

For Immediate Release

21 March 2006

**Hardy Oil and Gas plc**

("Hardy" or the "Company")

**Maiden Preliminary Results**

For the year ended 31 December 2005

Hardy Oil and Gas plc (AIM : HDY), the oil and gas exploration and production company with significant interests in India, today announces its Maiden Preliminary Results for the year ended 31 December 2005.

*\*All financial figures represented in US dollars unless otherwise stated.*

**Operational Highlights**

- Successful flotation on AIM in June 2005 at 144p per share raising £15.0m
- New licence award in Indian NELP V Licensing round with Reliance Industries Ltd
- Completed 3D seismic programmes over D9, CY-OS/2 and PY-3
- Two farm-in agreements signed in Nigeria for 40% and 20% working interest in Oza and Atala fields respectively
- Secured Jack-up rig "Deep Driller-1" for, Hardy operated, CY-OS/2
- PY-3 gross production averaged 5,541bbls per day (net 997bbls per day)
- Further placing completed in February 2006 raising £14.7m at 283p

**Financial Highlights**

- Turnover of \$17.6m (2004: \$13.7m)
- Profit before tax \$8.8m (2004: \$7.0m)
- Operating cash flow \$11.0m (2004: \$6.7m)
- Strong ungeared balance sheet with net cash \$31.2m (2004: net cash \$7.3m)

**2006 Outlook**

- Participation in six planned offshore India exploration wells
- Operator of two planned offshore India exploration wells (CY-OS/2)
- Development of operations in Nigeria

Commenting on the results, Paul Mortimer, Chairman of Hardy said:

*"2005 marked a new phase in Hardy's development. We are delighted with the Company's financial performance, which showed record profits for Hardy. Looking forward, 2006 promises to provide continued interest as we enter the drilling phase of our exploration programme."*

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Hardy Oil and Gas plc

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Ben Willey

## **Chairman's Statement**

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During 2005, the Company remained firmly focused on its Indian operations, consolidating its position in the Indian upstream sector. In addition, Hardy extended its area of operations to Nigeria where it sees significant opportunities for growth.

The flotation of the Company on 7 June 2005 was successfully completed at the placing price of 144p per share and we now have a secure and diversified shareholder base.

On 5 August 2005, Hardy was delighted to announce that it had received confirmation from the Ministry of Petroleum and Natural Gas in India that it had been awarded, along with Reliance Industries Ltd ("RIL"), the KG-DWN-2003/1 (D3) deepwater exploration block.

In addition, at the release of Hardy's Maiden Interim Report the Company was able to confirm that it had entered into two farm-in agreements with two indigenous companies in Nigeria. Although the primary focus of the Company continues to be on growing our asset portfolio in India, the nature of the Nigerian assets offer the potential to add reserves and production with shorter lead times than our Indian exploration portfolio. The bridgehead assets acquired in the country underpin the Board's established network of relationships in key developing oil provinces.

In February 2006, the Company raised an additional £14.7m through a placing of new equity shares with institutional investors to help fund the working capital requirements of the Company.

### **Financial Results**

Total entitlement production for 2005 of 0.36million barrels ("MMbbls") of oil was slightly down on 2004 (0.39MMbbls), due to a total of 22 days shutdown of the PY-3 production platform, for maintenance.

The Company has however realised record operating profits and operating cash flow of \$8.27m and \$11.00m respectively (2004: \$7.08m and \$6.72m). These results were significantly strengthened due to higher oil prices. The volume weighted average for the company's crude sales for the year was \$52.82 per barrel compared with a price of \$38.73 per barrel for 2004.

Hardy recorded profit before tax of \$8.80m on turnover of \$17.57m compared with a profit before tax of \$7.00m on turnover of \$13.72m for 2004.

### **Directors and Employees**

The Company's continued commitment to good corporate governance led to the appointment of Dr. Carol Bell, as a further non-executive Director, to our Board effective from 16 December 2005. Dr Bell has many years experience in the oil and gas sector and the Board is delighted with her joining our team.

2005 could not have been the success it was without the continued support and dedication of its management and staff. With Hardy's active drilling programme and increased demand for skilled personnel it is more important than ever to ensure the retention of quality personnel and proactively recruit qualified, driven people.

In 2005 the company adopted the Share Option Scheme to be used as an incentive for high performing employees and recruitment of key personnel.

## **Current Trading and Outlook**

Looking forward to 2006, Hardy will remain focused on managing the Company's portfolio of offshore exploration acreage in India and its developments in Nigeria. With a capital and exploration budget in excess of \$50m, 2006 will be a significant year in the development of Hardy Oil and Gas plc.

The Directors are moving forward with the Company's business plan for its operated assets. Management will be focused to begin drilling operations on the Hardy operated CY-OS/2 block where the Company has a 75% participating interest and GAIL (India) Limited ("GAIL") holds the remaining 25%. The two well drilling operation in CY-OS/2 comprises a significant proportion of the 2006 exploration budget.

As announced on 9 February 2006, the first of two non-operated wells on the GS-OSN-2000/1 block in the Saurashtra Basin has now spudded. Hardy has a 10% participating interest and RIL is the operator. Results from this well are not expected before May 2006.

Hardy's first well in the prospective Krishna-Godavari (KG) Basin is expected to spud in the fourth quarter of 2006. The D9 well will be operated by RIL, an experienced and successful operator in the KG Basin. All stakeholders will be closely monitoring the progress of this programme.

Since being awarded the D3 block, the Company has begun the interpretation and appraisal of existing seismic data. This was a highly contested block offered in the Indian NELP V round and Hardy will be working closely with RIL to develop an effective and efficient appraisal programme for the block.

Hardy will also continue to assess and evaluate investment opportunities consistent with the Company's overall strategy. The upcoming India NELP VI bidding round is a process that will generate interest from and further opportunity for Hardy.

The Company is currently engaged in arbitration with Hindustan Oil Exploration Company Limited. ("HOEC"), and others, concerning rights under HOEC's shareholders' agreement. The hearing for this arbitration completed on 9 February 2006 and the final award on these matters is expected by mid-April 2006.

The challenge in the coming year and beyond will be to seek to manage cost escalation, driven by industry wide shortages of equipment and personnel. In addition, the string of significant hydrocarbon discoveries in under explored Indian basins will likely attract new entrants, and increase competition for new investment opportunities.

The Board believes that Hardy is well positioned to meet these challenges. We look forward to the exciting year ahead and the continued support of our shareholders.

**E.P. Mortimer**

Chairman, 21 March 2006

## Chief Executive's Statement

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### OPERATIONAL REVIEW

Hardy concentrates its activities principally in India and also in Nigeria. The growth strategy is focused on sustained production and selective exploration of its existing assets, as well as by acquiring new assets.

#### *Principal License Interests:*

India	Field	Interest	Operator
CY-OS-90/1	Cauvery Offshore	18%	Hardy
CY-OS/2	Cauvery Offshore	75%	Hardy
GS-OSN-2000/1	Saurashtra Offshore	10%	Reliance
KG-DWN- 2001/1	Krishna Godavari	10%	Reliance
KG-DWN-2003/1	Krishna Godavari	10%	Reliance

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Nigeria			
OZA	Onshore field	40%	Millineum
Atala	Onshore field	20%	Bayelsa

### Cauvery Basin – Eastern India

#### DEVELOPMENT & PRODUCTION

The PY-3 field is located in the Cauvery offshore basin of the east coast of India. It covers 81 square kilometres ("km<sup>2</sup>") and the water depth ranges from 40metres to 200metres.

PY-3 field production during 2005 was 2.02MMbbls compared to 2.16MMbbls in 2004, Hardy is the operator and holds an 18.0% participating interest. In 2005, Hardy acquired 654km<sup>2</sup> of 3D seismic data over the blocks CYOS/2 and CY-OS-90/1 (PY-3 field). The Company is planning for a third phase development in PY-3 field based on the interpretation of the acquired 3D seismic data.

Although there was a marginal reduction in production, significant increase in product prices has increased the gross oil sales revenue from \$13.45m to \$21.31m in the year 2005. Operating profit has increased from \$7.1m to \$8.3m in the year 2005. Average crude oil price realized for 2005 was \$52.82 per barrel compared with \$38.73 per barrel in the year 2004.

#### EXPLORATION

The CY-OS/2 block is located in the Cauvery basin and encompasses 880km<sup>2</sup>. The block is currently in the third exploration phase. Hardy was granted an extension for the CY-OS/2 block on 24 May 2005 for a further period of 22 months up to 23 March 2007.

During the year, Hardy invested \$5.46m on 3D data acquisition over the block and plans to invest an additional \$36m for its share of drilling two exploration wells in the block. Hardy entered into a contract with Deep Driller Pvt Ltd for a Jack-up rig Deep Driller -1 for drilling of two exploratory wells in the block CY-OS/2.

### Gujarat- Saurashtra Basin – Western India

The GS-OSN-2000/1 block is located off the west coast of India in the Gujarat-Saurashtra basin encompasses an area of 8,841km<sup>2</sup>. The block is operated by RIL and was awarded in 2001 under the India NELP II terms.

In early 2005 1,216km<sup>2</sup> of 3D seismic data was acquired, processed and interpreted. Based on geological and geophysical evaluation of the block, three prospects have been

mapped and Hardy with a participating interest of 10% plans to drill two exploration wells in 2006 in partnership with RIL.

### **Krishna-Godavari (KG) basin – Eastern India**

The KG-DWN-2001/1 (D9) block encompasses 11,850km<sup>2</sup> of the Krishna-Godavari basin, in the Bay of Bengal. RIL is the operator for the blocks GS-OSN-2000/1, KG-DWN-2001/1 and Hardy holds a 10% participating interest in these blocks. The block is in the first exploration phase.

3D seismic data of 3440km<sup>2</sup> was acquired over the block, which is now being processed and completed. The data interpretation and prospect mapping are ongoing and the drilling of two exploration wells is planned for the fourth quarter of 2006.

#### **NELP-V**

On 18 September 2005 Hardy entered into a Production Sharing Contract with the Government of India for the block KG-DWN-2003/1, wherein Hardy holds 10% and RIL holds 90%. This block has approximately 300km<sup>2</sup> of 3D seismic data, which will be reprocessed in 2006. In addition it is planned to acquire further 3D seismic data during the year 2007.

#### **NELP-VI**

The sixth instalment of India's New Exploration Licensing Policy bidding round will take place during 2006 and Hardy will be taking an active interest in evaluating the new opportunities on offer.

### **Company Reserves**

Hardy's reserves for the PY-3 field, on an entitlement basis, were 3,011Mbbbls as of 31 December 2005. This represents a reduction of 289Mbbbls from 2004. The table below shows reserves information at the end of 2005 on an entitlement and direct participating interest basis.

#### **Oil and gas reserves**

	Direct Participating Interest basis Mbbls	Net Entitlement basis Mbbls
Net commercial reserves		
As at 1 January 2005		
- Commercial Developed reserves	2,628	2,000
- Commercial undeveloped	3,300	1,300
	5,928	3,300
Production	(364)	(289)
Net commercial reserves At 31 December 2005		
- Commercial Developed reserves	2,264	1,711
- Commercial undeveloped	3,300	1,300
	5,564	3,011

## **FINANCIAL REVIEW**

Hardy enters 2006 in a net cash position, with a strong Balance Sheet and funding in place to meet its planned exploration and development expenditure.

Hardy has had a successful year achieving many new milestones. Strong commodity prices and production within expectations has resulted in increases across key performance metrics including turnover, operating profitability, cash flow, net profit and earnings per share.

### **Profit and loss**

#### **TURNOVER**

During 2005 production for Hardy's participating interest was 0.36MMbbls compared with 0.39MMbbls in 2004. On an entitlement basis, after adjusting for profit oil to the Government of India, net production was 0.29MMbbls in 2005 compared with 0.37MMbbls in 2004. This reduction was due to an increase in profit oil share calculation from 10% to 25% in the year commencing from second quarter 2005.

Turnover for the period was \$17.57m compared with \$13.72m for 2004 and the average price realized per barrel during the year 2005 was \$52.82 per barrel (\$38.73 per barrel 2004). Net production entitlement for 2005 reduced by 0.08MMbbls in 2005 and the profit oil payment was increased from \$0.79m in 2004 to \$3.98m in 2005. The increase in average price realized resulted in a \$4.67m increase in Oil sales less Profit Oil to government for 2005 over the previous year.

#### **GROSS PROFIT**

The Gross Profit of the Company for the year was \$12.71m (\$9.50m 2004). The cost of sales including depletion for the year was \$4.87m while the production cost was \$13.37 per barrel (\$12.12 per barrel 2004). On net entitlement basis, Hardy's depletion charge was \$5.60 per barrel compared with \$3.98 per barrel in 2004. This increase is mainly due to increase in the share of profit petroleum with the Government of India.

Profit oil paid to the Government of India for PY-3 field has increased from \$0.79m for 2004 to \$3.98m in 2005.

#### **PROFIT FOR THE YEAR**

Administrative expenses for the year were \$4.44m compared to \$2.42m in 2004. The profit for the year was \$5.67m (\$3.46m 2004) and was arrived after accounting for a \$0.37m unrealised exchange loss. The current year tax provision was \$0.32m with a deferred tax charge of \$2.81m.

### **Comparative Statistical Summary**

	Year	Year	%
	2005	2004	Change
Production in Mbbls	364	388	(6.2)
Average oil price realized \$/barrel	52.82	38.73	36.4
Average cost of production per barrel	13.37	12.12	10.3
Turnover – excluding profit oil sold (\$,000)	17,574	13,719	28.1
Operating profit (\$,000)	8,270	7,077	16.9
Profit before tax (\$,000)	8,799	7,033	25.1
Profit after tax (\$,000)	5,665	3,459	63.8
Operating cash flow (\$,000)	11,044	6,724	64.2
Net Cash (\$,000)	31,234	7,277	329.2
Earnings per share (basic) \$	0.12	0.10	20.0
Earnings per share (dilluted) \$	0.11	0.09	22.2

#### **Balance Sheet**

During 2005, an insurance claim of \$1.26m was received for the PD-3S redrill. This was credited against the Oil and Gas development expenditure account. In addition \$0.81m of expenditures were capitalised as Oil and Gas development, resulting in a net reduction of \$0.45m. Exploratory expenditure of \$7.74m was capitalized in 2005. This was primarily attributed to the, acquisition and processing expenditures of 3D seismic surveys over blocks CY-OS/2, KG-DWN-2001/1 and GS-OSN-2000/1 and the acquisition of two Nigerian blocks. Hardy has revised the abandonment cost estimates and provided additional liability of \$0.57m in the year 2005. The Company's net assets on 31 December 2005 were \$49.92m and there were no outstanding loan obligations on 31 December 2005.

Hardy continues to hold a strategic 8.5 per cent shareholding (4,993,271 equity shares) in HOEC, which has its shares listed on the National Stock Exchange and Bombay Stock Exchange in India. The market value of these shares on 31 December 2005 was \$17.97m.

#### **Cash flow**

The operating cash flow of the Company was \$11.04m and the tax payments made during the year of \$0.97m include an advance tax payment of \$0.38m. Interest received during the year was \$0.49m compared with \$0.12m in 2004.

#### **CAPITAL EXPENDITURE**

Capital expenditure during the year was \$7.18m that includes \$7.74m towards exploration and an insurance claim receipt of \$1.26m for the PD-3S development well drilled and completed in 2004. An expenditure of \$0.88m on the acquisition of two blocks in Nigeria was included in the exploration expenditure.

#### **NET FUNDS**

In 2005 the Company had a net cash inflow of \$3.24m before financing in comparison with \$3.27m for 2004. The Company's financial position improved substantially in June 2005 through the placing of 10.42m shares. The resulting gross proceeds were \$27.25m.

At the end of 2005 Hardy had no outstanding debt and net cash was \$31.23m. In February 2006, the Company raised an additional £14.7m through a placing of new equity shares with institutional investors to meet its ongoing expenditure on exploration.

**HARDY OIL & GAS plc**  
**Group Profit and Loss Account**  
**For the year ended 31 December 2005**

	<b>Notes</b>	<b>2005</b> \$	2004 \$
<b>Turnover</b>	4	17,574,440	13,719,650
<b>Cost of sales</b>			
Production costs		(2,951,270)	(3,002,584)
(Decrease) /increase in stock		(296,340)	250,915
Depletion		(1,562,933)	(1,464,637)
Decommissioning charge		(57,779)	(7,770)
<b>Gross Profit</b>		<b>12,706,118</b>	<b>9,495,574</b>
Administrative expenses		(4,436,351)	(2,419,096)
<b>Operating Profit</b>		<b>8,269,767</b>	<b>7,076,478</b>
Income from other fixed asset investments		165,570	108,502
Interest receivable and similar income		724,526	122,931
Interest payable and similar charges		(361,204)	(275,374)
<b>Profit on ordinary activities before taxation</b>		<b>8,798,659</b>	<b>7,032,537</b>
<b>Tax on profit on ordinary activities</b>			
-current		(318,894)	(275,706)
-deferred		(2,815,000)	(3,298,000)
		<b>(3,133,894)</b>	<b>(3,573,706)</b>
<b>Profit for the financial year</b>		<b>5,664,765</b>	<b>3,458,831</b>
Earning per ordinary share- basic	2	<b>0.12</b>	<b>0.10</b>
Earning per ordinary share- diluted		<b>0.11</b>	<b>0.09</b>

The Profit and Loss Account contains all the gains and losses recognised in the current year and previous year.

**Reconciliation of Movements in Shareholders' Funds**  
**For the year ended 31 December 2005**

	<b>Group 2005 \$</b>	<b>Group 2004 \$</b>
Profit/(loss) for the financial year	5,664,765	3,458,831
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New share capital subscribed	20,772,691	1,788,410
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Net addition to shareholders' funds	26,437,456	5,247,241
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Opening shareholders' funds	23,478,019	18,230,778
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Closing shareholders' funds	49,915,475	23,478,019
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**HARDY OIL & GAS plc**  
**Balance Sheets**  
**As at 31 December 2005**

	Group 2005 \$	Group 2004 \$
<b>Fixed assets</b>		
Intangible assets	9,547,305	8,719,525
Tangible assets	11,395,296	6,179,126
Investments	2,218,122	2,218,122
	<b>23,160,723</b>	17,116,773
<b>Current assets</b>		
Stocks	349,929	646,269
Deferred tax asset	745,000	773,000
Debtors	4,343,755	2,740,896
Cash at bank and in hand	31,234,376	9,082,162
	<b>36,673,060</b>	13,242,327
<b>Creditors:</b> amounts falling due within one year	<b>(5,267,588)</b>	(5,585,081)
<b>Net current assets</b>	<b>31,405,472</b>	7,657,246
<b>Total assets less current liabilities</b>	<b>54,566,195</b>	24,774,019
Provisions for liabilities	(1,863,720)	(1,296,000)
Deferred tax liability	(2,787,000)	-
<b>Net assets</b>	<b>49,915,475</b>	23,478,019
<b>Capital and reserves</b>		
Called-up share capital	520,467	4,111
Share premium	28,507,954	8,251,619
Profit and loss account	20,887,054	15,222,289
<b>Equity shareholders' funds</b>	<b>49,915,475</b>	23,478,019

**HARDY OIL & GAS plc**  
**Group Statement of Cash Flows**  
**For the year ended 31 December 2005**

	2005	2004
	\$	\$
<b>Net cash inflow from operating activities</b>	<b>11,044,390</b>	6,723,755
<b>Returns on investments and servicing of finance</b>		
Income from other investments	165,570	108,502
Interest received	487,432	122,931
Interest paid	(304,954)	(348,478)
<b>Net cash inflow from return on investments and servicing of finance</b>	<b>348,048</b>	(117,045)
<b>Taxation</b>	<b>(972,329)</b>	(1,706)
<b>Capital expenditure and financial investment</b>		
Expenditure on exploration assets	(7,735,427)	(1,401,134)
Expenditure on development/producing assets	1,014,104	(2,930,605)
Purchase of other fixed assets	(458,012)	(55,787)
Proceeds from disposal of interests in development assets	-	280,000
Proceeds from disposal of subsidiary undertakings	-	767,597
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(7,179,335)</b>	(3,339,929)
<b>Net cash inflow before financing</b>	<b>3,240,774</b>	3,265,075
<b>Financing</b>		
Issue of shares	20,772,691	1,788,410
Repayment of bank loan	(1,861,251)	(441,484)
Repayment of unsecured loan	-	(1,000,000)
	<b>18,911,440</b>	346,926
<b>Increase in cash for the year</b>	<b>22,152,214</b>	3,612,001

NOTES:

1. No dividend has been declared (2004: nil)
2. The earning per share is calculated on a profit of \$5,664,765 (2004: \$3,458,831) on a weighted average of 47,871,777 ordinary shares (2004: 34,962,090) The weighted average shares are arrived after giving impact to bonus shares issued at the rate of 99 shares for one share held in May 2005.

The diluted earning per share is calculated on a profit of \$5,664,765 (2004: \$3,458,831) on a weighted average of 50,588,876 ordinary shares (2004:40,362,090). The weighted average shares are arrived after giving impact to bonus shares issued at the rate of 99 shares for each share in May 2005 and dilutive potential ordinary shares of 2,717,099 (2004: 5,400,000) relating to share options.

3. Accounting convention; the accounts are prepared under the historical cost convention.
4. Turnover and Segmental Analysis

	2005		2004	
	India	London	India	London
Continuing Operations				
- Oil sales	21,308,877	-	13,447,529	-
- Profit oil to government	(3,983,854)	-	(790,518)	-
- Other income	2,641	246,776	17,955	1,044,684
	17,327,664	246,776	12,674,966	1,044,684

Other income relates to technical services to third parties, overhead recovery from joint venture operations and miscellaneous receipts if any. Turnover arises from sale of oil produced from the contract area CY-OS-90/1-India and the turnover by destination is not materially different from the turnover by origin.

5. Basis of Accounting; Hardy prepares its accounts in accordance with UK Generally Accepted Accounting Principles ("UK GAAP") and in accordance with the Statement of Recommended Practice ("SORP") issued by the Oil Industry Accounting Committee, United Kingdom; Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities.
6. Basis of Consolidation; The consolidated accounts include the results of Hardy Oil & Gas plc, and its subsidiary undertakings. The consolidated profit and loss account and cash flow statement include the results and cash flows of subsidiary undertakings. No separate company profit and loss account is presented. The Company conducts the majority of its exploration, development and production through unincorporated joint arrangements with other companies. The accounts reflect the Company's share of production and costs attributable to its participating interests under the proportional consolidation method.
7. The financial information contained in this announcement does not constitute the Companies statutory accounts. However, the financial statements contained in this announcement are extracted from the audited statutory accounts for the financial year ended 31 December 2005, which will be delivered to the Registrar of Companies.
8. The Directors have considered the factors relevant to support a statement on going concern. They have a reasonable expectation that the Company will continue in

operational existence for the foreseeable future and have therefore used the going concern basis in preparing financial statements.

9. The Auditors, Horwath Clark Whitehill LLP, have issued an unqualified audit report in the statutory financial statements.
10. Full accounts are due to be posted to shareholders on or before 31 May 2006 and will be available at the company's registered office,
11. The Annual General Meeting is due to be held at the company's registered office, Old Bank Chambers 15-19 Athol Street, Douglas, Isle of Man, IM1 1LB on 28 June 2006.