining area.

Outlook - Exploration drilling is expected to re-commence in 2014 subject to GOI confirmation of a 12 month extension, and the GOI's review of the D3 DOC proposal will likely continue through to the completion of exploration Phase I.

The D3 joint venture operator, Reliance Industries Limited (Reliance) is currently operating the deep-water drill ships Dhirubhai Deepwater KG2 and Dhirubhai Deepwater KG1 on the east coast of India. The GOI's review of the D3 DOC proposal will likely continue through 2014. Clarity regarding the gas pricing framework should facilitate the review of the DOC.

Block CY-OS 90/1 (PY-3): Oil Field (HEPI 18 per cent interest – Operator)

Operations - Following a number of technical and operating committee meetings, regarding a comprehensive FDP, technical consensus has been achieved in the period. Discussions between partners continued to establish an acceptable commercial framework to proceed with the recommencement of production. In this regard we were moving towards a consensus amongst the partners. Unfortunately the duration of India's national election process combined with the Country's Model Code did taper momentum over the past months. There remain some contractual clarifications required particularly surrounding term of the PSC, quantum of Government levies to apply and their treatment as a contract cost. We are optimistic that progress will be made in the near future.

Outlook - Secure approval of the FDP from the GOI after which we intend to target the recommencement of production in 2015. This will be achieved by securing the appropriate offshore production and storage facilities and simultaneously initiate planning for a development drilling programme.

Block GS-OSN-2000/1 (GS-01): Appraisal (HEPI 10 per cent interest)

Operations – The operator recently notified the GOI of its intention to relinquish its 90 per cent participating interest in the block. Subsequently, Hardy has notified the operator of its election to acquire the operator's interest in accordance with the block's joint operating agreement. Assignment of the operator's participating interest is pending.

A detailed FDP, for the Dhirubhai 33 natural gas discovery, was submitted to GOI for review and approval in 2012. The development plan provides for several dry tree wells, an unmanned platform, multiphase pipeline to shore and onshore processing and export facilities.

Outlook – Conclude discussions with our joint venture partner to acquire their participating interest in the block. Following this, a priority will be to secure GOI approval of the FDP and initiate planning for development.

Block CY-OS/2: Appraisal (HEPI 75 per cent interest – Operator)

Operations – In 2013 the Company announced that the joint venture was successful in obtaining an extension of the CY-OS/2 licence (*award detail provided in note 13*). On 2 August 2013, the Company received notification that the GOI has filed an appeal with the Delhi High Court of India. In December 2013, Hardy filed an execution petition with the Delhi High Court.

The Company believes that it has a strong position as the unanimous international award is well reasoned and, as per the India Arbitration & Conciliation Act 1996, may not be subject to appeal in Indian courts.

Outlook – We will continue our endeavours to ensure that the GOI restores the block to the CY-OS/2 joint venture in a timely manner. The GOI appeal is being heard in the Delhi High Court and this is likely to continue through 2014. Hardy will recommence work on the appraisal of the Ganesha-1 natural gas discovery once the block has been restored to the CY-OS/2 joint venture.

FINANCIAL SUMMARY

Accounting reference date

The Group had maintained different accounting reference dates for the Company and its India based activities. To streamline the Group's reporting process, the Board resolved to synchronise the Group's accounting reference date to 31 March. As a result the Group is reporting for the 15 month period to 31 March 2014. The Group's significant accounting policies and details of the significant judgements and critical accounting estimates are disclosed within the notes to the financial statements.

Overview

In the fifteen months ended 31 March 2014, the Group recorded total comprehensive loss of \$4.8 million and exited the period with cash and short-term investments of \$24.7 million with no debt. The Company currently plans to drill up to two exploration wells in 2014 which will be funded from existing cash resources.

	2013/14	2012
	\$ million	\$ million
Administrative expense		
Measures taken to reduce costs in 2012, including the move of our corporate office to Aberdeen, Scotland from London, and the reduction of staff contributed to an overall fall in expenses. In 2013/14, administrative expenses included an unrealised foreign exchange loss of \$0.4 million related to India Rupee denominated term deposits, including the PY-3 site restoration fund, and an inventory write-down of \$0.3 million. Administrative expense in 2012 included a provision and restructuring costs amounting to \$1.7 million.	(6.2)	(7.5)
Operating loss		
A production costs credit of \$0.5 million was realised due to reversal of an over accrual in prior years. The Group had written-off unsuccessful exploration costs of \$5.4 million in 2012. The Company did not participate in the drilling of exploration wells in 2013/14.	(5.7)	(13.2)
Taxation		
No current tax was payable for the fifteen months ended 31 March 2014. The Group has recorded a deferred tax credit of \$0.6 million for the fifteen months ended 31 March 2014. The deferred tax asset is expected to be realised with the recommencement of production from the PY-3 oil field and other production of oil and gas from those areas which are available for commercial development.	0.6	1.6
Total Comprehensive loss		
The comparable reduction is attributed to a significant reduction in administration expense in 2013/14 and the Group writing off unsuccessful exploration costs of \$5.4 million in 2012.	(4.8)	(11.1)

Summary statement of financial position

	2013/14 \$ million	2012 \$ million
Non-current assets		
Primarily represents successful or work-in-progress exploration expenditure. Change primarily due to increase in deferred tax asset of \$0.6 million	96.0	95.1
Current assets		
Receivables were reduced primarily due to receipt of a tax refund of \$0.3 million. The Group recorded an inventory write-down of \$0.3 million and cash and short term investments reduced by \$4.4 million	27.3	32.5
Current liabilities		
Principally trade and other accounts payable declined due to reduction of \$0.8 million in trade payables and \$0.3 million in reversal of accruals	(5.0)	(6.1)
Non-current liabilities		
The Group recorded an increase in decommissioning provision of \$0.4 million due to the unwinding of future value discounting	(5.5)	(5.2)
Contingent asset		
The Group has considered a contingent asset of \$36.0 million on the interest cost awarded by the arbitration tribunal for the block CY-OS/2 (note 13).	36.0	24.8

	2013/14 \$ million	2012 \$ million
Cash Flow (used in) operating activities		
Cash used in operating activities comprised of \$4.2 million in administrative costs and \$0.8 million in changes to working capital and a tax receipt of \$0.3 million. In 2012 the Group undertook a cost reduction exercise which had contributed to the fall in administrative expenditure.	(4.7)	(6.5)
Capital Expenditure		
Capital expenditure was primarily associated with geophysical studies undertaken by the operator of the Group's D3 exploration licence.	(0.3)	(1.8)
Financing activity		
The Group realised \$0.7 million of interest and investment income from its Indian Rupee deposits.	0.6	0.9
Cash and Short-term Investments		
Sufficient resources available to meet ongoing capital, operating and administrative expenditure. The Group has no debt.	24.7	29.1

Internal Control

Following a change in personnel we undertook a review of our internal control systems and as a result the Board approved a number of changes including the update of authority procedures and reassignment of treasury function.

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 the present time, the Group does not have any debt. The Company's projections, taking into account reasonably possible changes as described above, show

that the Company will have sufficient liquid financial resources for the 12 months from the date of approval of the Preliminary Results for the fifteen months ended 31 March 2014.

PRINCIPAL RISKS AND UNCERTAINTIES

The underlying risks and uncertainties inherent with Hardy's current business model have been grouped into four categories; strategic, financial, operational and compliance. The Board has identified principal risks and uncertainties for 2014/15 and establishing clear policies and responsibilities to mitigate their possible negative impact to the business, a summary of which is provided below:

1. Asset portfolio over-weighted to long-cycle appraisal and development licences	Preferential allocation of resources to advance current discoveries to the development stage. Continually assessing acquisition opportunities, consistent with stated objectives, offering near term production increases.
2. Sub-commercial exploration results	Effective portfolio management comprised with rigorous review and implementation of best practice exploration processes and techniques. Internal expertise review process and, when necessary third party consultation prior to Board approval.
3. Absence of stakeholder approval for proposed development and appraisal programmes	Regular and proactive communication with stakeholders to identify and maintain an understanding of key agendas and constraints. Maintain sufficient working capital to account for extended delays and maintain tight controls on overhead inflation.
4. GS-01 – Failure to secure the operator's interest in the block may result in deemed relinquishment of the block	Hardy has advised the operator and the GOI of its intent to continue with the asset. Hardy has issued request to assignment by RIL and is in regular communication with senior GOI officials. The Group's intangible assets include an amount of \$5.2 million with respect to exploration expenditure for the GS-01 block.
5. Liquidated damages for incomplete minimum work programmes	The Group has minimum work commitments on its exploration assets. The GS-01 block has reached the end of their exploration phase with outstanding MWP commitment and the D3 MWP has yet to be completed. The Group makes provisions when the amount is ascertained by the operator of the licence.
6. Lack of control on timing of exploration on D3	Proactive communication with partners to drive corporate interests and mandates. Each licence is governed by joint operating agreements, which provide for processes and procedures designed to ensure that the input and interests of non-operating partners are considered.
7. Securing timely approval for a PY-3 full field development plan	Proactive communication with partners to address individual interests and agendas. Clearly formulate and articulate mutual beneficial proposals. Mitigate expenditures prior to budget approvals.
8. Loss of well control could occur during offshore drilling operations	The Company's planned work programme for 2014/15 involves the drilling of up to two deepwater wells. These wells are on non-operated blocks and as such the Company relies on the HSE and operational integrity procedures mandated by the operator and the contractors. Liabilities associated with an accident are insured to the extent reasonably possible.

9. Loss of key staff and succession planning	The Company's ability to compete in the upstream oil and gas exploration and production industry is dependent on being able to retain and attract experienced technical personnel. Structured performance based remuneration practices and promote a positive and rewarding work environment.
10. Stakeholder sentiment	Communicate with investors and other stakeholders on a regular basis providing transparent and timely information. Effectively convey strategic goals and objectives and improve delivery.
11. Changing regulatory and political environment in India	Develop sustainable relationships with governments and communities. Indian PSC includes fiscal stability clauses. Actively collaborate with industry groups to formulate and communicate interests to government authorities.

HARDY OIL AND GAS plc

Consolidated Statement of Comprehensive Income

For the fifteen months ended 31 March 2014

		Fifteen months ending 31 March 2014 US\$	Year ending 31 December 2012 US\$
	Notes		
Continuing Operations			
Revenue	3	-	-
Cost of Sales			
Production costs	4	486,095	(277,100)
Unsuccessful exploration costs	13	-	(5,358,471)
Gross profit/ (loss)		486,095	(5,635,571)
Administrative expenses		(6,160,451)	(7,516,316)
Operating loss		(5,674,356)	(13,151,887)
Interest and investment income	9	689,803	848,850
Finance costs	10	(420,709)	(361,224)
Loss before taxation		(5,405,262)	(12,664,261)
Taxation	11	611,624	1,595,070
Total comprehensive loss for the period attributable to owners of the parent		(4,793,638)	(11,069,191)
Loss per share			
Basic and diluted	12	(0.07)	(0.15)
Comprehensive loss per share			
Basic & diluted	12	(0.07)	(0.15)

HARDY OIL AND GAS plc

Consolidated Statement of Changes in Equity

For the fifteen months ended 31 March 2014

	Share capital US\$	Share Premium US\$	Shares to be issued US\$	Retained earnings / (loss) US\$	Total US\$
At 1 January 2012	727,852	119,996,084	4,256,526	1,136,050	126,116,512
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
Total Comprehensive loss for the period	-	-	-	(4,793,638)	(4,793,638)
Share based payment	-	-	939,120	-	939,120
Adjustment of lapsed vested options	-	-	(1,835,262)	1,835,262	-
Restricted shares issued	1,157	166,180	-	-	167,337
At 31 March 2014	731,484	120,778,131	3,702,603	(12,475,951)	112,736,267

HARDY OIL AND GAS plc
Consolidated Statement of Financial Position
As at 31 March 2014

	Notes	31 March 2014 US\$	31 December 2012 US\$
Assets			
Non-Current assets			
Property, plant and equipment		5,840,028	5,947,203
Intangible assets – exploration	13	78,049,506	77,818,796
Intangible assets – others	14	-	4,536
Site restoration deposits		4,083,776	3,970,628
Deferred tax asset	11	7,997,536	7,385,911
Total non-current assets		95,970,846	95,127,074
Current assets			
Inventories		1,689,947	2,024,502
Trade and other receivables		915,269	1,410,976
Short-term investments		20,652,380	26,032,807
Cash and cash equivalents		4,004,674	3,052,150
Total current assets		27,262,270	32,520,435
Total assets		123,233,116	127,647,509
Equity and Liabilities			
Equity attributable to owners of the parent			
Share capital		731,484	730,327
Share premium		120,778,131	120,611,951
Shares to be issued		3,702,603	4,598,745
Retained loss		(12,475,951)	(9,517,575)
Total equity		112,736,267	116,423,448
Non-current liabilities			
Provision for decommissioning		5,512,694	5,152,050
Current liabilities			
Trade and other payables		4,984,155	6,072,011
Total current liabilities		4,984,155	6,072,011
Total liabilities		10,496,849	11,224,061
Total equity and liabilities		123,233,116	127,647,509

Approved and authorised for issue by the Board of Directors on 11 June 2014

HARDY OIL AND GAS plc
Consolidated Statement of Cash Flows
For the fifteen months ended 31 March 2014

	Notes	Fifteen months ending 31 March 2014 US\$	Year Ending 31 December 2012 US\$
Operating activities			
Cash flow (used in) operating activities	6	(5,013,695)	(7,059,025)
Taxation refund		297,373	606,926
Net Cash (used in) operating activities		(4,716,322)	(6,452,099)
Investing activities			
Expenditure on intangible assets – exploration		(230,710)	(1,475,779)
Expenditure on other fixed assets		(1,737)	(108,165)
Site restoration deposit		(113,148)	(233,123)
Realised from short term investments		5,380,427	3,661,161
Net cash from investing activities		5,034,832	1,844,094
Financing activities			
Interest and investment income		694,079	857,611
Financial costs		(60,065)	(24,174)
Issue of shares		-	22,700
Net cash from financing activities		634,014	856,137
Net increase / (decrease) in cash and cash equivalents		952,524	(3,751,868)
Cash and cash equivalents at the beginning of the period		3,052,150	6,804,018
Cash and cash equivalents at the end of the period		4,004,674	3,052,150

HARDY OIL AND GAS plc

Notes to the Consolidated Financial statements

For the fifteen months ended 31 March 2014

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”).

These financial statements are for a 15 month period ending 31 March 2014. The prior period was for a year ending 31 December 2012 and hence is not entirely comparable. The change in accounting reference date was done to synchronise the period end date with other reporting requirements and to introduce budgetary and reporting efficiencies.

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 have considered the guidance given in the document “Going concern and liquidity risk; Guidance for Directors” issued in October 2009 by the Financial Reporting Council. The Directors have also reviewed the Group’s ongoing activities including its future intentions in respect of the drilling of exploration wells and having regard to the Group’s existing working capital position and its ability to potentially raise finance, if required, the Directors 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 (in coming to this opinion the Directors have not included the receipt of any finds from the CY-OS/2 arbitration award).

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

IFRIC 21 – Levies

IAS 19 (amendment) – Defined Benefit Plans: Employee Contributions

Issued and EU adopted

IFRS 10 - Consolidated Financial Statements

IFRS 11 - Joint Arrangements

IFRS 12 - Disclosure of Interests in other entities

IAS 27 - Separate Financial Statements

IAS 28 – Investments in Associates and Joint Ventures

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 statements include the results of Hardy Oil and Gas plc and its subsidiary undertaking. The Group comprises of the parent company - Hardy Oil and Gas plc – and the wholly owned subsidiary Hardy Exploration & Production (India) Inc. which is incorporated under the Laws of State of Delaware, United States of America. The members of the Group are engaged in the business of exploration and production of oil and gas and all are included in the consolidated financial statements.

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 Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income as appropriate.

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) Oil and gas assets

i) Exploration and evaluation assets

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

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 licence to explore the contract area has ended or commercial reserves have been declared.

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 such wells, 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 into 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 acquired for 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.

h) 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.

i) 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
	over lease	
Leasehold improvements	period	Straight line
Furniture and fixtures	20	Straight line
Information technology and computers	33	Straight line
Other equipment	20	Straight line

j) 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 are included within administrative expenses.

k) Investments

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

l) 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 recognised in the Statement of Comprehensive Income.

m) Inventory

Inventory of crude oil is valued at the lower of average cost and net realisable 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.

n) 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.

o) Equity

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

p) Taxation

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

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 in the future against which deductible temporary differences can be utilized.

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.

q) 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 March 2014	31 December 2012
£ to US\$	1.66	1.62
US\$to Indian Rupees	59.93	55.01

r) Leasing commitments

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

s) 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 reserve is adjusted to retained earnings as a reserve movement.

t) 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 recognised in the period when 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 \$35.96 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 13 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.

iii) Deferred tax asset

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 11.

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.

	2014			
	US\$			
	India	UK	Inter- segment eliminations	Total
Revenue				
Other income	-	-	-	-
Operating loss	(1,763,244)	(3,911,112)	-	(5,674,356)
Interest income	665,711	24,092	-	689,803
Interest income on inter-corporate loan	-	1,400,810	(1,400,810)	-
Finance costs	(420,709)	-	-	(420,709)
Interest expense on inter-corporate loan	(1,400,810)	-	1,400,810	-
Loss before taxation	(2,919,052)	(2,486,210)	-	(5,405,262)
Taxation	73,823	537,801	-	611,624
Loss for the period	(2,845,229)	(1,948,409)	-	(4,793,638)
Segment assets	103,042,734	20,190,382	-	123,233,116
Inter-corporate loan	-	104,606,209	(104,606,209)	-
Segment liabilities	(10,323,356)	(173,493)	-	(10,496,849)
Inter-corporate borrowings	(104,606,209)	-	104,606,209	-
Capital expenditure	231,432	1,015	-	232,447
Unsuccessful exploration costs	-	-	-	-
Depreciation, depletion and amortisation	(13,241)	(41,089)	-	(54,331)

	India	2012 US\$ UK	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)

The Group is engaged in one business activity, the exploration, development and production of 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 PY-3 India and the revenue by destination is not materially different from the revenue by origin.

4. Cost of Sales

Production costs, related to PY-3, included in the cost of sales consists of:

	2014 US\$	2012 US\$
Production costs	(58,925)	(277,100)
Reversal of over accrual in prior years	545,020	-
Production cost net credit (expense)	486,095	(277,100)

5. Operating loss

Operating loss is stated after charging:

	2014	2012
	US\$	US\$
Unsuccessful exploration costs	-	5,358,471
Depreciation and amortisation	54,331	52,924
Provision for irrecoverable costs	-	1,073,402
Operating lease costs		
- Plant and machinery	-	-
- Land and buildings	195,645	358,631
External auditors' remuneration		
- Fees payable to the company's auditors for the audit of the Company's annual accounts.	81,820	72,655
- Fees payable to the company's auditors and its associates for other services.	-	-
- Audit related assurance services	26,560	13,103
Exchange loss	605,045	142,373

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

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

6. Reconciliation of operating loss of continuing operations to operating cash flows

	2014	2012
	US\$	US\$
Operating loss	(5,674,356)	(13,151,887)
Unsuccessful exploration costs	-	5,358,471
Depletion, amortisation, and depreciation	54,331	52,924
Share option and restricted share charge	1,328,323	972,464
Other non-cash movements	59,117	-
	(4,232,585)	(6,768,028)
Decrease in inventory	334,555	44,022
(Increase) in trade and other receivables	(27,809)	(305,367)
(Decrease) in trade and other payables	(1,087,856)	(29,652)
Cash (used in) operating activities	(5,013,695)	(7,059,025)

7. Staff costs

	2014	2012
	US\$	US\$
Wages and salaries	1,819,890	2,363,548
Social security costs	178,451	269,081
Share based payments charge	479,643	419,254
	2,477,984	3,051,883

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:

	2014	2012
Management and administration	12	17
Operations	11	12
	23	29

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 2014 and 2024 at prices of £0.66 to £7.69 per Ordinary Share.

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:

	2014		2012	
	Number of options	Weighted average price	Number of options	Weighted average price
Outstanding at beginning of the year	3,626,933	£2.94	3,393,399	£ 2.64
Granted during the year	275,000	£0.66	800,000	£ 1.52
Forfeited/lapsed during the year	(732,000)	£3.45	(556,466)	£ 2.15
Exercised during the year	-	-	(10,000)	£ 1.44
Outstanding at the end of the year	3,164,933	£1.98	3,626,933	£ 2.47
Exercisable at the end of the year	1,675,933	£2.57	2,147,933	£ 2.94

The aggregate of the estimated fair values of the options granted and outstanding as at 31 March 2014 is US\$6,235,811. The inputs into the binomial model for computation of value of options granted during the period are as follows:

	2014	2012
Share price at grant date	£0.66	£1.19-1.55
Option exercise price at grant date	£0.66	£1.19-1.55
Expected life	5	5
Expected volatility	40%	40%
Expected dividend	-	-
Risk free rate	1.9%	2.2%
Cost per option	£0.28	£0.52–0.67

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:

	2014		2012	
	Number	WAEP	Number	WAEP
2005-2015	1,130,933	£1.51	1,240,933	£ 1.51
2006-2016	30,000	£ 3.02	30,000	£ 3.02
2007-2017	395,000	£ 4.01	600,000	£ 3.70
2008-2018	120,000	£ 7.69	277,000	£ 7.69
2010-2020	419,000	£ 2.12	679,000	£ 2.12
2012-2022	800,000	£ 1.52	800,000	£ 1.52
2014-2024	275,000	£ 0.66	-	-

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.

Restricted Ordinary Shares are issued to Non-Executive Directors in consideration for services rendered in 2012 and 2013 at a price of 122 pence and 74 pence per Ordinary Share respectively, being the closing price on the day prior to issue. The cost of issuing such shares is charged to the Statement of Comprehensive Income for the year ending March 31, 2014.

On 15 March 2013, the Company issued 40,710 restricted Ordinary Shares having a face value of US\$0.01 per share and an aggregate market value of US\$75,046 (£49,666) to its Non-Executive Directors and Chairman in the following manner;

Name	Number of Ordinary Shares Issued
Alasdair Locke (Chairman)	20,492
Peter Milne	8,538
Pradip Shah	7,377
Yogeshwar Sharma	4,303
Total	40,710

On 10 March 2014, the Company issued 75,000 restricted Ordinary Shares having a face value of US\$0.01 per share and an aggregate market value of US\$92,250 (£ 55,475) to its Non-Executive Directors and Chairman in the following manner:

Name	Number of Ordinary Shares Issued
Alasdair Locke (Chairman)	33,784
Peter Milne	16,892
Pradip Shah	12,162
Yogeshwar Sharma	12,162
Total	75,000

The Group has expensed a net amount of US\$1,328,323 in the current period (2012: US\$972,464) towards equity settled share based payments. Equity shares to be issued are re-valued at the exchange rate as at 31 March 2014. The revaluation lose for the 15 months ended 31 March 2014

is US\$390,836 (2012: Revaluation loss US\$252,665). The value of shares to be issued as at 31 March 2014 is US\$3,702,603 (2012: US\$4,598,745).

9. Interest and investment income

	2014 US\$	2012 US\$
Bank interest	589,118	525,481
Other interest income	84,980	273,243
Dividend	15,705	50,126
	689,803	848,850

10. Finance costs

	2014 US\$	2012 US\$
Bank guarantee charges	60,065	24,174
Other finance costs	360,644	337,050
	420,709	361,224

Other finance cost is charge incurred as a result of the unwinding of the discount to the decommissioning provision.

11. Taxation

a) Analysis of taxation (credit) for the year

	2014 US\$	2012 US\$
Current tax charge		
UK corporation Tax	-	-
Foreign Tax – India	-	(180,912)
Minimum alternate tax	-	(29,549)
Foreign tax – USA	-	-
Total current tax (credit)	-	(210,461)
Deferred tax (credit)	(611,624)	(1,384,609)
Taxation (Credit)	(611,624)	(1,595,070)

	2014 US\$	2012 US\$
Charge in respect of change in tax rates	761,670	-
Origination and reversal of temporary differences	(1,373,294)	(1,384,609)
Deferred tax credit	(611,624)	(1,384,609)

Deferred tax analysis:

	2014 US\$	2012 US\$
Difference between accumulated depletion, depreciation and amortization and capital allowances	3,577,657	3,909,448
Other temporary differences	4,419,879	3,476,463
Deferred tax asset	7,997,536	7,385,911

b) Factors affecting tax charge for the year

	2014	2012
	US\$	US\$
Loss before taxation from continuing operations	(5,405,262)	(12,664,261)
Profit before taxation multiplied by the rate of tax in UK of 23% (2012: 24%)	(1,243,210)	(3,039,422)
Disallowable expenditure	208,171	1,654,813
Other	(338,257)	-
Effect of change in tax rates	761,670	-
Foreign tax on overseas income – current year	-	(210,461)
Total tax credit	(611,624)	(1,595,070)

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.

12. Loss per share

Loss per share is calculated on a loss of US\$4,793,638 for the fifteen months ended 31 March 2014 (2012; US\$11,069,191) on a weighted average of 73,066,870 Ordinary Shares for the fifteen months ended 31 March 2014 (2012: 72,984,352). No diluted loss per share is calculated.

Comprehensive loss per share is calculated on a loss of US\$4,793,638 for the fifteen months ended 31 March 2014 (2012; US\$11,069,191) on a weighted average of 73,066,870 Ordinary Shares for the fifteen months ended 31 March 2014 (2012: 72,984,352).

Diluted loss per share on loss attributable to parent company for the fifteen months ended 31 March 2014 and the year 2012 has not been calculated.

13. Intangible assets - exploration

	India US\$
Costs and net book value	
At 1 January 2012	81,701,488
Additions	1,475,779
Unsuccessful exploration cost	(5,358,471)
At 1 January 2013	77,818,796
Additions	230,710
Unsuccessful exploration cost	-
At 31 March 2014	78,049,506

The details of the intangible assets stated above are as follows:

	US\$
Exploration expenditure – block CY-OS/2	51,030,895
Exploration expenditure – block D3	21,971,433
Exploration expenditure – block GS-01	5,047,178
Total	78,049,506

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. As at 31 March 2014, Hardy's 75 per cent share of the interest awarded is approximately \$35.96 million. On 2 August 2013 the Government of India filed an appeal, against the arbitration award, with the High Court Delhi, and the Company subsequently filed an execution petition before the High Court Delhi. Three hearings have been scheduled and the final hearing is to commence in the second half of 2014

The Company believes that the unanimous international tribunal award is well reasoned and, based upon external legal advice that the award may not be subject to appeal in the Indian courts as per the India Arbitration and Conciliation Act 1996.

14. Intangible assets- others

	US\$
Cost	
At 1 January 2012	508,728
Additions	-
At 1 January 2013	508,728
Additions	-
At 31 March 2014	508,728
Accumulated depreciation	
At 1 January 2012	498,348
Charge for the year	5,844
At 1 January 2013	504,192
Charge for the period	4,536
At 31 March 2014	508,728
Net book value as at 31 March 2014	-
Net book value as at 31 December 2012	4,536

Intangible assets-others represent the cost of software used for geological and geophysical studies and other software for normal business operations.

GLOSSARY OF TERMS

2C Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies
2D/3D	two dimensional/three dimensional
\$	United States Dollar
API°	American Petroleum Institute gravity
bbld	stock tank barrel per day
BCF	Billion cubic feet
BP	BP plc
CNG	Compressed natural gas
CY-OS/2	Offshore exploration licence CY-OS/2 located on the east coast of India
D3	Exploration licence KG-DWN-2003/1
DGH	Directorate General of Hydrocarbons
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
DOC	Declaration of Commerciality
DRDO	Defence Research & Development Organisation of India
FDP	comprehensive full field development plan
GAIL	Gas Authority of India Limited
Ganasha-1	Non-associated natural gas discovery on Fan-A1 well located in CY-OS/2
GOI	Government of India
GS-01	Exploration licence GS-OSN-2000/1
H1	First half of the calendar year
Hardy	Hardy Oil and Gas plc
HEPI	Hardy Exploration & Production (India) Inc
HSE	Health Safety and Environment
IPO	Initial public offering
KPI	Key performance indicator
km	kilometre
km ²	square kilometre
LSE	London Stock Exchange
m	metre
mmscfd	million standard cubic feet per day
mmscmd	million standard cubic metres per day
MOD	Ministry of Defence Government of India
MOPNG	the Ministry of Petroleum and Natural Gas of the Government of India
MWP	minimum work programme
NANG	non associated natural gas
ONGC	Oil & Natural Gas Corporation
Prospective Resources	those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations
PSC	production sharing contract

PSDM	pre-stacked depth migration
psi	pounds per square inch
PY-3	licence CY-OS-90/1
Reliance	Reliance Industries Limited
Rs.	Indian rupee
the Company	Hardy Oil and Gas plc
the Group	Hardy Oil and Gas plc and Hardy Exploration & Production (India) Inc.
TRI	Total recordable injuries

NOTES TO THE EDITORS

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

Hardy Oil and Gas plc is the operator of the PY-3 oil field (shut-in July 2011) located offshore India's east coast in the Cauvery basin. Hardy also has interests in three offshore exploration blocks in India's Saurashtra, Cauvery, and Krishna Godavari basins.

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

For further information please refer to our website at www.hardyoil.com



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