

7 August 2014



**Hardy Oil and Gas plc**  
(LSE: HDY)  
**Interim Management Statement**

Hardy Oil and Gas plc ('Hardy' or 'the Company'), the oil and gas exploration and production company with assets in India, today issues its Interim Management Statement for the period from 1 April 2014 to the date of this announcement.

**Summary**

- D3 – A management committee meeting was successfully held to retrospectively adopt budgets from 2012 to the current financial year 2014-15. Notification of the block's 12 month extension to the end of 2014 remains outstanding
- PY-3 –The GOI Petroleum Secretary convened a meeting to facilitate a way forward and discussions are ongoing
- GS-01 – Discussions with our joint venture partner to increase Hardy's interest in the block are ongoing. A field development plan for the Dhirubhai 33 natural gas discovery is with the GOI
- CY-OS/2 – The GOI's appeal, against the Hon'ble tribunal award, (in the High Court of Delhi) was adjourned to the fourth quarter of 2014. This is the third consecutive adjournment directed by the High Court of Delhi due to the unavailability of senior counsel to represent the GOI
- Cash and short term investments at 30 June 2014 amounted to \$24.1 million; Hardy has no debt

**Outlook**

- PY-3 - Secure approval of the FDP from the GOI after which we intend to target the recommencement of production in 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 – Execution of planned exploration activity is dependent on further clarity of MoD / DRDO restrictions to operations and confirmation of extension

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

**Ian MacKenzie, Chief Executive Officer of Hardy, commented:**

*"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 continue D3 exploration activity."*

For further information please visit [www.hardyoil.com](http://www.hardyoil.com) or contact:

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## REVIEW OF OPERATIONS

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).

### 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 (Hardy 10 per cent interest)*

**Operations** - The parties to the D3 PSC held a Management Committee meeting to approve budgets and discuss a number of outstanding issues. The operator noted that execution of activities are dependent on greater clarity of DRDO restriction for undertaking petroleum operations and the timely approval of the block extension.

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. The GOI has indicated that the W1 gas discovery will need to be flow tested prior to being considered as a discovery for DOC evaluation

**Outlook** - Exploration drilling is expected to re-commence once DRDO restrictions are clarified and approval of block extension is received. The GOI's review of the D3 DOC proposal will likely continue through to the completion of exploration Phase I. Clarity regarding the gas pricing framework should facilitate the review of the DOC.

**Background** - Situated in the Krishna Godavari Basin on the East coast of India, the D3 exploration licence encompasses an area of 3,288 km<sup>2</sup>, in water depths of 400 m to 2,200 m, and is located approximately 45 km offshore. The D3 block is operated by Reliance who holds a 60 per cent participating interest with 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 km<sup>2</sup> of 3D seismic data over the block.

The Ministry of Defence (via the Directorate General of Hydrocarbons (DGH)) has communicated that the southwest portion of the D3 block, which amounts to more than 30 per cent of the area, 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.

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

**Operations** - Following a number of technical and operating committee meetings regarding a comprehensive FDP, technical consensus has been achieved. Discussions between partners continued to establish an acceptable commercial framework to proceed with the recommencement of production. A proposed compromise to the independent Companies' contractual entitlement was not accepted by the GOI owned Licensee. The Secretary of the MOPNG convened a meeting between the Parties to facilitate a forward plan. There remain some contractual clarifications required, particularly surrounding the term of the PSC, quantum of Government levies to apply and other cost treatment.

**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 while simultaneously initiate planning for a development drilling programme.

**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 km<sup>2</sup>, produces high quality light crude oil (49° API).

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

**Operations** – Hardy continued discussions with the operator to acquire their interest in accordance with the block's joint operating agreement.

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 and the Operatorship of the block. Following this, a priority will be to secure GOI approval of the FDP and initiate planning for development.

**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 km<sup>2</sup>.

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

The GOI's appeal against the unanimous international arbitration award to restore the block to the joint venture in the Delhi High Court of India continued. Hardy has also filed an execution petition with the Delhi High Court. To date the High Court has adjourned the hearing on three consecutive occasions due to the unavailability of senior representation for the GOI.

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.

**Background** – Hardy is the operator of the CY-OS/2 exploration block and holds a 75 per cent participating interest\*, 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 km<sup>2</sup>. 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 km<sup>2</sup>.

\* 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.

Ganesha-1 - The natural gas discovery Ganesha-1, announced in January 2007, was drilled to a depth of 4,089 metres and, encountered 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 and dated March 2011, which estimates gross 2C Contingent Resources of approximately 130 BCF.

A brief summary of the Hon'ble Tribunal's award is provided below;

*Dispute* - Hardy along with GAIL and ONGC are a party and operator to a PSC for the CY-OS/2 block. Hardy holds 75 per cent participating interest\* in the block. Hardy and GAIL declared a gas discovery on 8 January 2007 which qualified as NANG under the terms of the PSC. The GOI 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.

As at 31 March 2014, Hardy's 75 per cent share of the interest awarded is approximately \$36.0 million.

### **GROUP 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. The GOI's decision to review the Country's gas pricing policy for domestically produced natural gas has created some uncertainty for the sector. Importantly, energy demand in India is growing at an exceptional rate and the countries structural supply shortfall should promote a geopolitical environment to complement our efforts. The Company remains in a strong working capital position from which to fund its planned work activity and we look forward to updating the market accordingly.

## 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
bbl/d	stock tank barrel per day
BCF	Billion cubic feet
BP	BP plc
Companies	Includes Hardy, Hindustan Oil Exploration Company, Tata Petrodyne Limited
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
Ganesh-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
Hardy	Hardy Oil and Gas plc
HEPI	Hardy Exploration & Production (India) Inc
HSE	Health Safety and Environment
IPO	Initial public offering
km	kilometre
km <sup>2</sup>	square kilometre
LSE	London Stock Exchange
m	metre
Management Committee	Includes all parties to a PSC including joint venture partners and GOI representative
mmscfd	million standard cubic feet per day
MOD	Ministry of Defence Government of India
MOPNG	the Ministry of Petroleum and Natural Gas of the Government of India

NANG	non associated natural gas
ONGC	Oil & Natural Gas Corporation
PSC	production sharing contract
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](http://www.hardyoil.com)

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