



# Hardy Oil and Gas plc

Annual Report and Accounts  
FY2018

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## Welcome

**Hardy Oil and Gas plc is an upstream oil and gas company whose operating assets are in India**

Our portfolio includes a blend of appraisal and development assets

Hardy's goal is to evaluate and exploit its asset base with a view to creating significant value for its shareholders



Please visit our website for more information: [www.hardyoil.com](http://www.hardyoil.com)



## Our key objectives this year

1

### The enforcement of the CY OS/2 award

An arbitration tribunal has ordered the GOI to reinstate the CY-OS/2 exploration licence to Hardy and pay certain compensation. India's Supreme Court is hearing an appeal by the GOI. Hardy has filed an execution petition in the Delhi HC and initiated confirmation proceedings in the US and UK.

2

### Realise production from our asset portfolio

The PY-3 RFFDP has been unanimously recommended by the operating committee along with an extension application which is being reviewed by MOPNG. The RFFDP is projected to realise oil production of up to 7,000 bbl per day and recover 12 million bbls of oil.

3

### Returning value to shareholders

Hardy has in place clearly defined strategies to achieve our key objectives. The successful implementation of these strategies is expected to deliver new resources to facilitate the expansion of the Company's upstream portfolio and return value to shareholders.





**This section of the report details the progress of the Company throughout the year and where we are with the ongoing litigation with the Union of India**

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# Strategic Report

# Summary FY2018

Hardy Oil and Gas plc (LSE: HDY), the oil and gas exploration and production company focused in India, reports final results for the year ended 31 March 2018

## Summary

### CY-OS/2

The Government of India's (GOI) appeal of the CY-OS/2 international arbitration award, in favour of Hardy (the Award), continued. The Award entitles Hardy to further time to appraise a natural gas discovery located within the CY-OS/2 block and to compensation. On 1 May 2018 the Supreme Court of India two-member bench referred the matter to a larger bench. We remain resolved to see off all legal challenges put forward by the GOI, whether in India or in other jurisdictions in which we elect to execute or confirm this unanimous international arbitration award.

### PY-3

Progress was made in our PY-3 oil field asset wherein we were able to establish a consensus regarding a development plan for the field. This achievement facilitated the submission of an extension application for the PY-3 field Production Sharing Contract by up to 10 years.

### GS-01

Our plan to acquire a further interest in, and operatorship of, the GS-01 asset remains in place. The acquisition process is primarily dependent on the settlement of liquidated damages relating to an Unfinished Minimum Work Programme.

## Financial

Total comprehensive loss of \$4.7 million for FY2018 compared to a loss of \$9.2 million for FY2017. The loss is attributable primarily to general and administrative expenditure which included a significant increase in legal expenses. In FY2017 the Group wrote down \$3.0 million of property, plant and equipment associated with PY-3 and \$4.5 million of deferred tax assets and reversed the decommissioning provision by \$0.8 million. Cash and short-term investments at 31 March 2018 amounted to \$9.2 million; Hardy has no debt.

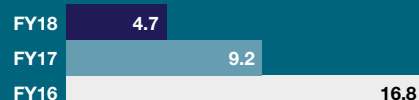
**Read the full Financial Review on pages 18 to 19**

### Cash and short-term investments at 30 Sept 2018

**\$9.2 million**

### Total comprehensive loss (\$ million)

**4.7**



## Outlook

### CY-OS/2

The GOI Supreme Court hearings are expected to recommence in August of this year and may continue into 2019. We will continue legal process to enforce the Award in the US and the UK.

### PY-3

A Revised Full Field Development Plan (RFFDP) was unanimously agreed among the PY-3 partners. The RFFDP is currently under review by the Directorate General of Hydrocarbons and we will start the tendering process to recommence production once we have secured the MC approval for the RFFDP and commensurate budgets and subsequent confirmation of the GOI sanctioning of an extension to the PY-3 PSC.

### GS-01

If we can conclude the acquisition process, we will either need to explore alternative development plans or trust that the GOI's policy to allow free market pricing will be realised.

The Group's primary objective remains the enforcement of the CY-OS/2 Award, which will deliver new cash resources to expand our portfolio within or outside India. Having secured unanimous approval from the PY-3 uJV partners, we will be aiming to secure Management Committee approval of the PY-3 RFFDP, the regularisation of past and present budgets and the receipt of an extension of the PY-3 PSC. Achieving this will create a clear path to realising the recommencement of production from PY-3.

# Business Model

The assets in the Group’s portfolio are, to varying degrees, involved in litigation of disputes. As a result, the Group’s activities, in the short-term, are not necessarily focused on those described below. It remains the Group’s long-term objective to undertake activities commensurate with the business model described herein



### 1. Acquire directly through national authorities or indirectly via purchase or farm-in

Obtaining hydrocarbon exploration rights is accomplished through:

- (a) The granting of exploration licences by the government of the countries in which we choose to invest. In India this is accomplished via the Open Acreage Licensing Policy (OALP)/ Hydrocarbon Exploration Licensing Policy (HELP), which are competitive closed bid processes held periodically.
- (b) The acquisition of exploration licences from third parties. This can be accomplished via direct farm-in, purchase or corporate mergers.

### 2. Geoscience surveys and studies, high-grade prospects, verify via drilling

Exploration campaigns are planned to try to discover oil and gas fields within under-explored sedimentary basins. Initial activity will typically involve investment in extensive geotechnical analysis which will typically include geological modelling of sedimentary basins, and the acquisition of seismic and other data, which is then integrated to facilitate the identification of possible subsurface hydrocarbons accumulations (prospects). Drilling of exploration wells commences if a prospect has a reasonable chance of success and meaningful size estimate.



### 3. Geotechnical and engineering studies to assess commerciality of discoveries

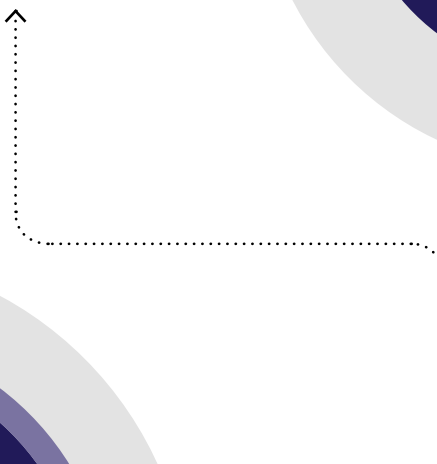
When we have a significant discovery we undertake appraisal programmes which may include the drilling of wells and further geotechnical analysis to determine the size and quality of the discovery. Initial development concepts are also formulated at this time to facilitate the determination of commerciality. Markets to monetise the discovered hydrocarbons are also identified at this time.





**6. Establish sustainable business, return capital to shareholders**

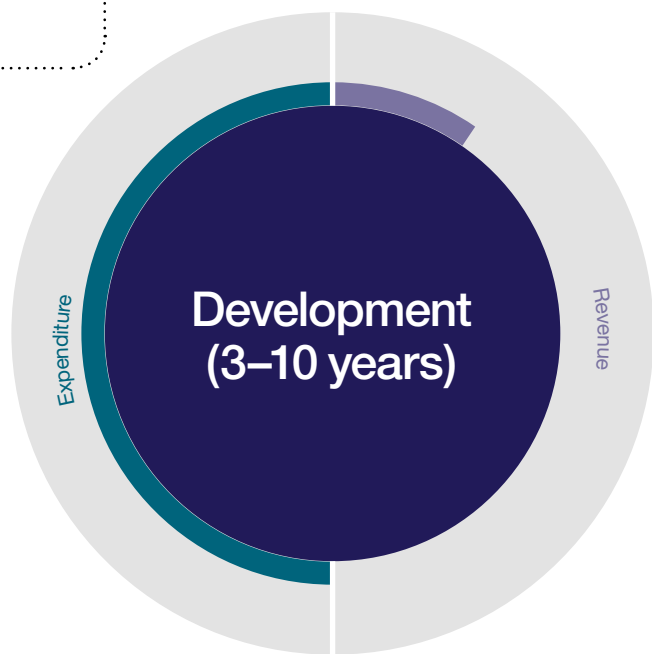
After retaining sufficient profit to reinvest in the business, we return profits to our shareholders. Divestment and farm-downs, throughout the investment cycle described above, may also accelerate the return of profits to shareholders.



**HARDY FOCUS**

**5. Monitor production and performance, identify viable enhanced recovery techniques**

Once a discovery is in production we use our expertise and knowledge to ensure strategies optimise recovery in a safe and cost effective manner. Later in a field's life we create value through the implementation of enhanced production strategies to optimise the value of recoverable hydrocarbons from existing producing fields.



**HARDY FOCUS**

**4. Finalise optimal development plan, implement plan and commence production**

If the appraisal programme confirms that the development of a discovery will be commercially and financially viable, we begin work on a development plan. The plan will map out the optimal process to extract the hydrocarbons in a cost-effective manner and identify which markets the production may be sold into. Field developments are complex, require significant capital investment and may take many years to implement.



# Chairman's Statement



**We have in place clear plans for all our assets. Our foremost objective, the enforcement of the CY-OS/2 Award, will deliver new resources to the Group**

During the year ended 31 March 2018 (FY2018) we spent considerable time and resources disputing the Government of India's (GOI) Special Leave Petition (SLP) filed in the Supreme Court of India (SC), wherein they are disputing a previous Delhi High Court judgment that Indian courts do not have jurisdiction to hear an appeal of the CY-OS/2 arbitration award (the Award). The Award entitles Hardy Exploration & Production (India) Inc (HEPI) to further time to appraise a natural gas discovery located within the CY-OS/2 block and to compensation for being deprived of the benefit of our investment in the block. On 1 May 2018 the SC two-member bench referred the matter to a larger bench. We are clearly disappointed with this action as it results in further delay. We remain resolved to see off all legal challenges put forward by the GOI, whether in India or in other jurisdictions in which we elect to execute or confirm this unanimous international arbitration award.

We are delighted with the progress made in our PY-3 oil field asset, wherein we were able to establish a consensus regarding a development plan for the field. This achievement facilitated the submission of an extension application for the PY-3 field Production Sharing Contract by up to 10 years.

## Strategy

The Group's long-term strategy is to be an active participant in the upstream oil and gas industry, realise value from our current India focused portfolio and pursue new opportunities as they arise. The successful conclusion to the enforcement of the CY-OS/2 Award process would provide Hardy with significant funds to add new upstream assets. Securing Management Committee (MC) approval for the PY-3 Revised Full Field Development Plan (RFFDP) and GOI sanctioning of an extension of the production sharing contract (PSC) will facilitate activity to recommence production. We have clear plans in place for the other assets in our portfolio. The Group's short-term strategic objectives are focused on achieving positive outcomes from various legal and dispute resolution processes. Our strategies to mitigate negative outcomes have been formulated with input and guidance from various legal experts and advisors.

## Market overview

Due to strong global demand, commodity pricing levels have risen to their highest since 2014. Since January 2017, the beginning of a crude oil production cut agreement among certain countries within and outside the Organization of the Petroleum Exporting Countries (OPEC), the EIA estimates that global petroleum inventories have declined at an average rate of more than 0.5 million barrels per day (b/d) and, looking forward, US and Iran tensions may also contribute to declines in global production. Industry costs have stabilised but remain much lower than in 2014. We anticipate some upward pressure on the cost of upstream services and equipment, should oil prices remain above \$70 per barrel. India is enjoying a period of robust growth and continues to rely on the import of oil and gas to meet its energy requirements. Prime Minister Modi's objective to increase domestic production and improve energy security has resulted in more proactive measures being taken by the GOI, including new licensing auction rounds for discovered small fields (DSF) and an open acreage licensing policy (OALP).

As at 31 March 2018, the Group had \$9.2 million of cash and short-term investments with no secured debt. The Group has sufficient resources to pursue our primary objective to enforce the CY-OS/2 Award. The Group maintains robust internal control and risk management systems appropriate for a company of our size and resources.

## Governance

The Board composition remained constant throughout the year. Further details of the Board's activities this year can be found in the Corporate Governance section of this report. The Group's near-term principal risks remain the timing or execution of planned activities may not commence as forecast; the possible relinquishment of appraisal acreage; liabilities related to ongoing disputes; and costs associated with noted disputes.

In accordance with provision C.2.2 of the 2016 UK Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required for the "Going Concern" statement. The Board conducted this review for a period of three years to 31 March 2021.

Management has demonstrated its commitment to achieve our objectives, notwithstanding the actions being adopted by the GOI regarding the appeal of the CY-OS/2 Award, and those of the uJV partners of PY-3. Management's continued resilience under these challenging circumstances is to be commended.

## Objectives and outlook

Our foremost objective, the enforcement of the CY-OS/2 Award, will deliver new resources to the Group, allowing us to expand our portfolio of upstream oil and gas assets and resume activity consistent with our business model of being a full cycle oil and gas producer. Our other near-term priorities remain the recommencement of production from the PY-3 oil field, enforcing our rights to recovery amounts due from uJV partners and disputing various claims against HEPL.

## Alasdair Locke Chairman

7 June 2018

# Chief Executive Officer's Review



**In FY2018 we were successful in establishing a consensus among the parties to the PY-3 unincorporated Joint Venture (uJV) regarding the future development of the PY-3 field**

## Introduction

In FY2018 we were disappointed with the progress of CY-OS/2 litigation as the GOI's Special Leave Petition (SLP) before the Supreme Court of India (SC) was affected by continual adjournments and delays. After having the matter listed 41 times over 17 months, at considerable cost, the SC bench decided that it could not decide the matter and referred the SLP to a larger SC bench. We are fully committed to seeing through the enforcement of the CY-OS/2 Award which will provide a significant capital infusion and allow us to recommence appraisal of the Ganesha natural gas discovery within the CY-OS/2 block.

In FY2018 we were successful in establishing a consensus among the parties to the PY-3 unincorporated Joint Venture (uJV) regarding the future development of the PY-3 field. This achievement facilitated our ability to submit an extension application in accordance with the GOI extension policy. We continued to fulfil our obligations as Operator of the PY-3 uJV, including the development of a Revised Full Field Development Plan (RFFDP), protecting the uJV interests against unfounded third-party claims and other compliance requirements. Notwithstanding our efforts, the non-operating partners continued to deny any liabilities for the costs that HEPI has and continues to incur in fulfilling obligations of the operator and, as a result, arbitration was initiated. The arbitration process is expected to conclude by the end of the calendar year.

## Implementing our strategy

Enforcement of the CY-OS/2 Award is our primary focus. Successful implementation of the CY-OS/2 Award will create a robust platform for Hardy to rebuild our portfolio of upstream assets. The commencement of production from the PY-3 field, considering current economic conditions, remains viable under the PY-3 Operating Committee's recommended RFFDP, which is currently under review by the Directorate General of Hydrocarbons (the technical advisory arm of the Ministry of Petroleum and Natural Gas).

## Operations

On 1 May 2018, the SC bench, comprising Hon'able R Agrawal and A Sapre, referred the GOI's SLP to a larger SC bench. The SLP is challenging a Delhi HC judgement that the Indian courts do not have jurisdiction to hear an appeal of the CY-OS/2 international arbitration as the seat of arbitration was Malaysia. We are disappointed with the duration and conclusion of the SC but remain resolved to challenge the GOI's appeal to a larger SC bench. The SC hearings are expected to recommence in August of this year and may continue into 2019.



We continue to believe that:

- The arbitration award, issued by a tribunal, comprising three former Chief Justices of India, was unanimous and well-reasoned.
- The dispute resolution articles of the Production Sharing Contract (PSC) clearly state that an arbitration award is to be final and binding on all parties.

In our view, therefore, the GOI's appeal breaks the sanctity of the PSC. However, should the Supreme Court overrule the HC ruling then the merits of the award will be heard in an Indian High Court. India is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (New York Convention). This allows entities/nation states the right to enforce foreign arbitral awards in any jurisdiction which is a signatory to the New York Convention. Statute of limitation constraints prompted Hardy to initiate legal proceedings (award confirmation) in the USA to preserve our rights to enforce the CY-OS/2 Award. In FY2017 we also initiated enforcement of our legal rights in the UK. Our preference remains to conclude the process within the framework of India's judicial system, which would result in restoration of the block, enabling Hardy to continue with an appraisal programme.

The resumption of production from our PY-3 asset remains a priority. We made good progress in this regard as an RFFDP was unanimously agreed among the PY-3 partners and, as a result, we were able to submit an extension application to the GOI in accordance with its policy. The RFFDP provides for recommencing production from an existing well prior to December 2019; drilling one development well in the first half of 2020; and tie-in to the PY-1 infrastructure to export produced gas. The RFFDP is currently under review by the DGH and we will commence the tendering process once we have secured MC approval for the RFFDP and commensurate budgets and subsequent confirmation of the GOI sanctioning of an extension to the PY-3 PSC.

Our plan to acquire a further interest in, and operatorship of, the GS-01 asset remains in place. The acquisition process is primarily dependent on the settlement of liquidated damages relating to an Unfinished Minimum Work Programme. The GOI current gas pricing policy stipulates a price of \$3.1 per mmbtu, which does not support the proposed development plan for Dhirubhai 33. If we can conclude the acquisition process, we will either need to explore alternative development plans or trust that the GOI's policy to allow free market pricing needs to be realised.

### Health, Safety and Environment (HSE)

As an offshore operator, the Group is committed to excellent health and safety practices which are at the forefront of all our activities. Although all offshore activities were suspended in 2012, our intention to initiate activities in the future means that we will continue our commitment to maintain high HSE standards throughout the organisation.

### Financial

The Group is reporting a total comprehensive loss of \$4.7 million for the year ended 31 March 2018 (FY2018) compared to a loss of \$9.2 million for the year ended 31 March 2017 (FY2017). The loss is attributable primarily to general and administrative expenditure, which included a significant increase in legal expenses of over \$2.3 million. In FY2017 the Group wrote down \$3.0 million of property, plant and equipment associated with PY-3 and \$4.5 million of deferred tax asset and reversed the decommissioning provision by \$0.8 million.

Conservation of cash resources is paramount for the Group. Total general and administrative expenditure increased from \$2.6 million in FY2017 to \$5.2 million in FY2018. The increase is attributable to legal expenditures, which we project will continue through FY2019 but will fall significantly in FY20 as ongoing litigation matters are concluded. The Group projects administrative expenses for FY2019 to be around \$4.5 million.

Cash used in operating activities amounted to \$5.4 million for the year ended 31 March 2018 compared to a cash outflow of \$3.2 million for the year ended 31 March 2017. The Group's capital expenditure was marginal and investment income at \$0.4 million, with cash and short-term investments of \$9.2 million as at 31 March 2018 and no debt.

### Outlook

The Group's primary objective remains the enforcement of the CY-OS/2 Award, which will deliver new cash resources to expand our portfolio within or outside India. Having secured unanimous approval from the PY-3 uJV partners, we will be aiming to secure Management Committee approval of the PY-3 RFFDP, the regularisation of past and present budgets and the receipt of an extension of the PY-3 PSC. Achieving this will create a clear path to realising the recommencement of production from PY-3.

**Ian MacKenzie**  
Chief Executive Officer

7 June 2018

# Market Overview

## India's political, legal and upstream regulatory policies combined with globally competitive fiscal terms provide a positive foreign investment environment

The IFC estimated that global growth was 3.8 per cent which was the fastest since 2011. Assuming financial conditions remain positive, the IFC expects, global growth to remain robust in 2018 and 2019. It is expected that the Euro area economies are set to narrow excess capacity with support from accommodative monetary policy, and expansionary fiscal policy will drive the US economy above full employment. Aggregate growth in emerging market and developing economies is projected to firm further, with continued strong growth in emerging Asia and Europe and a modest upswing in commodity exports after three years of weak performance.

Global growth is projected to soften beyond the next couple of years. Once output gaps close, most advanced economies are poised to return to potential growth rates well below pre-crisis averages, held back by aging populations and lacklustre productivity. Downside concerns include a possibly sharp tightening of financial conditions, waning popular support for global economic integration, growing trade tensions and risks of a shift toward protectionist policies, and geopolitical strains.

Commodity pricing including crude oil and LNG prices have risen to their highest levels since 2014. Since January 2017, the beginning of a crude oil production cut agreement among certain countries within and outside the Organization of the Petroleum Exporting Countries (OPEC), the EIA estimate that global petroleum inventories have declined at an average rate of more than 0.5 million<sup>1</sup> barrels per day (b/d). OPEC countries produced at the organisation's lowest levels since April 2015 and below the agreed-upon production reductions. Oil prices may have also risen due to the expectation that the reinstatement of US sanctions on Iran may contribute to declines in the country's crude oil production. Further, strong global oil demand growth has added to upward price pressures. EIA estimates that global oil consumption in the first quarter of 2018 was 2 per cent higher than it was in the first quarter of 2017. Backwardation (when near-term prices are higher than longer-dated prices) also increased in April and reached the highest levels since 2014, indicating high demand for immediate oil deliveries. The increase in the backwardation of crude oil prices suggests there is an incentive for holders of oil in physical storage to sell on spot markets.

### India

In India, the economy is recovering from temporary disruptions from the November 2016 currency exchange initiative and the July 2017 rollout of the new Goods and Services Tax. Growth rebounded strongly to 7.2 per cent in the third quarter of FY2018, up from 6.1 per cent in the first half of the fiscal year. CPI inflation in FY2018 is estimated at 3.6 per cent, close to the midpoint of the target band (4 per cent  $\pm$  2 per cent), reflecting low food price inflation in the first half of the year.

India's GDP growth, projected at 6.7 per cent in FY2018, is projected to recover to 7.4 per cent in FY2019, making India one of the region's fastest-growing economies. The recovery is expected to be underpinned by a rebound from transitory shocks as well as robust private consumption. Medium-term headline CPI inflation is forecast to remain within but closer to the upper bound of the Reserve Bank of India's inflation-targeting band (4 per cent  $\pm$  2 per cent). Medium-term growth prospects remain positive, benefiting from key structural reforms, including the landmark national Goods and Services Tax reform. The current account deficit in FY2018 is expected to widen somewhat but should remain modest, financed by robust foreign direct investment inflows.

Turning to energy consumption, BP's Energy Outlook 2018 projected India's energy demand through to 2040 will grow by 165 per cent, nearly three times the overall non-OECD growth of 61 per cent and it is expected that India will outpace each of the BRIC countries: China, Brazil, and Russia. India's share of global demand is anticipated to rise to 11 per cent in 2040, from 5 per cent in 2016, accounting for the second largest share of the BRIC countries. Through the same period demand for oil and gas is anticipated to grow by 129 per cent and 185 per cent respectively. By 2040, oil production is projected to decline by 24 per cent and domestic natural gas production will increase by 99 per cent. As a result, oil imports will rise by 175 per cent and may account for 65 per cent of the increase in energy imports, followed by gas (+291%).

According to PNGRB – Vision 2030 Natural Gas Infrastructure, India's demand for natural gas is expected to grow by about 19 per cent per annum (from 370 mmscmd in 2016 to 516 mmscmd in FY2023) to meet the ever increasing requirements of the power, fertiliser and other industries. The Compressed Natural Gas (CNG) and city gas sector are also projected to see a quantum growth in natural gas use. The GOI's New Domestic

1 IMF <https://www.eia.gov/outlooks/steo/marketreview/crude.php> - 8 May 2018.

Oil Imports

**80%**

Population

**1.3 billion**



Energy Consumption CAGR

**4.2%**

GDP growth per annum

**6.7%**

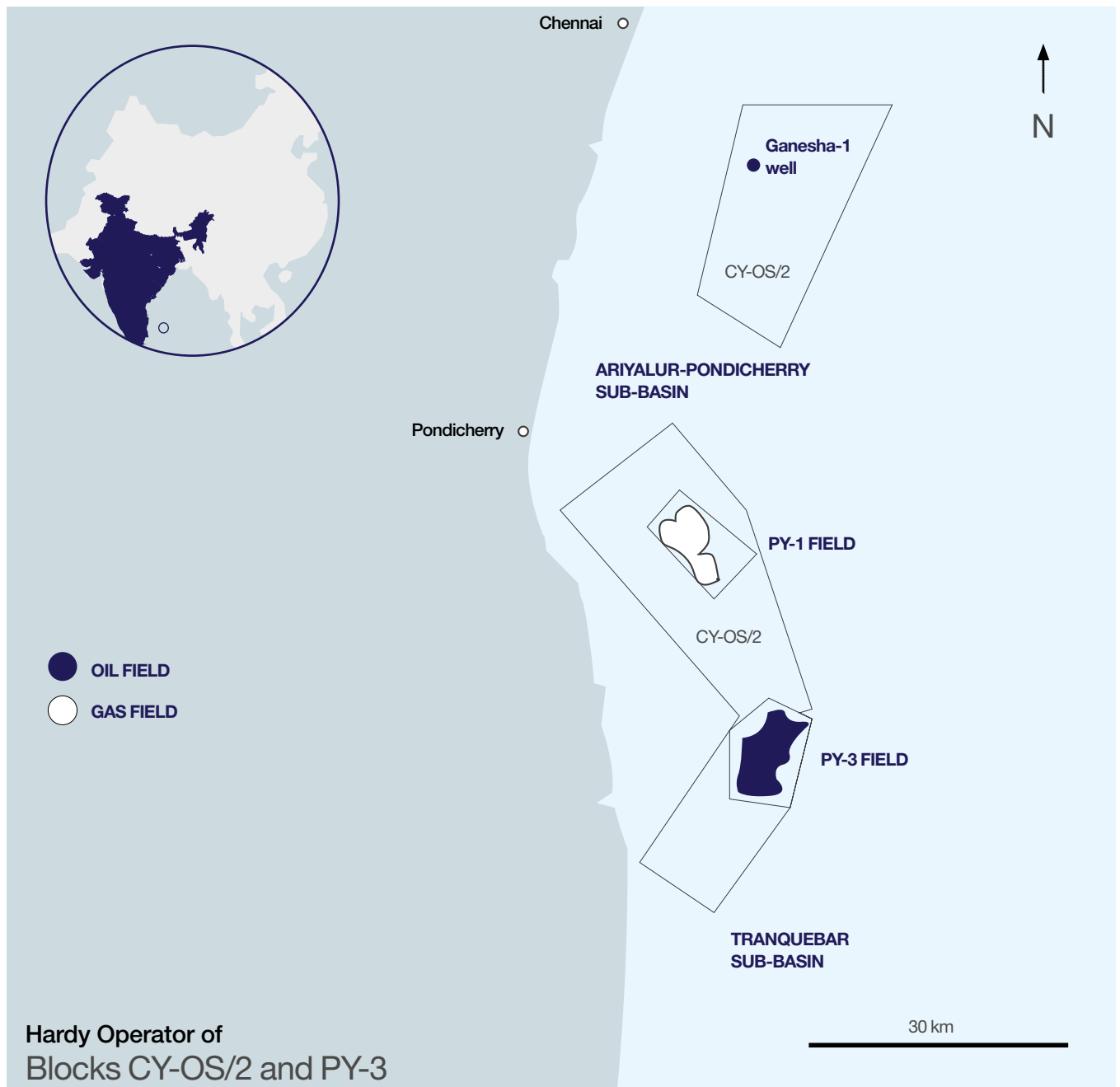
Natural Gas Guidelines, benchmarked domestic natural gas prices to market prices of net exporting countries. As a result, prices are much lower than the cost of replacement fuels in India and up to three times lower than LNG prices in Asia. The current notified price is \$3.1 per mmbtu based on the net calorific value (NCV) of the sales gas.

Under the leadership of Prime Minister Narendra Modi and the Bharatiya Janata Party, India’s administration has introduced several proactive and effective policy changes. Hardy has previously observed that the DGH and MOPNG are making substantial improvements in accessibility, accountability, and timeliness, leading to facilitating constructive solutions to industry issues. Notwithstanding the positive steps being implemented, improvements in many aspects of oversight and regulation of the country may need improvement to achieve the country’s stated ambitions. Transparency International ranked India 81 out of 180 countries noting that India had one of the highest bribery rates of all the countries surveyed, where nearly seven in 10 people, who had accessed public services, had paid a bribe<sup>2</sup>. Taxation authorities and the judiciary have also come under scrutiny for overreach and ineffectiveness respectively. The upstream industry continues to be subjected to retrospective claims for indirect tax demands. The phased adoption of GST has created instances of double taxation burdens or absence of offset credits. It has been reported<sup>3</sup> that the India legal system has more than 22 million legal cases pending, 6 million of which have been stuck in the courts for five years or longer. India has 14 judges per million people compared with 107 in America. HEPI has experienced exceptionally protracted and expensive judicial resolutions due, in part, to the under resourced and inefficient judicial system. India’s decision to terminate all bilateral investment treaties is a noted concern. The GOI ‘s has published a model treaty which an investor to first exhaust all judicial and administrative remedies prior to initiating an arbitration claim. This is generally seen to dilute the remedies and protections for foreign direct investors.

2 PEOPLE AND CORRUPTION: ASIA PACIFIC – GLOBAL CORRUPTION BAROMETER, Transparency International, March 2017.  
 3 Justice in India: Dropping the scales - Economist - May 2016.

# Operations

The Group'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 Group is committed to excellent health and safety practices which are at the forefront of all our activities. Although all offshore activities are currently suspended, maintaining high HSE standards throughout the organisation remains core to all our undertakings. The Group's HSE policy document is regularly reviewed and amended as appropriate.

### Block CY-OS/2:

#### Appraisal (Hardy 75 per cent interest – Operator)

HEPI is the Operator of the CY-OS/2 block which is located offshore India's East Coast and encompasses a natural gas discovery, Ganesha. In 2009 HEPI was informed that the GOI had deemed the block relinquished, citing expiration of time to appraise the Ganesha discovery. Since this time HEPI has relied upon the contractual rights provided under a Production Sharing Contract. In accordance with that contract, a tribunal issued an order concluding that the GOI action was illegal and required the GOI to reinstate the block. The GOI has subsequently been attempting to have the award overturned by the India courts. The GOI's request for the Indian courts to hear an appeal of the tribunal award has been frustrated by the Delhi HC Division Bench 27 July 2016 judgment which concluded that India did not have jurisdiction to hear the GOI appeal. The GOI had appealed this decision to the Supreme Court (SC) of India, which was ongoing throughout FY2018.

#### GOI Appeal

The GOI Special Leave Petition was listed before the SC bench, comprising Hon'able Judges Rajesh Kumar Agrawal and Abhay Manohar Sapre, 41 times over a 17-month period. Following this protracted and costly process, on 1 May 2018 the India SC bench took the decision not to pass judgment and instead referred the matter to a larger SC bench. An extract from the judgment is provided below:

From the Judgment of THE SUPREME COURT OF INDIA, CIVIL APPELLATE JURISDICTION, CIVIL APPELLAL NO. 4628 OF 2018

*"In our opinion, though, the question regarding the "seat" and "venue" for holding arbitration proceedings by the arbitrators arising under the Arbitration Agreement/International Commercial Arbitration Agreement is primarily required to be decided keeping in view the terms of the arbitration agreement itself, but having regard to the law laid down by this Court in several decisions by the Benches of variable strength as detailed above, and further taking into consideration the aforementioned submissions urged by the learned counsel for the parties and also keeping in view the issues involved in the appeal, which frequently arise in International Commercial Arbitration matters, we are of the considered view that this is a fit case to exercise our power under Order VI Rule 2 of the Supreme Court 12 Rules, 2013 and refer this case (appeal) to be dealt with by the larger Bench of this Court for its hearing."*

Prior to the 1 May 2018 order, on 14 March 2018, the SC bench had issued a Stay Order prohibiting HEPI from executing the arbitration award. The order stated that "...as the matter had been substantially heard and is likely to be decided very soon..." they deemed it appropriate to stay the enforcement of the award. Notwithstanding the assertion articulated in the 14 March order, the matter was not decided. It is understood that a new bench may be constituted later in the year, however it is unclear how long this process will take.

The table below summarises the extraordinary actions HEPI has undertaken in India to enforce its contractual rights provided to it under the GOI's PSC:

Date	Description	Listings #	Duration (days)
01 2009	GOI via DGH issues notice of relinquishment.		
05 2010 – 03 2013	The Tribunal of an arbitration process, initiated by the CY-OS/2 Joint Venture, determined that the relinquishment was illegal and issued an order for the GOI to reinstate the block and awarded compensation for denial of investment.		1,035
07 2013 – 03 2015	A GOI appeal, in the HC of Delhi (single judge), against the arbitration award dismissed the appeal based on the withdrawal of the GOI.	10	738
08 2015 – 01 2016	A GOI application, in the HC of Delhi (single judge), seeking for a review of the HC's 03 2015 dismissal.	7	169
02–06 2016	A GOI appeal, to the HC of Delhi (two-member bench), against the arbitration award was dismissed based on the bench's judgment that the Seat of arbitration was Malaysia and as a result Indian courts did not have jurisdiction to hear an appeal of the merits of the arbitration Award.	11	159
10 2016 – 04 2018	A GOI appeal, to the SC of India (two-member bench), of the HC judgment passed in favour of HEPI in July 2016. Substantial arguments heard on 17 occasions. On 14 March 2018 the bench issued a Stay order restricting HEPI from enforcing the award. On 1 May the bench issued an order referring the matter to a larger SC bench.	41	570
08 2018 – present	As per the SC order of 1 May 2018, the GOI appeal has been referred to a larger SC bench and the Hon'ble the Chief Justice of India has been requested to constitute the appropriate Bench for hearing and disposal of this appeal.	12*	365*

\* Hardy estimate.

# Operations continued

## Enforcement

HEPI has previously filed an execution petition with the Delhi HC and this has run in parallel with the GOI's appeal. The Delhi HC execution petition has been continually adjourned due to the ongoing GOI appeal in the SC. It is expected that the execution hearings will progress should GOI's appeal in the SC be dismissed.

In late July 2017, the Group initiated enforcement proceedings in the UK's High Court of Justice. HEPI had previously initiated Confirmation proceedings in the Federal Court of Washington DC, United States of America. These actions have been initiated to maintain HEPI's right to enforce all or a part of the Award in the US and the UK. The Confirmation proceedings in the Federal Court of Washington DC have been due since November 2017. To date there has been no indication when the Federal Court will pass judgment. In July 2017, HEPI initiated Enforcement Proceeding in the London Commercial High Court of Justice. The GOI is currently contesting that order in the UK. HEPI initiated Enforcement Proceedings in HEPI's primary objective remains to conclude the appeal and enforcement process within the Indian judicial system.

## FY2019 Objectives

We will continue to seek the restoration of the CY OS/2 block to the joint venture in a timely manner. The SC deferment of judgment to a larger bench means that the appeal and enforcement process in India is likely to continue through 2018. HEPI believes that it has a strong position as the unanimous international award, passed by three former Chief Justices of India, is well reasoned. Hardy intends to 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.

## Contingent asset

As at 31 March 2018, Hardy's 75 per cent share of the compensation awarded by the Hon'ble Arbitration Tribunal amounted to approximately \$78.2 million.

## Background

Hardy is the operator of the CY-OS/2 exploration block and holds a 75 per cent participating interest. The block is in the northern part of the Cauvery Basin immediately offshore from Pondicherry, India and covers approximately 859 km<sup>2</sup>. The Ganesha-1 discovery well was drilled to a depth of 4,089 m and on testing the well flowed natural gas at a peak rate of 10.7 mmscfd.

## Award summary

Relinquishment by the Ministry of Petroleum and Natural Gas (MOPNG) of the GOI was illegal; the unincorporated Joint Venture (uJV) shall be entitled to a period of three years from the date on which the block is restored to it, to carry out further appraisal; the uJV shall be paid compensation calculated at the simple rate of 9 per cent per annum on the amount of Rs. 5.0 billion from the date of relinquishment till the date of the award; interest will then accrue at a rate of 18 per cent per annum on the amount of Rs. 5.0 billion until the block is restored to the uJV.

## Block CY-OS 90/1 (PY-3):

### Oil Field (Hardy 18 per cent interest – Operator) Operations

The PY-3 field was shut-in in July 2011. Since then Hardy has been working diligently to establish a consensus amongst stakeholders regarding the optimal development of the field with an objective to recommence production at the earliest opportunity.

PY-3's Production Sharing Contract (PSC) is due to expire in December 2019 and it is eligible for an extension of up to 10 years. On 29 December 2017, HEPI submitted an extension application, in accordance with the GOI PSC Extension Policy No. O-19025/10/2005-ONG-D-V (Part-II) dated 28 March 2016. The application included, among other requirements, a Revised Full Field Development Plan (RFFDP) that has been unanimously approved by the uJV partners and has been recommended to the Management Committee, which includes the GOI. The RFFDP programme envisions;

- Contracting a floating production, storage and offloading vessel or equivalent;
- Recommencing production from an existing well prior to December 2019;
- Drilling one development well in the first half of 2020; and
- A tie-in to the PY-1 infrastructure to export produced gas.

After considerable deliberation and debate, the PY-3 Operating Committee agreed that drilling in the prospective north-east area of the field will be reviewed further once production has recommenced. The RFFDP is currently under review by the Director General of Hydrocarbons (DGH). Once the DGH review is complete it is expected that a Management Committee meeting will be convened to discuss the adoption of the RFFDP, to approve the budget for FY2019, and to recommend the GOI award an extension of the PSC in accordance with the above noted policy.

Samson Maritime Limited (Samson) has previously secured an award, amounting to \$5.0 million, against HEPI for offshore services provided in the PY-3 field during 2011 and 2012. The full amount of the award is included in current liabilities. Samson has subsequently filed an execution petition with the Madras High Court and secured an attachment order on HEPI's Indian based bank accounts. HEPI has implemented measures to allow it to continue to settle its liabilities in India and is seeking partial relief from the attachment order. The order issued by the Madras High Court was broadly worded and, as a result, the State Bank of India (SBI) and HEPI have sought clarification regarding the status of the PY-3 site restoration fund account (SRF). It is the SBI and HEPI's view that this account is a special scheme between the PY-3 uJV and the GOI and is not legally attachable. Samson, SBI and HEPI have made their filings and the matter is under consideration by the Madras High Court.

In March 2017, Hardy initiated arbitration with the uJV partners to collect outstanding amounts associated with expenditures incurred by HEPI in fulfilling its responsibilities as operator of PY-3, including the amounts due to Samson. The uJV partners have made several counter claims for substantial damages they attribute to alleged gross negligence and wilful misconduct. In addition, ONGC is claiming reimbursement of cess and royalty paid since commencement of production that was in excess of their participating interest. The ONGC claim states that HEPI, as operator, was negligent in not collecting the amounts from TPL and HOEC. We believe that all counter claims are baseless and without merit. The dispute resolution process is expected to conclude by the end of 2018.

#### FY2019 Objective

The sequence of events for FY2019 is to:

- Secure MC approval of RFFDP and budgets, and of a request to GOI for extension of PSC;
- Obtain confirmation of GOI sanctioning of extension;
- Initiate tendering process;
- Obtain unanimous consent from uJV partners to award contracts (if required, secure MC approval of revised estimates); and
- Collect cash-calls from all uJV partners prior to entering into contracts with vendors.

It is expected that offshore activity could commence within 9 to 12 months of the sanctioning of the RFFDP by the Management Committee. The development plans under consideration would require funding of more than the Group's current cash resources.

#### 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 licence covers 81 km<sup>2</sup> and produces high quality light crude oil. The field has produced over 24.8 mmbbl and was shut-in in July 2011 due to the expiry of the production facilities' marine classification and absence of approval to extend the contract.

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

The matter of possible liquidated damages associated with the unfinished minimum work programme (UMWP), which has been under consideration since 2009, continued to be deliberated by the GOI and the operator. It is our understanding that this is a common matter for NELP I to NELP VII licences starting from 2005 to 2016, including the Group's D9 licence which was relinquished in 2012. HEPI and other operators have been working with industry associations to develop a policy to facilitate a resolution. The GS-01 uJV has conveyed to the GOI that this matter needs to be closed out prior to the progression of further activity on the block. The Group has previously provided for \$0.3 million of liquidated damages, which is HEPI's share of the Operator's estimate.

#### Objective

Finalise the quantum of liquidated damages outstanding prior to concluding discussions with our partner to acquire its participating interest and the Operatorship of the block. Following this, a priority will be to revisit a proposed FDP taking into consideration the prevailing commodity pricing and cost environment.

#### Background

In 2011, the GS-01 joint venture secured the GOI's agreement for the declaration of commerciality (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 in the Gujarat-Saurashtra offshore basin off the west coast of India, north west 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>.

# Financial Review

In the year ended 31 March 2018, the Group recorded a total comprehensive loss of US\$4.7 million and at year end had total cash and short-term investments of US\$9.2 million with no debt

## Summary statement

### Comprehensive income

#### Administrative expense \$m

**(5.2) ▲**

FY2018	(5.2)
FY2017	(2.6)
FY2016	(4.0)

#### Interest and investment income \$m

**0.5 ▲**

FY2018	0.5
FY2017	0.4
FY2016	0.0

#### Taxation \$m

**0.0 ▲**

FY2018	0.0
FY2017	(4.5)
FY2016	(5.2)

#### Total comprehensive loss \$m

**(4.7) ▼**

FY2018	(4.7)
FY2017	(9.2)
FY2016	(16.8)

### Financial position

#### Non-current assets \$m

**56.2 ▲**

FY2018	56.2
FY2017	55.9
FY2016	63.0

#### Current assets \$m

**14.6 ▼**

FY2018	14.6
FY2017	19.3
FY2016	21.8

#### Non-current liabilities \$m

**3.9 ▼**

FY2018	3.9
FY2017	4.5
FY2016	5.2

#### Current liabilities \$m

**9.1 ▲**

FY2018	9.1
FY2017	8.1
FY2016	7.8

### Statement of cash flows

#### Cash flow (used in) operating activities \$m

**(5.4) ▲**

FY2018	(5.4)
FY2017	(3.2)
FY2016	(3.7)

#### Capital expenditure \$m

**(0.3) ▼**

FY2018	(0.3)
FY2017	(0.4)
FY2016	0.0

#### Financing activity \$m

**0.5 ▲**

FY2018	0.5
FY2017	0.4
FY2016	0.3

#### Cash and short-term investments \$m

**9.2 ▼**

FY2018	9.2
FY2017	14.5
FY2016	17.6

#### Key of change

- ▲ Increased
- ▶ Remained stable
- ▼ Decreased



## Statement of comprehensive income

### Production cost

Ongoing PY-3 cost of \$0.3 million, the write-back of \$0.6 million decommissioning provision and write-off of \$0.3 million of inventory.

### Administrative expense

The Group incurred a significant increase in administrative expenses almost entirely due to an increase in legal fees. Legal fees and other dispute related expenditure amounted to \$2.9 million. HEPI's legal fees were significantly compounded by the fact that the matter in the SC of India was listed 41 times over 17 months. Excluding legal costs, administrative expenditure was \$2.3 million, an increase of \$0.3 million from FY2017. The increase is attributed to an increase in provision for bad or doubtful debt, the appreciation of GBP against the dollar and other general inflation.

To date HEPI has incurred \$3.5 million in legal expenditures to dispute the GOI appeal of the CY-OS/2 Award. Due to the extraordinarily protracted process in India's judicial system, HEPI has initiated enforcement of the award in the US and the UK. The confirmation process in both jurisdictions has resulted in additional legal expenditures. HEPI was also involved in two arbitrations with Aban Offshore, and the PY-3 uJV partners.

### Interest and investment income

The Group realised interest income of \$0.5 million and incurred no finance costs.

### Taxation

No current tax is payable for the year ended 31 March 2018. Having consideration for the outstanding sanctioning of the OC approved RFFDP and extension of the PY-3 PSC, the projected tax payable in the future that may be offset by the Group's carried forward loss amount was not recognised in the year. The Group previously provided for the full write-down of the deferred tax asset of \$4.5 million in FY2017.

### Total comprehensive loss

The Group's decrease in total comprehensive loss is attributable to absence of write-downs in FY2018 as compared to the previous years.

## Statement of financial position

### Non-current assets

Non-current assets primarily represent successful or work-in-progress exploration expenditure. This includes an intangible asset of \$51.1 million attributable to CY-OS/2 and an Indian Rupee denominated site restoration deposit of \$5.1 million relating to PY-3. The Company regularly reviews the underlying assumptions used to support the carrying value of the assets.

### Contingent asset

The CY-OS/2 Arbitration Award, in favour of HEPI, also entitles HEPI to compensation of \$78.2 million as at the balance sheet date in addition to the reinstatement of the block. The compensation is likely to be subject to tax.

### Current assets

The Group's cash and short-term investments reduced by \$5.3 million to \$9.2 million. This is primarily due to the payment of administrative expenses. Trade and other receivables of \$4.7 million represents amounts due to be recovered from joint arrangements operated by HEPI regarding PY-3 and CY-OS/2.

### Non-current liabilities

The Group's non-current liabilities represent a provision for the decommissioning of the PY-3 field. The provision has been estimated based on observed long-term industry cost trends. Having considered prevailing rates for offshore services, the provision was reduced by \$0.6 million.

### Current liabilities

Trade and other accounts payable comprises amounts due to vendors and other provisions associated with various joint arrangements, including the award of \$4.9 million due to Samson plus interest accruing thereon.

## Statement of cash flow

### Cash flow (used in) operating activities

Cash used in operating activities of \$(5.2) million comprised primarily administrative costs with the balance of \$(0.3) million relating to working capital.

### Capital expenditure

The Company did not incur any material capital expenditures in the year. A \$0.3 million outflow is associated with the rolling up of interest accrued on a deposit committed to the site restoration of the PY-3 field.

### Financing activity

Interest and investment income, realised predominantly from Indian rupee deposits, amounted to \$0.4 million.

### Cash and short-term investments

Sufficient resources are available to meet ongoing operating and administrative expenditure. The Group has no debt.

# Key Performance Indicators

## KPIs provide an illustration of management's ability to successfully deliver against the Group's strategic objectives

The Board periodically reviews the KPIs of the Group, considering the strategic objectives and the challenges facing implementation of such. The Board has identified two financial and three non-financial measures as KPIs for Hardy. The measures reflect the Group's ongoing efforts to achieve the reinstatement of the CY- OS/2 exploration block, the importance of a positive cash position and our underlying commitment to ensuring safe operations. A summary is provided in the table below:

Financial				
Definition	Relevance	Progress	FY2019 outlook/target	Key activity
<b>Enforcement of the CY-OS/2 Award</b>				
Enforcement of the CY-OS/2 Award which provides for the reinstatement of the exploration licence and payment of compensation.	Reinstatement of the exploration block will permit the appraisal of the Ganeshra discovery.  Compensation of approximately \$78 million to significantly improve the Group's financial position.	Progress – Initial GOI appeal dismissed in Delhi High Court. GOI appealed to Supreme Court of India.  Initiation of confirmation of award in Washington DC, USA.	Conclusion of the GOI Supreme Court appeal and progress enforcement proceedings in India. Confirmation of award in the US.	Preparation and delivery of robust representations in Indian and US courts.
<b>Control of overhead cash flow</b>				
Cash administrative expense in India and UK less partner recharges.	Preservation of capital is an important consideration of the Board. Net cash from operating activities provides a good measure of the level of capital erosion or accretion experienced by the Group.	Reduced underlying cost base of business. Further reductions may be counterproductive.	Maintain current levels.	Close monitoring of all expenditures and recovery of uJV partner recharges.
Operational				
Definition	Relevance	Progress	FY2019 outlook/target	Key activity
<b>Government sanctioning of PY-3 FFDP and extension of PSC</b>				
Management Committee (MC) approval of an FFDP, including all technical aspects of the implementation plan and required capital and operating budgets. GOI sanctioning of PSC extension.	Approval of an FFDP will provide a tangible milestone for creating value and mitigate ongoing or pending disputes between stakeholders. Extension of PSC will permit future value creation activity.	Operating Committee unanimously recommended an FFDP in conjunction with an extension application of the PSC.	MC approval of FFDP and GOI sanctioning of PSC extension.	Satisfy PY-3 partner and GOI requirements to progress adoption of FFDP, extension of PSC and secure MC budget approval prior to tending process.
<b>Resolution of litigation</b>				
The Company is involved in a number of litigation proceedings initiated by third parties and the Company. Where reasonably feasible the Company may seek the conclusion of disputes in a timely manner.	Litigation proceedings heavily detract management from focusing on value creation activities. Mitigation of costs and liabilities.	Several disputed matters have been progressed or resolved.	Timely resolution or avoidance of matters largely dependent on PY-3 results.	Where practical, approach counterparts to reach mutually equitable conclusion to proceedings.
<b>Total recordable injuries (TRIs)</b>				
TRIs include fatalities, lost time injuries, cases restricted for work, cases of substitute work due to injury and medical treatment cases by medical professionals. It does not include any first aid injury.	This metric is used to provide guidance as to the Group's HSE performance.	Absence of field activity and diligent onshore procedures have maintained no recordable injuries.	No TRIs.	Prior to recommencement of field operations, management will undertake a comprehensive review and roll-out of HSE policy and practice to staff and contractors.

# Principal Risks and Uncertainties

As an oil and gas exploration and production group with operations focused in India, Hardy is subject to a variety of risks and uncertainties. Managing risk effectively is a critical element of our corporate responsibility and underpins the safe delivery of our business plans and strategic objectives

## Board

The Group has a systematic approach to risk identification and risk management which combines the Board's assessment of risk with risk factors originating from, and identified by, the Group's senior management team. Risks are identified, assessed for materiality, documented, and monitored through a risk register with senior management involved in the process. Risks that are identified as high and/or trending upwards are noted and assigned to the Executive Director to monitor and, if possible, proactively mitigate. The risk register is part of a dynamic database in which new risks may be added when identified or removed as they are eliminated or become immaterial. The Board has formed a sub-committee on risk which reports periodically to the Audit Committee. The Board is provided with regular updates of the identified principal risks at scheduled Board meetings.

## Principal risks and uncertainties

The underlying risks and uncertainties inherent in 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 FY2019 and established clear policies and responsibilities to mitigate their possible negative impact on the business, a summary of which is provided below:

### Viability Statement

In accordance with the provision of section C.2.2 of the 2016 revision of the UK Code, the Directors have assessed the viability of the Group over a three-year period to March 2021, considering the Group's current position and the potential impact of the principal risks documented in this report. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2021.

In making this statement, the Directors have considered the resilience of the Group, its current position, the principal risks facing the business in severe but reasonable scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

The assessment highlighted that the cash flow position in the latter half of the three-year period is projected to fall to a level wherein a funding deficit is likely to arise in certain circumstances.

These circumstances could include:

- Cash outflow in respect of current liabilities (including Samson) without commensurate recovery of debts due from uJV partners; and

- The materialisation of contingent liabilities or unprovided for claims by third parties and government authorities.

To a certain extent, the materialisation of the instances listed above can be mitigated by the reduction of overhead and pursuing legal avenues to protect the Group's assets. Further, most liabilities of a material nature are limited to the wholly owned subsidiary Hardy Exploration & Production (India) Inc and the Group's cash and short-term investments are held within Hardy Oil and Gas plc.

The Directors have determined that the three-year period to March 2021 is an appropriate period over which to provide its Viability Statement. This covers the period when the Group hopes to have an RFFDP and PSC extension approved as well as clarity regarding its holdings in CY-OS/2 and GS-01. The PY-3 development is an asset that may require additional funding during this period. In making our assessment, the Directors have considered the Group's current cash position, that no capital is committed, and they have not considered the receipt of the CY-OS/2 Contingent Asset of \$78.2 million.

# Principal Risks and Uncertainties

## Principal risks areas

The Group constantly monitors the Group's risk exposures and reports to the Audit Committee and the Board on a regular basis. The Audit Committee receives and reviews these reports and focuses on ensuring that the effective systems of internal financial and non-financial controls including the management of risk are maintained. The results of this work are reported to the Board which in turn performs its own review and assessment.

## Key risk areas

The risks around our existing business are set out in more detail on page 23 but the key risk areas can be identified as being associated with the following:

### Strategic

Making sure we apply the appropriate strategies in certain situations and ensuring we deliver on strategic objectives.

### Operational

Successfully developing oil and gas through our production and development assets.

### Financial

Prudent financial management seeks to mitigate the impact of market fluctuations.

## Risk management framework



### Board

The Board is responsible for setting the Group's risk appetite and acceptable risk tolerance and putting in place a framework for risk management.

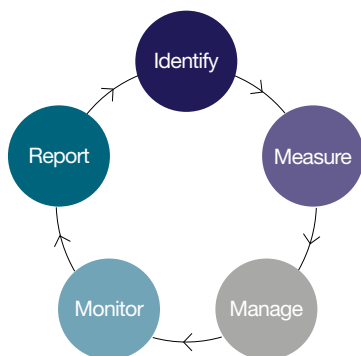
### Audit Committee

The Audit Committee oversees the framework for risk management and ensures it is operating effectively.

### Risk Owners

The risks are separated into strategic, operational and financial categories. Senior management are assigned responsibility for the identified risks within the three categories.

## Risk management procedure



### Identify

The Group has adopted a risk management process which provides for a "bottom-up" approach to the identification and assessment of risks and uncertainties.

### Measure

Management quantify potential value at risk and prescribe a probability of realisation.

### Manage

Mitigation strategies (if possible) are formulate and individuals are assigned responsibility for the implementation of such strategies.

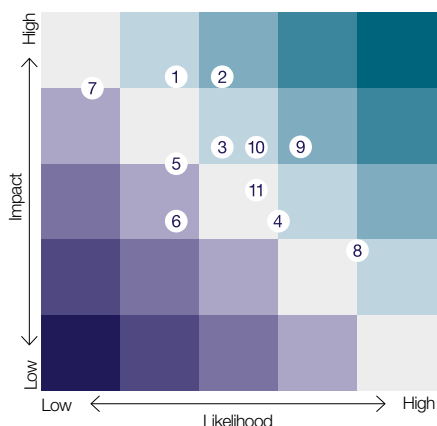
### Monitor

Management monitor developments in the underlying assumptions and actives associated with identified risks and uncertainties. The Board is provided with a status update at each meeting. Material developments or changes to identified risks and uncertainties are reported to the Board on an ad hoc basis.

### Reporting

The Board is provided with a comprehensive report at least twice yearly. The Board's overall assessment of risk and uncertainties comprises of Management's input and input from all Non-Executive Directors.

## Risk scale



- 1 Asset portfolio exclusively in one geopolitical region
- 2 Prolonged delay in enforcement of CY- OS/2 Award
- 3 Arbitration and Litigation – the Group is involved in a number of disputes with service providers, uJV partners and Indian tax authorities
- 4 Cost of litigation
- 5 Liquidated damages started (LD), unfinished Minimum Work Programme (MWP)
- 6 Securing approval for further development of PY-3 including extension of the PSC
- 7 PY-3 HSE – status of PY-3 wells
- 8 Contractual dispute with uJV partners
- 9 Enforcement of arbitration award
- 10 Regulatory and political environment in India
- 11 Taxation and third-party claims



## Key of change

▲ Increased risk   ▼ Decreased risk   ► Remained stable

Risk or uncertainty	Mitigation	Change
<b>Strategic</b>		
In the short term the Group's strategy is predominantly influenced by ongoing arbitration and litigation and the outcomes of such. The Group seeks to mitigate risks inherent with such litigious matters, however duration is out of the control of the Group and the risk of an adverse outcome cannot be fully mitigated. It is the Group's intention to rebuild a portfolio of upstream oil and gas assets upon positive conclusion of the CY-OS/2 dispute and the securing of an extension to the PY-3 PSC and approved RFFDP.		
<b>1. Asset portfolio exclusively in one geopolitical region</b>	Convey business constraints to accomplishing our objective via direct and open dialogue with government officials, active participation in industry lobby groups including the Association of Oil and Gas Operators. Further additions to the Group's portfolio may be considered once tangible progress is made in our existing portfolio.	►
<b>2. Prolonged delay in enforcement of CY-OS/2 Award</b>	Secure high quality and reputable legal counsel. Management of stakeholder expectation. Preserve and action the right to enforce in other jurisdictions.	►
<b>Financial</b>		
Volatility in international crude oil prices and India's natural gas administered pricing policy may adversely affect some of the Group's prospects and projected results from future operations. Other major financial risks facing the Group could be: financing constraints for further appraisal and development; cost overruns; and adverse results from ongoing or pending arbitration and litigation.		
<b>3. Arbitration and litigation – the Group is involved in a number of disputes with service providers, uJV partners and Indian tax authorities</b>	The Group has secured high quality, reputable professional advisors and legal counsel in India and other jurisdictions. Proactive and constructive engagement with uJV partners. Sanctioning of a PY-3 RFFDP may mitigate several outstanding or pending disputes.	►
<b>4. Cost of litigation</b>	Budget for litigation remains high. Effective management and monitoring of advisory costs. Explore timely resolution of disputes that are not material and/or strategic in nature.	▲
<b>5. Liquidated damages started (LD), unfinished Minimum Work Programme (UMWP)</b>	Monitor through media and dialogue with operator, prepare for possible dispute. Engagement with industry lobby groups to facilitate formulation of industry wide resolution. A provision has been made based on management's assessment of a reasonable outcome.	►
<b>Operational</b>		
Offshore exploration and production activities by their nature involve significant risks. Hardy is the operator of two blocks. However, currently there are no committed plans to undertake offshore operations. The role of operator of an asset introduces additional responsibilities and commensurate potential liabilities.		
<b>6. Securing approval for further development of PY-3 including extension of the PSC</b>	Comply with all criteria outlined in the GOI's extension policy. Communicate with partners to address individual interests and agendas. Mitigate expenditures prior to budget approvals.	▼
<b>7. PY-3 HSE – status of PY-3 wells</b>	Four subsea wells were securely shut-in in March 2012. The shut-in of wells has been longer than expected and, in the absence of an extension of the PSC, full abandonment of the PY-3 field may need to be initiated.	►
<b>8. Contractual dispute with uJV partners</b>	Maintain communication with senior members of uJV partners. In April 2017, Hardy initiated the dispute resolution procedures provided for under the PY-3 joint operating agreement by instigating binding arbitration proceedings. PY-3 uJV partners have filed counter claims.	▼
<b>9. Enforcement of arbitration award</b>	Samson Maritime Limited has secured an award against HEPI on PY-3 which is enforceable in India. Samson has frozen India bank accounts of HEPI. This has resulted in some business disruption and the Company is seeking various legal remedies. Processes and procedures are in place to mitigate the impact of enforcement proceedings. The financial institution which maintains the PY-3 Site Restoration Fund (SRF) has erroneously interpreted a court order securing against various assets of Hardy to include the uJV's SRF. All related parties are seeking clarification from the commensurate judicial authority.	►
<b>Compliance</b>		
The Group's current business is dependent on the continuing enforceability of the PSCs, farm-in agreements, and exploration and development licences. The Group's core operational activities are dependent on securing various governmental approvals. Developments in politics, laws, regulations and/or general adverse public sentiment could compromise securing such approvals in the future.		
<b>10. Regulatory and political environment in India</b>	Ensure full compliance with all laws, regulations and provision of contracts. Develop sustainable relationships with government and communities. Actively collaborate with industry groups to formulate and communicate interests to government authorities.	▲
<b>11. Taxation and third-party claims</b>	Secured the services of leading professional and legal service providers. Proactive communication with taxation authorities to ensure queries are addressed and assessments are agreed or challenged as required.	▼

# Corporate Responsibility Summary

## Governance – managing our business ethically and with integrity

### Code of Business Conduct

We have a comprehensive Code of Business Conduct that was adopted in 2013 (the Code) which details the levels of behaviour we expect all employees to adhere to when representing Hardy. Everyone working for Hardy is personally responsible for following the Code and ensuring that we conduct our business safely and in a fair, honest and ethical manner. Full details of the policy are available on our website [www.hardyoil.com](http://www.hardyoil.com).

### Compliance awareness

The Chief Executive Officer personally introduces the Code to all employees and the Board and executive are committed to ensure that the Code is embedded throughout the business.

### Raising concerns

Hardy employees and contractors are encouraged to promptly report any concerns they have about the Company's business practices or where someone is concerned or suspects that the Code has been breached. Where members of staff do not feel comfortable reporting concerns to their line manager or executive, they have been invited to contact the Senior Non-Executive Director directly through a confidential email address. The Board does not tolerate retaliation against an individual reporting in good faith.

### HSE

The Company is committed to excellent health and safety practices which are at the forefront of all our activities. Although all offshore activities are currently suspended, maintaining high HSE standards throughout the organisation remains core to all our undertakings.

### Greenhouse gas (GHG) emissions

The Group's total GHG emissions for the period 1 April 2017 to 31 March 2018 have been calculated as 139 tCO<sub>2</sub>e which equates to 10.7 tCO<sub>2</sub>e/FTE. Calculations have been carried out in accordance with the Defra Environmental Reporting Guidelines (2013) and emissions factors have been sourced from the Defra 2013 UK Government Conversion Factors for Company Reporting. The figure presented includes all material Scope 1 and Scope 2 emissions from all assets under Hardy Oil and Gas plc's operational control.

This work is partially based on the country-specific CO<sub>2</sub> emission factors developed by the International Energy Agency, © OECD/IEA 2017, but the resulting work has been prepared by Hardy Oil and Gas and Carbon Smart and does not necessarily reflect the views of the International Energy Agency.

Total GHG emissions and the intensity metric for the reporting period 1 April 2017 to 31 March 2018. Department for Environment Food & Rural Affairs (2013) Environmental Reporting Guidelines: Including mandatory GHG emissions reporting guidance.

### Our people – being a rewarding, challenging and pleasant place to work

#### Local content

India has an extensive pool of upstream oil and gas professionals. As a result, we have been able to assemble and maintain 100 per cent local staffing of our India-based professionals and staff.

#### Development

We recognise that our success is clearly linked to the knowledge, skills, experience and motivation of our team, and their ability to develop innovative and creative solutions to our opportunities and challenges. Management have set ambitious targets which will require Hardy employees to maintain their high level of proficiency and to strive for excellence.

The Board would like to take this opportunity to recognise the importance of our team and acknowledge their efforts and patience in the past year.

# Our CSR Dashboard

## Our HSE Policy

**1** 

Avoid harm to all personnel involved in or exposed by its operations

**2** 

Prevent damages to property and loss of assets due to accidents

**3** 

Minimise adverse effects of its operations on the environment

**4** 

Respect the interests of neighbours and the surroundings

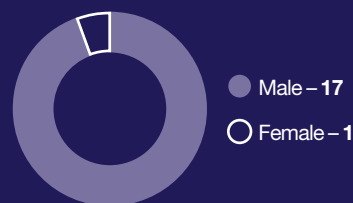
We have been fortunate to develop and achieve 100 per cent local staffing of our India-based professionals and staff

## Diversity

### Employees\*



### Employees\*



### Board



\* Including Non-Executive Directors.

## Our Greenhouse gas emissions

Reporting period	Scope 1 emissions tCO <sub>2</sub> e	Scope 2 emissions tCO <sub>2</sub> e	Total carbon footprint tCO <sub>2</sub> e	Intensity metric tCO <sub>2</sub> e/FTE
FY2018	19	120	139	10.7
FY2017	11	125	136	9.0

Total GHG emissions and the intensity metric for the reporting period 01 April 2016 to 31 March 2017. Department for Environment Food & Rural Affairs (2013). Environmental Reporting Guidelines: Including mandatory GHG emissions reporting guidance.







**This section of the report details how the Company is run and reports on the various sections of governance**

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# Governance





# Board of Directors



**Alasdair Locke**  
(aged 64)  
Non-Executive Chairman

**Terms of appointment**  
Mr Locke was appointed to Hardy's Board as Non-Executive Chairman in January 2012.

**Background and experience**  
Mr Locke is the former executive chairman of Abbot Group plc, an oil services company which he founded in 1992. It was listed on the London Stock Exchange from 1995 until its sale in 2008 for £906 million to Turbo Alpha Ltd, a company controlled by a US private equity fund. He sold his remaining interest in the group and stepped down altogether in 2009. His early career started in investment banking at Citigroup in 1974, where he specialised in shipping and oil.

Mr Locke holds a History and Economics degree from Oxford University. He was the recipient of the Grampian Industrialist of the Year (2001) award, the Scottish Business Achievement Awards Trust International Business Achievement Award (2000) and the Scottish Business Achievement Awards Entrepreneur of the year (1999).

**External appointments**

- Chairman of Argenta Holdings plc
- Chairman of Motor Fuel Group
- Chairman of First Property Group plc
- Non-Executive Director of other companies.

**Committee membership**

N S R



**Ian MacKenzie**  
(aged 61)  
Chief Executive Officer

**Terms of appointment**  
Mr MacKenzie was appointed to Hardy's Board as Chief Executive Officer in February 2012.

**Background and experience**  
Mr MacKenzie has a proven track record of knowledge, experience and achievement of high performance in the management of oil and gas operations, technical support functions, and major design and construction projects developed through 30 years in the oil and gas industry.

Mr MacKenzie was a group director and member of the executive team of KCA DEUTAG Drilling as well as a director of group subsidiaries including chairman of the main Norwegian operating entity KCA DEUTAG Norge A/S. Mr MacKenzie gained an honours degree in Engineering Science from Aberdeen University and a postgraduate diploma in Offshore Engineering from Robert Gordon University, Aberdeen. He also has formal qualifications in Finance and Accounts. He is a Chartered Mechanical Engineer, FEANI registered European Engineer, member of the Institution of Mechanical Engineers, Energy Institute, Society of Petroleum Engineers, and a past External Examiner in the RGU Oil & Gas MSc course.

**External appointments**  
None.

**Committee membership**

S



**Peter Milne**  
(aged 64)  
Senior Non-Executive Director

**Terms of appointment**  
Mr Milne was appointed to Hardy's Board as Senior Non-Executive Director in March 2012.

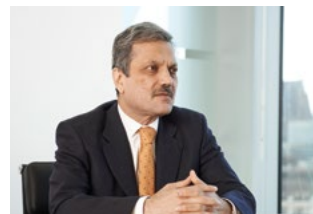
**Background and experience**  
Mr Milne has a proven track record in the oil sector. For over 15 years he was the finance director of Abbot Group plc, the largest UK headquartered drilling contractor. During that period the company grew from being a largely UK-focused business, with turnover of £50 million, into a global organisation with more than £1 billion turnover, operations in 20 countries and employing over 8,000 people. This transformation was achieved through a strategy of organic and acquisition led growth. Mr Milne qualified as a chartered accountant with Deloitte in 1977 and was an executive director of Abbot Group plc (a former FTSE 250 company) and KCA DEUTAG Drilling Group up until 2010.

**External appointments**

- Member of the Audit Committee of the University of Aberdeen.

**Committee membership**

A R N S



**Pradip Shah**  
(aged 65)  
Non-Executive Director

**Terms of appointment**  
Mr Shah was appointed to Hardy's Board as Non-Executive Director in 1999.

**Background and experience**  
Mr Shah runs IndAsia, a corporate finance and investment advisory company. He is a gold-medallist Chartered Accountant, Management Accountant and MBA from Harvard, who helped establish Housing Development Finance Corporation, the first retail housing finance company in India; CRISIL, the first and largest credit rating agency in India; the Indocean Fund, a pioneer private equity fund, in partnership with affiliates of Soros Fund Management and Chase Capital Partners; the AMP-IndAsia India Fund, in joint venture with AMP of Australia; Universal Trustees; and Grow-Trees.com, a social enterprise. He was appointed by government of India on the Justice Easwar, serves on the Appointments Board and on the Banks Board Bureau; has served on several expert committees of state and central governments, was a director on the Regional Board of the Reserve Bank of India, and is currently chairman of Kansai Nerolac, Sonata Software, Grindwell Norton and director of BASF India, Pfizer India, Tata Investment, Godrej & Boyce and sits on the governing boards of some non-profit organisations and chambers of commerce.

**External appointments**

- Founder and chairman of IndAsia Fund Advisors,
- Chairman of Kansai Nerolac
- Chairman of Grindwell Norton Ltd
- Chairman of Sonata Software and a director of BASF (India)
- Chairman of Godrej & Boyce
- Chairman of Pfizer and Tata Investment Corporation.

**Committee membership**

R A N

# Management Committee



**T.K. Ananth Kumar**  
Non-Executive Director of HEPI

#### Terms of appointment

Mr Ananth Kumar was appointed to HEPI's board as Non-Executive Director in 2014.

#### Background and experience

Mr Ananth Kumar has over 30 years of experience in the oil and gas sector in financial, accounts, treasury, strategic and business development initiatives. He recently superannuated as director finance of Oil India Limited, a \$5 billion Navratna company and India's second largest exploration and production state enterprise. Mr Ananth Kumar is a qualified chartered accountant, a member of the Institute of Chartered Accountants of India and has a bachelor's degree in commerce from Osmania University, India. Mr Ananth Kumar's recent achievements include leading the GOI's successful \$590 million Offer for Sale in Oil India; the \$2.5 billion joint acquisition of Videocon's stake in Mozambique gas fields in 2013; and in 2009, the landmark \$550 million Initial Public Offering (IPO) for Oil India.



**Richard Galvin**  
Treasurer and Corporate Affairs Executive

#### Terms of appointment

Mr Galvin joined Hardy in 2005 and was appointed Treasurer in 2011 and appointed to HEPI's Board in 2013.

#### Background and experience

Mr Galvin has over 20 years of commercial and corporate finance experience in the upstream oil and gas industry. He started his career at Encana (formally AEC), working in progressively senior commercial roles over seven years. Mr Galvin holds a Master of Business Administration from the London Business School and a Bachelor of Commerce from the University of Calgary. He joined Hardy in 2005 as Business Development Manager and was appointed an Executive Officer of the Company in 2011. Mr Galvin is a director of HEPI.



**Sankalpa Mitra**  
Senior Vice President Production of HEPI

#### Terms of appointment

Mr Mitra joined HEPI in 2006 and was appointed senior vice president in 2014.

#### Background and experience

Mr Mitra has over 30 years of experience in the oil and gas industry. He previously worked for ONGC over 23 years, holding a position of chief engineer-production, having experience in both onshore and offshore operations and project implementation. Mr Mitra joined HEPI in 2006 as manager of special projects and has been heading the operations team as general manager- PY-3 since 2010. He holds a BE (Mechanical) from Calcutta University.



**CH. V. Satya Sai**  
Vice President Geoscience of HEPI

#### Terms of appointment

Mr Satya Sai joined HEPI in 2006 and was appointed vice president in 2014.

#### Background and experience

Mr Satya Sai has over 30 years of Geological and Geophysical (G&G) experience in the oil and gas industry. He previously worked at ONGC for over 21 years, holding a position of superintending geophysicist prior to leaving. He holds a Master's degree in Geophysics and a bachelor degree in Science from Andhra University. Mr Satya Sai joined Hardy in 2006 as Chief Geophysicist and has been the Head of G&G since 2012.

#### Committee key

- A Audit Committee
- R Remuneration Committee
- N Nomination Committee
- S Risk Sub-Committee
- Chairman of Committee

# Governance Report

## The UK Corporate Governance Code

The Company maintains a listing on the London Stock Exchange and, under the UK Listing Rules, is required to comply with the UK Corporate Governance Code published in April 2016 (the UK Code). The UK Code is publicly available on the Financial Reporting Council's website at [www.frc.org.uk](http://www.frc.org.uk).

## Introduction

Hardy Oil and Gas plc is incorporated in the Isle of Man and is not subject to any corporate governance regime in its place of incorporation. The Board remains focused on effective risk management and strong corporate governance. This Corporate Governance Report describes the way the Group has applied the main principles of governance set out in the UK Code throughout the year.

The Company strives to maintain a balance between conservation of limited resources and maintaining robust corporate governance practices. As the Company evolves, the Board is committed to enhancing the Company's corporate governance policies and practices deemed appropriate for the size and maturity of the organisation. Set out below are Hardy's corporate governance practices for the year ended 31 March 2018. Disclosures below include matters where Hardy has not fully complied with the provision of the UK Code during the reporting period.

## Leadership

The Company is headed by a Board which is collectively responsible for the long-term success of the Company.

## The role of the Board

The Board sets the Group's strategy, ensuring that the necessary resources are in place to achieve the agreed strategic priorities, and reviews management and financial performance. It is accountable to shareholders for the creation and delivery of both strong, sustainable financial performance and long-term shareholder value. To achieve this, the Board directs and monitors the Group's affairs within a framework of controls which enable risk to be assessed and managed effectively. The Board also has responsibility for setting the Group's core values and standards of business conduct and for ensuring that these, together with the Group's obligations to its stakeholders, are widely understood throughout the Group. The Board has a formal schedule of matters reserved which is provided later in this report.

## Board meetings

The core activities of the Board are carried out in scheduled meetings of the Board and its Committees. These meetings are timed to link to key events in the Group's corporate calendar and regular reviews of the business are conducted. Additional meetings and conference calls are arranged, when necessary, to consider matters which require decisions outside the scheduled meetings. During the year ended 31 March 2018, the Board met on six occasions. Outside the scheduled meetings of the Board, the Chairman and Chief Executive Officer make frequent contact with each other and the other Directors to discuss any issues of concern they may have relating to the Group or their areas of responsibility, and to keep them fully briefed on the Group's operations.

## Matters reserved specifically for the Board

The Board has a formal schedule of matters reserved that can only be decided by the Board. The key matters reserved are the consideration and approval of:

- The Group's overall strategy
- Financial statements and dividend policy
- Management structure including succession planning, appointments and remuneration (supported by the Nomination Committee)
- Material acquisitions and disposals, material contracts, major capital expenditure projects and budgets
- Capital structure, debt and equity financing, and other related matters
- Risk management and internal controls (supported by the Audit and Risk Committees);
- The Company's corporate governance and compliance arrangements; and
- Corporate policies.

Subject to those reserved matters, the Board delegates authority for the management of the business primarily to the Executive Director and members of the Group's Management Committee. Certain other matters are delegated to the Board Committees, namely the Audit, Remuneration and Nomination Committees.

## Summary of the Board's work in the period

For the year ended 31 March 2018, the Board considered all relevant matters within its remit with focus on the following key issues:

- Strategy and management with a focus on the optimisation of the Group's Indian focused portfolio
- Financial management
- Regulatory compliance
- Environment, health and safety
- Stakeholder relations.

## Attendance

Member	Meetings attended
Alasdair Locke (Chairman)	6 of 6
Ian MacKenzie	6 of 6
Peter Milne	6 of 6
Pradip Shah	6 of 6

## Division of responsibility

There is a defined separation of the responsibilities between Alasdair Locke, the Non-Executive Chairman, and Ian MacKenzie, the Chief Executive Officer, which has been set out in writing and agreed by the Board. The Chairman is primarily responsible for the effective working of the Board, whilst the Chief Executive Officer is responsible for the operational management of the business, for developing strategy in consultation with the Board and for implementation of the strategy.

## The Chairman

The Chairman sets the Board agenda and ensures adequate time for discussion. On appointment as Chairman on 16 January 2012, Alasdair Locke met the independence criteria set out in the UK Code.

### Non-Executive Directors

The Non-Executive Directors have a broad range of business and commercial experience. They have a responsibility to challenge independently and constructively the performance of the executive management and to monitor the performance of the management team in the delivery of the agreed objectives and targets. The Non-Executive Directors periodically meet without the Executive present. They are also kept aware of current issues affecting the Group via informal discussions and ad hoc updates from the Chairman and Chief Executive Officer. As Senior Independent Non-Executive Director, Peter Milne is available to meet shareholders if they have concerns that cannot be resolved through discussion with the Chairman and/or the Chief Executive Officer or where such contact is considered inappropriate. Non-Executive Directors are initially appointed for a term of three years, which may, subject to satisfactory performance and re-election by shareholders, be extended by agreement. Pradip Shah has been a member of the Board for over nine years. As a result, he is subject to re-election on an annual basis.

### Delegations of authority

#### Board Committees

The Board has delegated matters to three Committees, namely the Audit, Remuneration and Nomination Committees. The memberships, roles and activities of these Committees are detailed in separate reports: the Audit Committee on pages 34 to 36, the Remuneration Committee on pages 37 to 46, and the Nomination Committee on page 47. Each Committee reports to the Board and the issues considered at meetings of the Committees are tabled by the respective Committee Chairmen. The terms of reference of each Committee are reviewed by the Board every other year.

### Other governance matters

The Directors are aware that independent professional advice is available to each Director to properly discharge their duties as a Director. In addition, each Director and Board Committee has access to the advice of the Company Secretary.

### The Company Secretary

The Company Secretary is Richard Vanderplank, who is retained on a consultancy basis. He is available to Directors and is responsible for the Board complying with Isle of Man procedures. He is supported by the Treasurer & Corporate Affairs Executive in the provision of company secretarial services to the Company.

### Effectiveness

The Board currently comprises a Non-Executive Chairman, Chief Executive Officer and two Non-Executive Directors. Biographical details of the Board members are set out on page 28 of this report. The Directors are of the view that the Board and its Committees consist of Directors with an appropriate balance of skills, experience, independence and diverse backgrounds to enable them to discharge their duties and responsibilities effectively. At the Company's Annual General Meeting held on 13 September 2017, shareholders re-elected Pradip Shah as Non-Executive Director and Ian MacKenzie as Executive Director.

### Independence

The Board considers Alasdair Locke, Peter Milne and Pradip Shah to be independent Directors in character and judgement. Pradip Shah has served as a Director for a period of more than nine years. Mr Shah is based in India and is actively involved in many business endeavours, holding executive and non-executive roles across a diverse range of industries, and is well established within India's commerce and political communities. The Board considers Mr Shah to be independent of management because the Chief Executive Officer was appointed in 2012 with whom Mr Shah has had no previous professional interaction. Notwithstanding Mr Shah's tenure, the Board is fully satisfied that he demonstrates complete independence, robustness of character and judgement both in his designated role and as a Board member.

### Appointments

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board with regards to any required changes. The Committee is also concerned with succession planning, which includes assessment of senior management capabilities and development needs to complement the Group's leadership requirements.

### Commitments

All Directors have disclosed to the Board any significant commitments outside their respective duties as Non-Executive Directors and confirmed that they have sufficient time to discharge their duties.

### Induction

All new Directors receive an induction as soon as practical on joining the Board. This includes meetings with the Management Committee members and other senior management, and visits to the Group's principal office of operation. New Directors are also provided with an overview of their duties as a Director, corporate governance policies and established Board procedures as part of the induction process.

### Training

The Chairman reviews the training and development needs with each Director. During the reporting period, it was agreed that each Director had the necessary current and relevant experience and expertise to effectively discharge their respective responsibilities.

### Conflict of interest

A Director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Group. The Board has satisfied itself that there is no compromise to the independence of those Directors who have appointments on the boards of, or relationships with, companies outside the Group. The Board requires Directors to declare all appointments and other situations which could result in a possible conflict of interest.

### Board performance and evaluation

Hardy undertakes an internal appraisal of the Board's performance on an annual basis. This process comprises a confidential questionnaire submitted by each Director. The questionnaire provides members with a platform to comment on the effectiveness of the Board and performance of each Director. The Senior Independent Non-Executive Director is responsible for overseeing the reporting of the review. Overall, it was felt that the Board was functioning well.

# Governance Report

## continued

### Re-election

Alasdair Locke and Pradip Shah will stand for re-election at the Company's 2018 Annual General Meeting. A Director's position is subject to satisfactory performance of their responsibilities and is subject to reappointment by shareholders at the Annual General Meeting. The Board of Directors is pleased with the attendance of all Directors at Board and Committee meetings, despite significant travel and time requirements. The Board of Directors is also satisfied with the participation by all the Directors in formulating corporate strategies and for their engagement in meaningful dialogue and discussions at Board and Committee meetings.

### Accountability

The Board is committed to providing shareholders with a clear assessment of the Group's position and prospects. This is achieved through this report and, as required, other periodic financial and trading statements. The arrangements established by the Board for the application of risk management and internal control principles are detailed on pages 22 to 23. The Board has delegated to the Audit Committee oversight of the relationship with the Company's auditor, as outlined in the Audit Committee report on pages 34 to 36.

### Going concern

The Group's business activities, together with factors likely to affect its future operations, financial position, and liquidity position, are set out in the Strategic Report section of the Annual Report. In addition, note 22 to the consolidated financial statements discloses the Group's financial risk management practices with respect to its capital structure, foreign currency risk, liquidity risk, interest rate risk, commodity price risk, credit risk and other related matters. The Directors, having made due and careful enquiry, believe the Group and the Company have adequate working capital to execute their operations and could access additional financing, if required, over the next 12 months. The Directors, therefore, have made an informed judgement, at the time of approving these financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the 12 months from the date of approval of these financial statements. As a result, the Directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements in accordance with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (2014).

### Viability Statement

The Financial Reporting Council (FRC) has revised the UK Code to include a Viability Statement and the Company's full statement can be found on page 21 of the Strategic Report.

### Internal controls

The Board of Directors reviews the effectiveness of the Group's system of internal controls in line with the requirements of the UK Code. The internal control system is designed to manage the risk of failure to achieve its business objectives. This covers internal financial and operational controls, compliances and risk management. The Group had the necessary procedures in place for the period under review and up to the date of approval of the Annual Report and Accounts. The Directors acknowledge their responsibility for the Group's system of internal controls and for reviewing its effectiveness. The Board confirms the need for an ongoing process for identification, evaluation and management of significant risks faced by the Group and has formed a Risk Committee which reports to the Audit Committee. A risk assessment for each project is carried out by a team consisting of the Executive Director and senior management, and report to the Risk Committee before making any material commitments. This team meets as and when required to consider internal and external risks, including operational, compliance, financial and strategic risks, which are continuously assessed. The Audit Committee regularly reviews and reports to the Board on the effectiveness of the internal control systems. Given the size of the Group, the relative simplicity of the systems and the close involvement of senior management. The Board considers that there is no current requirement for an internal audit function. The procedures that have been established to provide internal financial control are considered appropriate for a company of its size and include controls over expenditure, regular reconciliations and management accounts. The Directors are responsible for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

### Business model

Hardy strives to create value through participating in the full exploration and production cycle. The cycle requires first the acquisition of permits to explore, which are issued by government authorities of the countries in which we choose to invest. After extensive analysis, exploration campaigns are planned to try to discover oil and gas fields within under-explored sedimentary basins. When we have made a significant discovery of hydrocarbons we undertake appraisal programmes, which may include the drilling of wells and further geotechnical analysis to determine the size and quality of the discovery. Once the appraisal programme confirms that the development of a discovery is commercially viable, we begin work on a development plan. This maps out how we will release the production of the discovered hydrocarbon to achieve the ultimate objective to generate revenue and cash flow. Beyond this, further value may be created through the implementation of enhanced production strategies to optimise the value of recoverable hydrocarbons from existing producing fields.

### Remuneration

The Board has delegated to the Remuneration Committee responsibility for agreeing the remuneration policy for the Chairman, Chief Executive Officer and senior executives. The Directors' Remuneration Report on pages 37 to 41 contains full details of the role and activities of the Remuneration Committee.

### Shareholder relations

#### Communication and dialogue

Open and transparent communication with shareholders is given high priority and there is regular dialogue with institutional investors. All Directors are kept aware of changes to major shareholdings in the Company and are available to meet with shareholders who have specific interests or concerns. The Group issues its Annual Report promptly to individual shareholders and publishes interim and annual results on the Company's website: [www.hardyoil.com](http://www.hardyoil.com). Regular updates to record news in relation to the Group and the status of its development programmes are included on the Company's website. Shareholders and other interested parties can subscribe to receive these news updates by email free of charge.

The Chairman and Executive Director are available to meet with institutional shareholders to assist them in gaining an understanding of the Group's business, its strategies and governance. Peter Milne currently serves as the Senior Independent Non-Executive Director of the Company and is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman or Executive Director. Meetings are also held with the corporate governance representatives of institutional investors when requested.



### Annual General Meeting

At every Annual General Meeting, individual shareholders are given the opportunity to put questions to the Chairman, Committee Chairs and other members of the Board. Notice of the Annual General Meeting is sent to shareholders at least 20 working days before the meeting. Details of proxy votes for and against each resolution, together with the votes withheld, are announced to the London Stock Exchange and are published on the Company's website as soon as practical after the meeting.

At the Company's 2017 Annual General Meeting seven resolutions were presented. Below is a summary of the voting results:

#	Description	Type	For	Against	Withheld	Total	Votes for %
1	Adopt annual accounts for year ended 31 March 2017	Ordinary	34,979,661	–	–	34,979,661	100.00
2a	To receive and consider the Report on Remuneration	Ordinary	34,978,429	1,232	–	34,979,661	100.00
2b	To received and consider the Remuneration Policy	Ordinary	34,772,970	206,691	–	34,979,661	99.41
3	To re-elect Pradip Shah as a Director of the Company.	Ordinary	30,677,273	4,302,388	–	34,979,661	87.70
4	To re-elect Ian MacKenzie as a Director of the Company.	Ordinary	34,978,429	1,232	–	34,979,661	100.00
5	Re-appointment of Crowe Clark Whitehill LLP as auditor	Ordinary	34,971,411	8,000	250	34,979,661	99.98
6*	Disapplication 5 per cent of issued share capital	Special	34,978,279	1,382	–	34,979,661	100.00
7*	Authority to make market purchases of Ordinary Shares	Special	34,970,429	9,232	–	34,979,661	99.97
	Total shares issued			73,764,035			
	Total instructed			34,979,661			

### Non-compliance with the UK Code

The Company did not comply with the UK Code in the following matters during the year ended 31 March 2018:

Code provision	Subject matter	Discussion
Non-Executive Directors meeting independence requirements	Pradip Shah has served on the Board for more than nine years	The Board considers Mr Shah to be independent of management as the Chief Executive Officer was appointed in 2012 with whom Mr Shah has had no previous professional interaction. Mr Shah contributes relevant skills, expertise and insight towards the Company's stated strategic objectives and provides valuable advice as to the business and political environment in India.

The Board believes all the Non-Executive Directors provide valuable advice and counsel in furthering the business objectives of the Group.

The Company is a small cap upstream oil and gas company with a modest resource base. The Board has put in place a mandate to optimise the allocation of the Company's limited resources to support medium-term strategic objectives. As the Company evolves, the Board is committed to enhancing the Company's corporate governance policies and practices deemed appropriate considering the size, maturity and complexity of the organisation.

### Alasdair Locke

Chairman

7 June 2018

# Audit Committee Report



## Governance

The Audit Committee comprises two Non-Executive Directors and oversees the Group's financial reporting and internal control procedures as well as providing a formal reporting link with the external auditor. Mr Milne, who has been the Chairman of the Audit Committee since 2012, is a chartered accountant with over 30 years of oil and gas sector experience. Pradip Shah is also a chartered accountant. The Committee is satisfied that Mr Milne and Mr Shah's membership of the Committee satisfy the UK Code requirements regarding recent and relevant financial experience.

The Chief Executive Officer and Treasurer were invited to attend all meetings and other senior management and representatives of the external auditor were invited as appropriate. The external auditor has unrestricted access to the Audit Committee Chairman.

## Summary of responsibilities

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. The Audit Committee met three times in the 12 months ended 31 March 2018 and the attendance of members at the Audit Committee meetings held in the current reporting period was as follows:

Committee member	Meetings attended
Peter Milne (Chairman)	3 of 3
Pradip Shah	3 of 3

## Main responsibilities

The Audit Committee acts as a preparatory body for discharging the Board's responsibilities in a wide range of financial matters by:

- Monitoring the integrity of the financial statements and formal announcements relating to the Company's financial performance
- Reviewing accounting policies, significant financial reporting issues and relevant disclosures in financial reports
- Overseeing that an effective system of internal control and risk management systems are maintained
- Ensuring that effective whistle-blowing, anti-fraud and bribery procedures are in place
- Considering the Company's internal audit requirements and making recommendations to the Board
- Overseeing the Board's relationship with the external auditor and, where appropriate, the selection of new external auditor
- Approving non-audit services provided by the external auditor and ensuring the independence and objectivity of the external auditor is safeguarded when appointing them to conduct non-audit services; and
- Ensuring compliance with legal requirements, accounting standards and the UKLA Listing and Disclosure and Transparency Rules.

The Audit Committee terms of reference can be accessed via the Company's website [www.hardyoil.com](http://www.hardyoil.com). The Committee fully discharged its responsibilities during the year.

## Consideration and review of six-month interim statement and results for the 12 months ended 31 March 2018

- The Audit Committee monitored the current business and geopolitical environment in India while considering the appropriateness of the Group's statements.
- The Audit Committee met with the external auditor as part of both the six-month interim statement and annual accounts approval processes.
- The Audit Committee considered the most appropriate treatment and disclosure of any new or judgemental matters identified during the audit of the 12-month accounts or interim statement review, as well as any other recommendation or observation made by the external auditor.

## The Audit Committee audit planning and update on relevant accounting developments

- The Company prepares financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union.
- The Audit Committee continued to review the appropriateness of the Company's accounting policies and was satisfied that the policies adopted by management are currently appropriate.
- The Audit Committee approved the scope of the work to be undertaken by the external auditor for the interim review and year-end statutory audit.
- The Audit Committee considered and adopted where appropriate requirements provided for in the 2016 UK Code, the EU's Transparency and Accounting Directives, and other IFRS.

## Review of risk management systems and internal control process and procedures

- The management via the Risk Committee and Board meetings provided the Audit Committee with clear updates of risk and uncertainties facing the Company and accompanying actions to mitigate such risk.
- Following a review, the Audit Committee was satisfied with the appropriateness of the risk management framework which provides for a systematic approach to risk identification and management, which combines both the Board's assessment of risk with risk factors originating from and identified by the Group's senior management.

### Review of the effectiveness of the Audit Committee

- During the year, the Board completed a review of its effectiveness, which included an assessment of the Audit Committee. The review was coordinated by the Treasurer with oversight by the Senior Non-Executive Director. As a result, the Audit Committee was adjudged to be operating effectively and in accordance with the UK Code.

### Review of the requirement for an internal audit function

- The Committee considered the requirement for an internal audit function. The Audit Committee considered the size of the Group, its current activities, the relative simplicity of the systems and the close involvement of senior management. Following the Committee's review, it was recommended to the Board that an internal audit function is not appropriate at this time.

### Financial reporting

The Committee monitored the integrity of the Group's financial statements and reviewed the significant financial reporting issues and accounting policies and disclosures therein. The Committee met with the external auditor as part of the full-year and interim accounts approval processes. The process included the consideration of key audit risks identified as being significant to the FY2018 accounts.

### Significant issues considered in relation to the financial statements

The primary areas of judgement considered by the Audit Committee in relation to the FY2018 accounts and how these were addressed are detailed below:

Issue	Action taken by the Committee
<p><b>Intangible assets – exploration CY-OS/2</b></p> <p>There is continuing uncertainty over the status of the block due to the ongoing legal dispute with the GOI. The value of the intangible asset in relation to CY-OS/2 is material to the Group balance sheet. Details of the dispute and arbitration award are provided for in note 14 on page 69.</p>	<p>The Audit Committee reviewed and considered the external legal advice obtained by management concerning: the enforcement of the CY-OS/2 Award in favour of Hardy; the Delhi High Court's ruling against the GOI appeal; and subsequent ongoing GOI appeal to the SC of India. The Committee considered possible implications of HEPI enforcement actions outside India and challenged management assumptions in regard to implications to continue to operate effectively in India. The Committee concurred with management's assessment that the CY-OS/2 intangible asset of \$51.1 million continued to be recognised and that the disclosures concerning the dispute are fair and balanced.</p>
<p><b>Legal matters</b></p> <p>The Group is currently involved in several disputes with third parties, uJV partners, and taxation authorities which may result in material cash inflows and outflows. In the event of adverse findings, these could result in material movements in working capital.</p> <p>Management has provided assessments of the merits of such claims and counter claims and made appropriate provisions for likely outcomes.</p>	<p>The Committee reviewed, with management and its professional advisors, the status of various disputed matters and their likely outcomes as well as the Samson Maritime litigation outcome and subsequent enforcement action in India. The Committee challenged management's assessment and assumptions regarding certainty of recovery of long outstanding debts due from uJV partners and the legal status and attachability of the site restoration fund. The Committee requested robust stress tests of cash flow implications from expected outcomes and these outcomes have been considered in assessing the Group's ongoing viability. The Committee is satisfied that sufficient provisions or contingent liabilities have been recognised in the financial statements where necessary.</p>
<p><b>PY-3 field</b></p> <p>The PY-3 field has been shut-in since July 2011 and had been fully written-down previously. In FY2018 the uJV unanimously agreed to apply for the extension of the PY-3 PSC which included, among other things, a recommended RFFDP. The RFFDP is currently under review by the GOI representative DGH. Sanctioning of the RFFDP by the MC and subsequent confirmation of the extension of the PSC will allow for the full tendering of services and equipment in respect of the recommencement of production. Management has considered the prevailing circumstances and recommended maintaining the full write-down of the asset at the current time.</p>	<p>The Committee reviewed the progress made by management in securing unanimous approval from the uJV partners to recommend an RFFDP and apply for an extension of the PSC. The Committee considered the ongoing GOI review of the RFFDP and extension request, other GOI policies (tax, levies, and other policies) and the prevailing commodity price and cost environment.</p> <p>The Committee is satisfied that management's conclusion that the PY-3 asset remained impaired and the maintenance of full write-down of the assets is appropriate at the balance sheet date. The Committee will review the situation in FY2019 when the outcome of the RFFDP and extension application is known.</p>
<p><b>Provisions for decommissioning costs</b></p> <p>Estimates of the cost of future decommissioning and restoration of the PY-3 field are based on current technical and legal requirements, and cost levels, while estimates of when decommissioning will occur depend on assumptions made regarding the economic life of fields. Having considered the prevailing cost environment and projected timing of abandonment, management provided for the write-back of the decommissioning provision by \$0.5 million.</p>	<p>The Committee discussed with management the estimation process and the basis for the principal assumptions underlying the cost estimates, noting the reasons for any major changes in estimates as compared with the previous year. The Committee was satisfied that the approach applied was fair and reasonable. Further information on decommissioning provisions is provided in note 20 on page 70.</p>

# Audit Committee Report

## continued

### Viability Statement

A principal requirement of UK Code is to include a Viability Statement requiring the Board to state whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities. In making this statement, the Directors are expected to look forward significantly longer than 12 months. The Company's Viability Statement can be found on page 21 of the Strategic Report. The Committee has reviewed and concurred with the basis on which the Viability Statement has been prepared and the testing of possible outcomes of ongoing litigation and conditions and the mitigating actions disclosed in the statement.

### External auditor

The Company's external auditor is Crowe Clark Whitehill LLP. Authorisation of non-audit services provided to the Group is a matter reserved for the Audit Committee. In the year ended 31 March 2018 Crowe Clark Whitehill LLP did not provide any non-audit related services to the Company. Crowe Clark Whitehill LLP undertook a review of the Group's Interim Statement and Accounts for the six months ended 30 September 2017.

The external auditor has unrestricted access to the Audit Committee Chairman. During the current audit process, the Audit Committee Chairman met with the audit engagement partner from Crowe Clark Whitehill LLP, without the presence of management.

The Committee is satisfied that Crowe Clark Whitehill LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The external auditor confirmed to the Audit Committee during the year their independence from the Company. In accordance with professional standards, the partner responsible for the audit is changed every five years. The current auditor, Crowe Clark Whitehill LLP, was first appointed by the Company in 1999 and the current partner rotated onto the engagement for the September 2017 interim review. Taking into consideration the transitional rules issued by the Competition Commission as an indication of best practice, the Company would intend to put the audit out to tender after the end of the 2019 audit at the latest.

The UK Code states that the Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment or removal of the external auditor. Based on the Audit Committee's review of the external auditor's performance, effectiveness and independence, the Committee recommends to the Board that it recommends to shareholders the reappointment of the auditor at the Company's 2018 Annual General Meeting.

**Peter Milne**  
**Chairman of the Audit Committee**  
7 June 2018

# Directors' Remuneration Report



The Remuneration Committee's Report for the 12 months ended 31 March 2018 comprises two sections:

- An annual statement providing a summary of the Committee's activities in the 12 months ended 31 March 2018 and its intentions going forward
- A copy of the Directors' remuneration policy which was put to an advisory shareholder resolution at the 2017 Annual General Meeting.

On behalf of the Board, I would like to thank shareholders for their continued support. Should any shareholder wish to contact me about the Company's executive and non-executive remuneration policy, please email me at [ir@hardyoil.com](mailto:ir@hardyoil.com).

**Pradip Shah**  
**Chairman of the Remuneration Committee**  
 7 June 2018

**Annual Report on Remuneration**  
 This part of the report provides details of the operation of the Remuneration Committee, how the remuneration policy was implemented in the 12 months ended 31 March 2018 and how shareholders voted at the 2017 Annual General Meeting. This part of the report is to include a summary of how the policy will be operated for the next financial year, however, for ease of reference, this is presented within the Remuneration Policy Report on pages 42 to 46.

**The Remuneration Committee – governance**

The Company's Remuneration Committee comprises three Non-Executive Directors: Pradip Shah (Chairman), Alasdair Locke and Peter Milne.

Hardy's Remuneration Committee operates within the terms of reference approved by the Board. A copy of the Remuneration Committee's terms of reference can be found on the Company's website [www.hardyoil.com](http://www.hardyoil.com).

**The Committee's main responsibilities**

- The Remuneration Committee considers remuneration policy, employment terms and remuneration of the Executive Director and also reviews the remuneration of senior management
- The Remuneration Committee's role is advisory in nature and it makes recommendations to the Board on the overall remuneration packages for the Executive Director and senior management in order to attract, retain and motivate high quality executives capable of achieving the Group's objectives
- The Remuneration Committee also reviews proposals for the share option plans and other incentive plans, makes recommendations for the grant of awards under such plans as well as approving the terms of any performance-related pay schemes
- The Board's policy is to remunerate the Group's senior executives fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel
- The Remuneration Committee, while considering the remuneration packages of Hardy executives, has reviewed the policies of comparable groups in the industry. The remuneration of the Non-Executive Directors is determined by the Chairman and the Executive Director outside the framework of the Remuneration Committee.

The Remuneration Committee met three times in the 12 months ended 31 March 2018 and all Committee members served in office throughout the year. The attendance of members at the Remuneration Committee meetings was as follows:

Committee member	Number of meetings attended
Pradip Shah (Chairman)	3 of 3
Alasdair Locke	3 of 3
Peter Milne	3 of 3

**Committee evaluation**

The performance of the Remuneration Committee was evaluated as part of the Board evaluation which was completed in April 2018. The review was coordinated by the Senior Non-Executive Director and the Treasurer. As a result, the Remuneration Committee was operating effectively.



# Directors' Remuneration Report

## continued

### Committee advisors

No remuneration advisors were retained by the Remuneration Committee during the year ended 31 March 2018. The Company also consults with the Company's major investors and investor representative groups as appropriate. No Director takes part in any decision directly affecting their own remuneration. The Company Chairman also absents himself during discussion relating to his own fees.

### Executive

The Chief Executive Officer's base salary increased by 5 per cent to £275,625. The base salary is below industry average.

### Non-Executive

The Non-Executive Director fees remained unchanged.

### Single total figure of remuneration for each Director (audited)

Set out below are the emoluments of the Directors for the years indicated (US\$):

Executive		Fixed		Long-term				Total
Name of Director		Salaries/fees	Benefits	Bonuses	LTI vesting	Pension contribution	Other	
		(a)	(b)	(c)	(d)	(e)	(f)	
Ian MacKenzie <sup>1 2</sup>	FY2018	390,267	3,697	–	–	–	–	393,964
	FY2017	365,227	3,262	–	–	–	–	368,489
	FY2016	376,968	2,911	–	–	32,103	–	411,982
Non-Executive		Fixed		Long-term				Total
Name of Director		Salaries/fees	Benefits	Bonuses	Share awards	Pension contribution	Other	
		(a)	(b)	(c)	(d)	(e)	(f)	
Alasdair Locke	FY2018	120,315	–	–	–	–	–	120,315
	FY2017	117,394	–	–	–	–	–	117,394
	FY2016	176,354	–	–	40,959	–	–	217,313
Peter Milne	FY2018	80,210	–	–	–	–	–	80,210
	FY2017	78,263	–	–	–	–	–	78,263
	FY2016	91,652	–	–	21,370	–	–	113,022
Pradip Shah	FY2018	66,842	–	–	–	–	–	66,842
	FY2017	65,219	–	–	–	–	–	65,219
	FY2016	75,189	–	–	17,808	–	–	92,997

1 Ian MacKenzie's benefits included life and medical insurance.

2 Ian MacKenzie elected to take his pension entitlement "in kind".

### Long-term incentive plans

#### Unapproved Share options

The Committee did not recommend an award under this scheme in FY2018. The last award provided under this scheme was on 11 April 2014 when the Committee recommended the award of 250,000 options to the Chief Executive Officer. The options awarded will vest between the third and fifth anniversary of the date of grant (the Vesting Period) subject to the satisfaction of a Performance Condition. The Performance Condition shall be satisfied where at any time during the Vesting Period, the volume weighted average market price of an Ordinary Share for any 10 consecutive London Stock Exchange trading days is equal to or greater than the Ordinary Share price of the Company on the date of grant as increased by compounded growth of 5 per cent per annum in the share price as at the end of such 10-day period. If the Performance Condition is not satisfied by the fifth anniversary of the date of grant, the options shall lapse. Options are to vest immediately upon the occurrence of a Rule 8 Event under the unapproved share option scheme (relating to change of control etc).

### ESOP scheme

The Committee did not recommend any awards under the ESOP scheme.

**Directors' share options**

Set out below is certain information pertaining to share options granted to Directors who held office at 31 March 2018:

	As at 31 March 2017	Granted during FY2017	Forfeited during FY2017	As at 31 March 2018	Date of grant	Vested at end of FY2018	Expiry date	Exercise price per share (£)
Ian MacKenzie <sup>1</sup>	250,000	–	–	250,000	11-Apr-14	–	10-Apr-24	0.65
<b>Total</b>	<b>250,000</b>	<b>–</b>	<b>–</b>	<b>250,000</b>				

<sup>1</sup> Mr MacKenzie's options awarded in 2014 are subject to the conditions outlined above.

**Material contract**

There have been no other contracts or arrangements during the financial year in which a Director of the Company was materially interested and/or which were significant in relation to the Group's business.

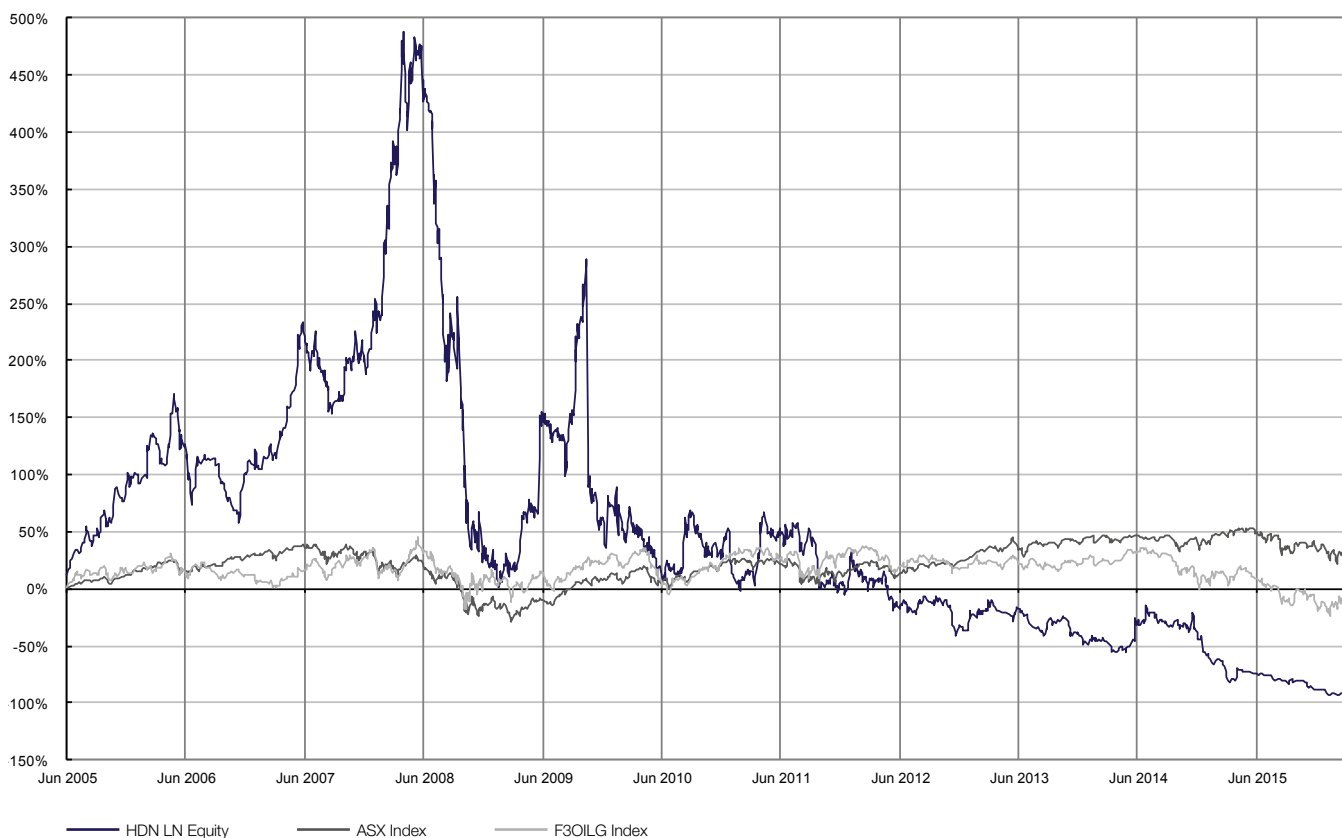
**Performance graph**

Ordinary Shares of the Company were listed on the Official List of the London Stock Exchange's market for listed securities (Main Market) from 20 February 2008.

In the circumstances, and since the Company's principal business is upstream oil and gas exploration, development and production, the Company has chosen to compare its performance with the FTSE All-Share Index and FTSE 350 Oil and Producers Index.

**Shareholders' return and index performance**

5 June 2005–31 March 2018



# Directors' Remuneration Report

## continued

### Chief Executive Officer's remuneration

	FY2016	FY2017	<b>FY2018</b>
Total remuneration (\$)	411,982	368,489	<b>393,964</b>
Months of service	12	12	<b>12</b>
Total remuneration (\$/mth)	34,332	30,707	<b>32,780</b>
Annual bonus (%) <sup>1</sup>	Nil	Nil	<b>Nil</b>
Option vesting	Nil	Nil	<b>Nil</b>

<sup>1</sup> The Chief Executive Officer was entitled to a bonus of nil to 100 per cent of annual salary equivalent. No bonus has been awarded by the Board.

On 27 March 2018, the market price of an Ordinary Share of Hardy was £0.1425 per share. The highest and lowest market price of an Ordinary Share of Hardy during the year ended 31 March 2018 was £0.28 and £0.12 respectively.

### Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's total remuneration between the financial period ended 31 March 2017 and financial year 31 March 2018 compared to that of the average for all employees of the Group.

	Salary	Benefits	Bonus
Chief Executive Officer	5	0	0
Average employees	4	0	0

Note: Percentage figures provided in the table above are determined based on the currency in which individuals are paid.

### Relative importance of spend on pay

The following table shows the Company's actual spend on pay for all employees relative to dividends.

	FY2017	<b>FY2018</b>	% <sup>1</sup>
Total employee remuneration (\$ million)	1.1	<b>1.2</b>	(18)
Dividend and share buyback	0	<b>0</b>	0

<sup>1</sup> Weighted average change.

### Shareholder voting at the last Annual General Meeting

At last year's Annual General Meeting, held on 13 September 2017, the Company's Remuneration Report received the following votes from shareholders:

		For	Against	Votes withheld	Total issued share capital instructed
Report	Total number of votes	34,978,429	1,232	0	34,979,661
	% of votes cast				
Policy	Total number of votes	34,772,970	206,691	0	34,979,661
	% of votes cast				

**Directors' interests in the share capital of the Company**

The Directors who held office at 31 March 2018 and who had beneficial interests in the Ordinary Shares of the Company are summarised in the table below. There are no minimum shareholding requirements for Directors:

Name of Director	Position	As at 31 March 2018	As at 31 March 2017
Alasdair Locke	Non-Executive Chairman	<b>1,198,153</b>	1,198,153
Peter Milne	Senior Non-Executive Director	<b>319,595</b>	319,595
Ian MacKenzie	Chief Executive Officer	<b>352,969</b>	352,969
Pradip Shah	Non-Executive Director	<b>835,690</b>	835,690

Other than as above, the Directors do not have any beneficial interest in the Ordinary Shares or any other securities of the Company, except for stock options.

**Other matters**

The Company does not manage any pension scheme for any of the Directors.

The Company has not paid out any excess retirement benefits to any Directors or past Directors.

The Company has not paid any compensation to past Directors.

The Company has not paid any sums to third parties with respect to any services of Directors.

Approved on behalf of the Board of Directors.

**Pradip Shah**

**Chairman of the Remuneration Committee**

7 June 2018

# Directors' Remuneration Report

## continued

### Directors' Remuneration Policy

In this section, we set out our remuneration policy, how it supports our strategy, how the Committee intends to operate it, the selection of performance metrics and why we believe they support our strategy and are appropriately stretching, and other relevant information about the Directors' service agreements. The effective date of the policy is 13 September 2017, which is the date shareholder approval is being sought for the revised policy at the AGM.

### Policy overview

The principles of the remuneration policy are to ensure that remuneration promotes the attraction, motivation and retention of the highest-quality executives who are key to executing our strategy and delivering substantial returns to shareholders. A meaningful proportion of executive remuneration is structured to link rewards to corporate and individual performance, conservation of limited capital resources, and an alignment of interests with those of shareholders and to incentivise them to perform at the highest levels. The remuneration package for the executive and senior management will comprise base salary, annual bonus, taxable benefits, pension contributions and participation in the Company's share incentive arrangements.

### Consideration of shareholders' views

The Remuneration Committee considers shareholder feedback received at the Annual General Meeting each year and, more generally, guidance from shareholder representative bodies. This feedback, plus any additional feedback received from time to time, is considered as part of the Company's review of remuneration policy.

### Employment conditions elsewhere in the Group

In setting the remuneration policy and remuneration level for the Executive Director, the Committee is cognisant of the approach to rewarding employees in the Group and levels of pay increases generally.

### Operation of share plans

The Committee will operate the Unapproved Share Option Plan, Executive Share Option Plan and Restricted Share awards according to their respective rules and in accordance with the Listing Rules and HMRC rules where relevant. The Committee retains discretion over a number of areas relating to the operation and administration of the plans in relation to senior management including the Executive Directors. These include (but are not limited to) the following:

- Who participates
- The timing of grant of awards and/or payment
- The size of awards and/or payment
- Discretion relating to the measurement of performance in the event of a change of control or reconstruction
- Determination of a good leaver (in addition to any specified categories) for incentive plan purposes and a good leaver's treatment
- Adjustments to awards required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends); and
- The ability to adjust existing performance conditions for exceptional events so that they can still fulfil their original purpose.

### Non-Executive remuneration Policy

The main goals of the Company's remuneration policy for the Chairman and Non-Executive Directors is designed to assure alignment with shareholders, maintain independence, recognise time commitments, and attract and retain outstanding candidates.

The remuneration of the Non-Executive Directors is determined by the Chairman and the Executive Director outside the framework of the Remuneration Committee and approved by the Board of Directors. The fees paid are set at a level to attract individuals with the necessary experience and ability to make a significant contribution to the Group's activities, while also reflecting the time commitment and responsibility of the role. None of the Directors participate in any discussion or votes on any proposal relating to his or her own remuneration.

### Director fees

Each Non-Executive Director currently receives a basic annual fee of £50,000. The Chairman of the Board will receive an additional annual fee of £40,000 to reflect additional responsibilities as Chairman of the Board. The Audit Committee Chairman will receive an additional annual fee of £10,000 to reflect additional responsibilities. Each Non-Executive Director is also entitled to the reimbursement of necessary travel and other expenses. In certain circumstances, a Non-Executive Director may receive additional fees to compensate for more time spent than would reasonably be expected in the execution of their roles and responsibilities.

Non-Executive Directors may receive a restricted shares award up to an equivalent of 25 per cent of their basic annual fee based on the market value of Hardy shares on the last trading day prior to the date of issue. These shares will remain restricted for three years from the date of issue. The shares will become unrestricted and are delivered to the individual three years after the date of issue. The share award will be in addition to the annual basic fee. In the event of change of control of Hardy and the participant is no longer a Director going forward, all the restricted shares will vest. In the event of death of a Director, all shares will become fully vested. Upon the Director not being re-elected at a general meeting of shareholders after offering himself for re-election as a Director at a general meeting, the shares will vest. In all other circumstances, shares that will remain restricted are forfeited if the participant is no longer a Director of Hardy. In addition, for a good leaver (defined as death, injury or disability, redundancy, retirement, his office or employment being either with a company which ceases to be in the Group or relating to a business or part of a business which is transferred to a person who is not a party to the Group or any other reason the Committee so decides), the Board has discretion to accelerate vesting on a date determined by it.

### Chairman's additional remuneration

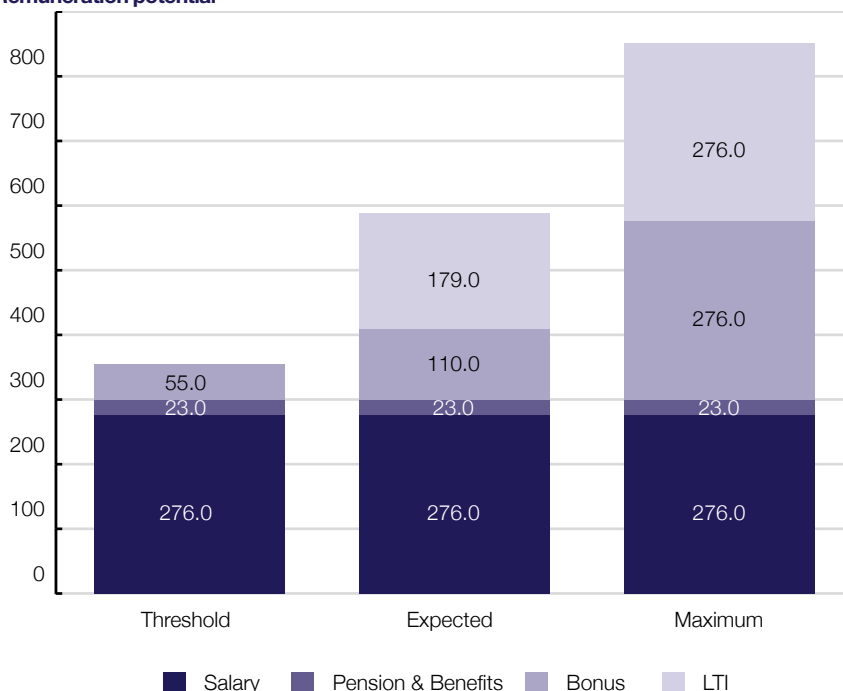
Alasdair Locke's terms of agreement provide for a one-time award of restricted shares equivalent to £50,000 if the average price of the Company's Ordinary Shares remains above £3.00 for any consecutive three-month period during the term of his appointment.

### Remuneration scenarios for the Executive Director

The chart below shows how the composition of the Executive Director's remuneration package varies at different levels of performance under the remuneration policy, as a percentage of total remuneration opportunity and as a total value.



**Remuneration potential**



**Service agreement**

The service contracts with Directors are on an evergreen basis, subject to termination provisions. The Company may, in lieu of notice, terminate the Executive Director’s employment with immediate effect by making a payment which does not exceed: a lump sum equal to basic salary, pension entitlement and other benefits at the rate prevailing at the date of termination for a period which does not exceed 12 months; and a bonus to the extent earned and awarded by the Company at the date of termination. The appointment of the Executive Director is subject to termination by no greater than 12 months’ notice by either party. The appointments of Non-Executive Directors are subject to termination upon at least three months’ notice.

**Chief Executive Officer**

The service contract of Ian MacKenzie is on an evergreen basis until terminated by not less than 12 months’ written notice by either party. If a written notice is given by either party, the Company may require the Executive Director to continue to perform such duties as the Board may direct during the notice period or require the Executive Director to perform no duties. In each case, the Company will continue to pay salary and provide all other benefits arising under the service contract until the end of the notice period.

**External appointment**

The Board has not introduced a formal policy in relation to the number of external directorships that an Executive Director may hold. Currently the Executive Director does not hold any other external appointment.

**Policy for new appointments**

**Executive**

Base salary levels will consider market data for the relevant role, internal relativities, the individual’s experience and their current base salary. Where an individual is recruited at below market norms, they may be realigned over time (e.g. two to three years), subject to performance in the role. Benefits will generally be in accordance with the approved policy. The Committee may consider buying out incentive awards which an individual would forfeit upon leaving their current employer, although any compensation would, where possible, be consistent with respect to currency (i.e. cash for cash, equity for equity), vesting periods (i.e. there would be no acceleration of payments), expected values and the use of performance targets. For external and internal appointments, the Committee may agree that the Company will meet certain relocation and/or incidental expenses as appropriate.

**Non-executive**

A one-time restricted share award may be made to a new Non-Executive Director on joining the Board under the same terms and conditions outlined for non-executive annual restricted share award. The market value of the one-time award of Hardy Ordinary Shares will not be greater than 100 per cent of the annual fee entitlement. In exceptional circumstances, this amount may be revised as deemed appropriate by the Remuneration Committee with Board approval.

**Policy for loss of office**

The Chief Executive Officer’s service contract is terminable by him or the Company on 12 months’ notice. There are no specific provisions under which the Executive Directors are entitled to receive compensation upon early termination, other than in accordance with the notice period. On termination of the Executive Director’s service contract, the Committee will consider the departing Director’s duty to mitigate his loss when determining the amount of any compensation. Disbursements such as legal and outplacement costs and incidental expenses may be payable where appropriate. Any unvested awards held under the Unapproved Share Option Plan, ExSOP (a structured option plan) plan or restricted shares awards will lapse at cessation unless the individual is a good leaver, in which case the Board may permit the extension of unvested options to a later date not to exceed 12 months from date of cessation. The appointments of any Non-Executive Director may be terminated by either party on three months’ written notice.

**Summary Directors’ remuneration policy**

The table below sets out a summary of each element of the Directors’ remuneration packages, their link to the Company’s strategy, the policy for how these are operated, the maximum opportunity and the performance framework.

# Directors' Remuneration Report

## continued

### Summary of Directors' remuneration policy

#### EXECUTIVE DIRECTOR

##### Base salary

Purpose and link to strategy	To provide an appropriate level of fixed cash income to attract and retain individuals with the personal attributes, skills and experience required to deliver our strategy.
Operation	Generally reviewed annually with increases effective from 1 January. Base salaries will be set by the Committee, taking into account the: <ul style="list-style-type: none"> <li>• Scale, scope and responsibility of the role</li> <li>• Skills, experience and performance of the individual</li> <li>• Retention risk; and</li> <li>• Base salary of other individuals undertaking similar roles in companies of comparable size and complexity.</li> </ul>
Opportunity	Increases to the current Executive Director salary, presented in the "Application of policy in FY2018" row below, will not normally exceed the average increase awarded to other UK-based employees. Increases may be above this level in certain circumstances, for instance if there is an increase in the scale, scope or responsibility of the role or to allow the base salary of newly appointed executives to move towards market norms as their experience and contribution increase.
Framework for recovery	None.
Application of policy in FY2018 <sup>1</sup>	Executive Director base salary £275,625 (may be reviewed annually by the Committee effective 1 January).

##### Pension and benefits

Purpose and link to strategy	To attract and retain individuals with the personal attributes, skills and experience required to deliver our strategy.
Operation	Salary supplement contribution to personal pension plan. Membership of a medical scheme, life and long-term disability assurance cover, and professional dues and other professional services.
Opportunity	Pension: 7.5 per cent of base salary. Benefits: the range of benefits that may be provided is set by the Committee after considering local market practice in the country where the executive is based. Additional benefits may be provided, as appropriate.
Framework for recovery	None.
Application of policy in FY2018 <sup>1</sup>	No change.

<sup>1</sup> Not part of the policy report.

**Incentives**

Purpose and link to strategy	To provide a simple, competitive incentive plan that will: attract, retain and motivate individuals with the required personal attributes, skills and experience; provide a real incentive to achieve our strategic objectives; and align the interests of management to shareholders.		
Operation	<p>Annual bonus plan – personal performance targets are set for the executive which the Committee deem appropriate and effective in aligning and motivating the executive toward the achievement of the Company's short-term objectives:</p> <ul style="list-style-type: none"> <li>• Annual award of cash bonus based on personal target linked performance ranging from nil up to the equivalent of 100 per cent of the executive base salary.</li> </ul> <p>Annual long-term equity-based award will be made in line with the Committee's assessment of the strategic targets:</p> <ul style="list-style-type: none"> <li>• Unapproved Share Option Plan, ExSOP (a structured option plan) or restricted shares</li> <li>• Annual long-term equity-based award based on performance of the Company and personal performance; and</li> <li>• Option and restricted share awards will normally vest after three years, subject to certain performance conditions and continued service.</li> </ul>		
Opportunity	<p>Annual bonus plan – the maximum annual level of award is 100 per cent of salary for the Executive Director.</p> <p>Annual long-term share or option award – the maximum face value for an annual award of option or share-based Long-term Incentives (LTIs) is equivalent to 100 per cent of the executive's base salary. Face value is the product of market value at time of award and number of options/shares awarded.</p>		
Framework for recovery	Claw back: unvested restricted shares and options can be terminated by the Board in instances of material misstatement or serious misconduct.		
Application of policy in FY2018 <sup>1</sup>	Award will be based on the Board's assessment of performance in meeting strategic targets.		
		Bonus	LTI (option-based award)
	Threshold	20%	nil%
	Target	40%	65%
	Cap	100%	100%
	LTI – option vesting will be conditional on the Company's share price appreciating at an average compounded rate of 5 per cent over three to five years from the date of grant. At the time of award, the Board may apply additional vesting conditions as it deems appropriate.		
	The Board has adopted a simple and effective incentive arrangement which it believes best serves the mission that management is charged with, which is to create additional value leading to a higher share price for all shareholders, subject to general market conditions.		

# Directors' Remuneration Report

## continued

### NON-EXECUTIVE DIRECTOR

Purpose and link to strategy	To provide an appropriate fee level to attract individuals with the necessary experience and ability to make a significant contribution to the effectiveness of the Board and to the Group's activities while also reflecting the time commitment and responsibility of the role.		
Operation	The Chairman and the Non-Executive Directors are paid a basic annual fee with additional responsibility fees for chairing of the Audit Committee. Fees are normally reviewed annually. Each Non-Executive Director is also entitled to a reimbursement of necessary travel and other expenses, and, when applicable, extra fees for additional work beyond the normal Non-Executive Director responsibilities. Restricted shares are issued to the Chairman and each Non-Executive Director on an annual basis equivalent to 25 per cent of their basic annual fee.		
Opportunity	There is no maximum prescribed fee increase although fee increases for Non-Executive Directors will not normally exceed the average increase awarded to the Executive Director. Increases may be above this level if there is an increase in the scale, scope or responsibility of the role.		
Framework for recovery	None.		
Application of policy in FY2018 <sup>1</sup>	Current Non-Executive Director fees:		
	Basic annual Non-Executive fee	£50,000	
	<b>Additional fees</b>		
	Chairman of the Board	£40,000	
	Chairman of the Audit Committee	£10,000	
	Other fees to remain at the same level as FY2017.		

<sup>1</sup> Not part of the policy report.

### Non-Executive Director terms of appointment

The services of Alasdair Locke, Peter Milne and Pradip Shah are, as Non-Executive Directors, provided under the terms of agreements with the Company dated as follows:

Non-Executive Director	Year of appointment	Number of years completed	Date of current engagement letter
Alasdair Locke	2012	6	12 January 2012
Peter Milne	2012	6	29 February 2012
Pradip Shah	1999	19	2 June 2005

# Nomination Committee Report



The main role of the Nomination Committee is to ensure that the Board has the necessary skills and expertise to support the Company's current and future activities. Further, we work to ensure that the Company's senior management have the necessary competencies to execute the organisation's strategic objectives.

The Hardy Board comprises four members including three Non-Executive Directors and one Executive Director. The Committee reviewed the composition of the Board and concluded that the current membership is sufficient to guide the Company to achieve its strategic objectives. The Nomination Committee will continue to assess the Group's leadership requirements and the overall effectiveness and composition of the Board.

## Committee's role

The Nomination Committee reviews the composition and balance of the Board and senior executive team on a regular basis to ensure that the Board and senior management have the right structure, skills and experience in place for the effective management of the Company's business.

## Main responsibilities

The main duties of the Nomination Committee are summarised below:

- Reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes
- Succession planning for Directors and other senior executives
- Identifying and nominating, for Board approval, candidates to fill Board vacancies as and when required

- Reviewing annually the time commitment required of Non-Executive Directors; and
- Making recommendations to the Board regarding membership of the Audit and Remuneration Committees in consultation with the Chairman of each Committee.

## Committee membership

The Nomination Committee currently comprises three Non-Executive Directors with Alasdair Locke as Chairman of the Committee. The Nomination Committee met three times in the 12 months ended 31 March 2018. The membership and attendance of members at Committee meetings held are provided below:

Committee member	Meetings attended
Alasdair Locke (Chairman)	3 of 3
Peter Milne	3 of 3
Pradip Shah	3 of 3

## Committee activities

The principal activities of the Committee during the year ended 31 March 2018 and after year end were:

## Board composition

The structure, size and composition of the Board were assessed. It was agreed that the current composition of the Board is adequate and provides the appropriate balance of experience and expertise to effectively fulfil its obligations to stakeholders.

## Management resources

The Committee members relied upon regular contact with the Executive to fulfil their ongoing assessment of the Company's senior management capabilities and expertise. The Committee is satisfied that the Company currently has sufficient human resources to achieve the Company's short-term objectives and has identified areas of enhancement to be put in place as our projects mature.

## Board Committee membership

The Committee recommended membership of Board Committees remains unchanged. A copy of the Committee's terms of reference can be found on the Company's website [www.hardyoil.com](http://www.hardyoil.com).

## Committee evaluation

The performance of the Nomination Committee was evaluated as part of the Board evaluation, which was completed in April 2018. The review was coordinated by the Senior Non-Executive Director with the assistance of management. The review showed that the Nomination Committee was adjudged to be operating effectively.

## UK Code compliance

The Committee has noted shareholder feedback regarding independence of non-executives.

## Independence

Mr Shah, a Non-Executive Director, does not meet the requirements for independence within the framework of the UK Code, primarily due to term of service. The Committee considers that Mr Shah is independent of management as the Chief Executive Officer was appointed in 2012, with whom Mr Shah has had no previous professional interaction. Furthermore, Mr Shah contributes relevant skills, expertise and insight towards the Company's stated strategic objectives and provides, in particular, valuable advice as to the business and political environment in India.

The Committee has concluded that the current Board members are the most appropriate for the needs of the organisation. We will continue to closely monitor the composition of the Board in this regard and act when appropriate.

## Gender diversity

All of the Executive and Non-Executive Directors are male, reflecting the relatively low level of gender diversity at senior levels in the upstream oil and gas industry generally. The Committee recognises the benefit of gender diversity, however, with due consideration to current circumstances, there is no immediate plan to change the composition of the Board. The Board is diverse in respect of skills, experience and cultural background.

## Alasdair Locke

Chairman of the Nomination Committee

7 June 2018

# Directors' Report

The Directors of Hardy Oil and Gas plc present their Annual Report together with the audited financial statements for the year ended 31 March 2018. These will be presented to the shareholders at the Annual General Meeting scheduled to be held on 12 September 2018.

## Business review and future developments

Hardy is an international upstream oil and gas company holding exploration and production rights in India. The Company is incorporated in the Isle of Man and its registered office is Fort Anne, Douglas, Isle of Man, IM1 5PD. Hardy's objective is to be a leading independent exploration and production company in India and deliver consistent step change growth in shareholder value through the exploration of potential commercial hydrocarbon accumulations. A full review of the Group's activities during the year ended 31 March 2018 and plans for the year ended 31 March 2019 can be found in the Strategic Report section on pages 4 to 24 of the Annual Report, which are incorporated herein by reference.

## Directors

The Directors that served in office throughout the year ended 31 March 2018 were:

Board member	Position	Committee member
Alasdair Locke	Non-Executive Chairman	Remuneration, Nomination (Chairman), Risk
Ian MacKenzie	Chief Executive Officer Executive Director	Risk (Chairman)
Peter Milne	Non-Executive Director	Audit (Chairman), Remuneration, Nomination, Risk
Pradip Shah	Non-Executive Director	Remuneration (Chairman), Audit, Nomination

## Indemnity provision for Directors

Subject to the Isle of Man Companies Acts 1931 to 2004, but without prejudice to any indemnity to which a Director may otherwise be entitled, every Director shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by the Director in the actual or purported execution of his or her duties. The Group has a Directors' and officers' liability insurance policy in place.

## Results and dividends

The Group is reporting a total comprehensive loss of US\$4,736,187 for the year ended 31 March 2018 compared to a comprehensive loss of US\$9,182,354 for the year ended 31 March 2017. The Directors do not recommend the payment of a dividend.

## Election and re-election of Directors

At the next Annual General Meeting of the Company, to be held on 12 September 2018, Alasdair Locke and Pradip Shah will offer themselves for re-election as Directors of HOGL. Biographical details for Mr Locke and Mr Shah are set out on page 28. Messrs Locke, Milne and Shah have entered into engagement letters with the Company in respect of their appointments as Non-Executive Directors of the Company. The appointments are subject to termination upon at least three months' notice by either party. Alasdair Locke is the Non-Executive Chairman of the Board and chairs the Company's Nomination Committee and is a member of the Remuneration Committee. Mr Locke has been a member of Hardy's Board and served as the Non-Executive Chairman for more than six years. Pradip Shah chairs the Company's Remuneration Committee and is a member of the Audit and Nomination Committees. Mr Shah has served as a Non-Executive Director for more than 18 years.

The Board of Directors believes that the contributions made by these Directors continue to be invaluable and is satisfied that they conduct themselves in an appropriate manner and in the best interest of shareholders. The Board of Directors is satisfied that the performance of all Directors continues to be effective and is also satisfied as to their commitment to their role as Directors.

## Capital structure and significant shareholders

The Company's authorised and issued share capital and changes thereto are disclosed in note 18 to the consolidated financial statements. Disclosures with respect to share options are provided in note 8 to the consolidated financial statements and in the Directors' Remuneration Report.

At 31 March 2018 and at the date of this report, there were 73,764,035 Ordinary Shares of Hardy issued and fully paid. Major interests in share capital of the Company, more than 3 per cent<sup>1</sup>, as of the date of this report are as follows:

Richard Griffiths and controlled undertaking	21,931,218	29.73%
Aberforth Partners LLP	9,784,830	13.27%
Universities Superannuation Scheme Limited	9,243,931	12.53%
Robert Quested	8,574,354	11.62%
Henderson Global Investors	3,277,403	4.44%
NFU Mutual Insurance Society Limited	2,713,479	3.68%
Yogeshwar Sharma	2,662,438	3.61%
John Grahame Whateley	2,438,169	3.31%
Legal & General Group Plc (L&G)	2,245,667	3.04%

<sup>1</sup> The Company relies on TR-1 notifications to track major shareholdings. Such notification is to be issued by the shareholder to the Company and appropriate authority following which the Company is required to disclose via a Regulatory News Service (RNS). There is no mechanism in place for the Company to verify the accuracy of such disclosures.

## GHG emissions

The disclosure concerning GHG emissions is included in the Strategic Report on page 25.



## Diversity

The disclosures concerning Director, management and employee gender diversity as required by law are included in the Strategic Report on page 25.

## Annual General Meeting

The Company's next Annual General Meeting will be held at Hardy Oil and Gas plc, 16 North Silver Street, Aberdeen AB10 1RL, Scotland on 12 September 2018 at 11.00 BST. The notice of meeting and the explanatory circular to shareholders setting out business to be conducted at the Annual General Meeting accompanies this Annual Report. The notice includes an item of special business which is explained by the Chairman in his letter contained in the circular. The item of special business concerns the disapplication of the pre-emption rights set out in article 5.1 of the Company's Articles of Association.

## Statement of Directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and IFRS as adopted by the European Union. Under such requirements, the Directors are required to prepare Consolidated and Parent Company financial statements of Hardy Oil and Gas plc for the year ended 31 March 2018, which comprise Consolidated Statement of Comprehensive Income, Consolidated and Parent Company Statements of Financial Position, Consolidated and Parent Company Statements of Cash Flows, Consolidated and Parent Company Statements of Changes in Equity, and related notes. In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis.

The Directors are responsible for ensuring that proper accounting records are kept and which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. The Directors are responsible for ensuring the Directors' Report and other information included in the Annual Report are prepared in accordance with company law of the Isle of Man and are also responsible for ensuring that the Annual Report includes information required by the rules of the London Stock Exchange.

In addition to the above, the Directors are also responsible for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' responsibility statement pursuant to disclosure and Transparency Rule 4.1.12

The Directors confirm that, to the best of their knowledge:

- The financial statements, which are prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- The Annual Report and statement of accounts includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

## Internal control and risk management systems

The Board has ultimate responsibility for the Group's internal control and risk management systems. The Audit Committee monitors internal controls and risk management systems on an annual basis. The Group has established a system of control and risk management involving an appropriate degree of oversight by senior management.

## Reappointment of auditor

Crowe Clark Whitehill LLP have expressed their willingness to continue as auditor. In accordance with the Isle of Man Companies Acts 1931 to 2004, a resolution reappointing Crowe Clark Whitehill LLP as auditor of the Company will be proposed at the next Annual General Meeting.

## Going concern

The Group's business activities, together with factors likely to affect its future operations, financial position and liquidity position, are set out in the Strategic Report section of the Annual Report. In addition, note 22 to the financial statements discloses the Group's financial risk management practices with respect to its capital structure, foreign currency risk, liquidity risk, interest rate risk, commodity price risk, credit risk and other related matters.

The Directors, having made due and careful enquiry, believe the Group has adequate working capital to execute its operations over the next 12 months. The Directors, therefore, have made an informed judgement, at the time of approving financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for 12 months from the date of approval of these financial statements. As a result, the Directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements.

## Events after 31 March 2018

There have not been any material events that have occurred since 31 March 2018 to the date of this report.

Approved by the Board of Directors.

## Alasdair Locke

Chairman

7 June 2018







**This section of the report details the financial position of the Company and reports on the financial record throughout the year**

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# Financial Statements



# Independent auditor's report

## to the shareholders of Hardy Oil and Gas plc

### Opinion

We have audited the financial statements of Hardy Oil and Gas plc for the year ended 31 March 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- Give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's loss for the year then ended;
- Of the Group have been properly prepared in accordance with IFRSs as adopted by the European Union;
- Of the Parent Company have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Isle of Man Companies Acts 1931 to 2004; and
- Have been prepared in accordance with the requirements of the Isle of Man Companies Acts 1931 to 2004.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Who we are reporting to

The report is made solely to the Company's members, as a body, in accordance with the terms of our engagement letter dated 11 April 2018. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- The disclosures in the Annual Report set out on page 21 to 23 that describe the principal risks and explain how they are being managed or mitigated;
- The Directors' confirmation set out on page 21 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- The Directors' statement set out on page 60 in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- Whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- The Directors' explanation set out on page 21 in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none"> <li>• Status of the legal dispute in respect of CY-OS2;</li> <li>• Provisions and contingent liabilities; and</li> <li>• Estimation of the future liability in respect of the decommissioning liability.</li> </ul>
Changes in our risk assessment – areas where our assessment of the risk has increased since the prior year	The carrying value of PY-3 intangible asset and deferred tax asset is an area of decreased risk as the assets were impaired in the previous year.
Audit scope	The Parent Company and its subsidiary are accounted for from one central operating location in Chennai, India. Our audit was conducted from the central operating location which the Responsible Individual visited during the course of the audit work.
Materiality	Overall Group materiality of \$700,000 which represents 1% of the Group's total assets.

## Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the financial statements as a whole to be \$700,000 (2017: \$700,000), based on a percentage of the Group's total assets and net assets.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate, performance materiality may be reduced to a lower level, such as for related party transactions and Directors' remuneration. We agreed with the Audit Committee to report to it all identified errors in excess of \$20,000 (2017: \$20,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

## An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the Group's business and is risk based.

In order to address the audit risks identified during our planning procedures, we performed a full-scope audit of the financial statements of the Parent Company and the US Group entity, with accounting records in Chennai, India. The operations that were subject to these audit procedures made up 100% of consolidated results and financial position.

The audit team, including the Responsible Individual, undertook the audit work at the central operating location in Chennai, India.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Status of the legal dispute in respect of CY-OS/2</b></p> <p>The carrying value of the field at 31 March 2018 is \$51.1 million. As outlined within the 'Critical Accounting Estimates and Judgements section', whilst the Group has been awarded costs and interest after arbitration, the dispute with the Government of India remains ongoing.</p> <p>If the block is relinquished it would be an indication of impairment as per the criteria of IFRS 6: Exploration for and Evaluation of Mineral Resources and a test would subsequently be required which could have a material impact on the Group. We considered the risk that an impairment test should have been performed and the asset written down as relinquished.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Reviewing the arbitration award, made in the Group's favour, in February 2013, and considering the legal advice received by the Group in respect of the enforcement of the award, both within and outside India.</li> <li>• Obtaining, from a source independent of the Group, the judgment received at the Delhi High Court in July 2016 dismissing the Government of India's appeal.</li> <li>• Discussing the matter directly with the Group's legal advisors.</li> </ul> <p>We reviewed the disclosure made concerning this matter to ensure that it is consistent with our understanding of the current legal position.</p> <p>Further details of this matter are disclosed in notes 2 and 14 to the financial statements to which we draw the reader's attention.</p>

## Independent auditor's report continued to the shareholders of Hardy Oil and Gas plc

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Provisions and contingent liabilities</b> There are a number of threatened and actual legal, regulatory and tax cases against the Group. There is a high level of judgement required in estimating the level of provisioning required.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> <li>• Obtaining management's assessment of the likely outcome of ongoing disputes.</li> <li>• Reviewing Board minutes and legal invoices for evidence of additional legal disputes of which we were not previously made aware.</li> <li>• Reviewing the legal advice received and discussing matters directly with Hardy's legal and professional advisors.</li> </ul> <p>Based on the evidence obtained, while noting the inherent uncertainty with such legal, regulatory and tax matters, we determined the level of provisioning at 31 March 2018 to be appropriate.</p> <p>We validated the completeness and appropriateness of the related disclosures through assessing that the disclosure of the uncertainties in notes 2 and 25 of the financial statements was sufficient.</p>
<p><b>Estimation of the future liability in respect of decommissioning</b> The carrying value of the decommissioning provision, relating to the PY-3 field, is \$3.9m, which has been revised downward from the previous year by \$0.6m to reflect reductions in the cost estimates. We considered the risk that the assumptions were not appropriate in current market conditions and that the liability was materially misstated.</p>	<p>We reviewed the underlying economic models challenging the key assumptions made by management. This included:</p> <ul style="list-style-type: none"> <li>• Comparison of rig day rate assumptions to available market data;</li> <li>• Considering the appropriateness of the assumptions concerning the timing and discounting of the cash flows; and</li> <li>• Performing of scenario analysis of the various underlying assumptions.</li> </ul>

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

The Audit Committee's consideration of these matters is set out on page 35.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.



### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Isle of Man Companies Acts 1931 to 2004 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company; or
- The financial statements of the Parent Company are not in agreement with the accounting records; or
- We have not received all the information and explanations we require for our audit; or
- If information required by law regarding Directors' remuneration and other transactions is not disclosed.

### Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 49, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the "An overview of the scope of our audit" section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 15 of the Isle of Man Companies Acts 1982. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Leo Malkin

#### Senior Statutory Auditor

For and on behalf of  
Crowe Clark Whitehill LLP  
Statutory Auditor  
London

7 June 2018

## Consolidated Statement of Comprehensive Income

For the year ended 31 March 2018

	Notes	Year ending 31 March 2018 US\$	Year ending 31 March 2017 US\$
<b>Continuing operations</b>			
<b>Revenue</b>	3	–	–
<b>Cost of sales</b>			
Production costs	4	21,679	514,525
Impairment of Block CY-OS-90/1 (PY-3)	13	–	(3,026,688)
<b>Gross profit/(loss)</b>		<b>21,679</b>	<b>(2,512,163)</b>
Administrative expenses		<b>(5,241,983)</b>	<b>(2,614,386)</b>
<b>Operating loss</b>	5	<b>(5,220,304)</b>	<b>(5,126,549)</b>
Interest and investment income	10	484,117	429,857
<b>Loss before taxation</b>		<b>(4,736,187)</b>	<b>(4,696,692)</b>
Taxation	11	–	(4,485,662)
<b>Loss after taxation</b>		<b>(4,736,187)</b>	<b>(9,182,354)</b>
<b>Total other comprehensive income</b>		<b>–</b>	<b>–</b>
<b>Total comprehensive loss for the year attributable to owners of the parent</b>		<b>(4,736,187)</b>	<b>(9,182,354)</b>
<b>Loss per share</b>			
Basic & diluted	12	<b>(0.06)</b>	(0.12)

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

	Share capital US\$	Share premium US\$	Shares option reserve US\$	Retained earnings/(loss) US\$	Total US\$
<b>At 31 March 2016</b>	737,641	120,936,441	1,854,349	(51,827,964)	71,700,467
Total comprehensive loss for the year	–	–	–	(9,182,354)	(9,182,354)
Share based payment	–	–	78,163	–	78,163
Adjustment of lapsed vested options	–	–	(1,168,024)	1,168,024	–
<b>At 31 March 2017</b>	<b>737,641</b>	<b>120,936,441</b>	<b>764,488</b>	<b>(59,842,294)</b>	<b>62,596,276</b>
Total comprehensive loss for the year	–	–	–	(4,736,187)	(4,736,187)
<b>At 31 March 2018</b>	<b>737,641</b>	<b>120,936,441</b>	<b>764,488</b>	<b>(64,578,481)</b>	<b>57,860,089</b>

# Consolidated Statement of Financial Position

## As at 31 March 2018

	Notes	31 March 2018 US\$	31 March 2017 US\$
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	22,863	24,885
Intangible assets	14	51,128,774	51,130,501
Site restoration deposits	20	5,059,523	4,723,237
<b>Total non-current assets</b>		<b>56,211,160</b>	<b>55,878,623</b>
<b>Current assets</b>			
Inventories	15	659,656	942,365
Trade and other receivables	16	4,740,148	3,862,656
Short-term investments	17	8,934,123	14,179,026
Cash and cash equivalents	22	241,952	286,881
<b>Total current assets</b>		<b>14,575,879</b>	<b>19,270,928</b>
<b>Total assets</b>		<b>70,787,039</b>	<b>75,149,551</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	18	737,641	737,641
Share premium	19	120,936,441	120,936,441
Shares option reserve	19	764,488	764,488
Retained loss		(64,578,481)	(59,842,294)
<b>Total equity</b>		<b>57,860,089</b>	<b>62,596,276</b>
<b>Non-current liabilities</b>			
Provision for decommissioning	20	3,854,995	4,452,916
<b>Total non-current liabilities</b>		<b>3,854,995</b>	<b>4,452,916</b>
<b>Current liabilities</b>			
Trade and other payables	21	9,071,955	8,100,359
<b>Total current liabilities</b>		<b>9,071,955</b>	<b>8,100,359</b>
<b>Total liabilities</b>		<b>12,926,950</b>	<b>12,553,275</b>
<b>Total equity and liabilities</b>		<b>70,787,039</b>	<b>75,149,551</b>

Approved and authorised for issue by the Board of Directors on 6 June 2018.

# Consolidated Statement of Cash Flows

## For the year ended 31 March 2018

	Notes	Year ending 31 March 2018 US\$	Year ending 31 March 2017 US\$
<b>Operating activities</b>			
Cash flow (used in) operating activities	6	(5,428,470)	(3,240,252)
Tax (deducted)/refund		-	98,347
<b>Net cash (used in) operating activities</b>		<b>(5,428,470)</b>	<b>(3,141,905)</b>
<b>Investing activities</b>			
Expenditure on other fixed assets		(9,193)	(6,328)
Site restoration deposit		(336,286)	(412,039)
Realised from short-term investments		5,244,903	2,588,917
<b>Net cash from investing activities</b>		<b>4,899,424</b>	<b>2,170,550</b>
<b>Financing activities</b>			
Interest and investment income		484,117	429,857
<b>Net cash from financing activities</b>		<b>484,117</b>	<b>429,857</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(44,929)</b>	<b>(541,498)</b>
Cash and cash equivalents at the beginning of the year		286,881	828,379
<b>Cash and cash equivalents at the end of the year</b>	22	<b>241,952</b>	286,881

# Notes to the Consolidated Financial Statements

## For the year ended 31 March 2018

### 1. Accounting policies

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

These financial statements are for the year ending 31 March 2018.

#### 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 reviewed the Group's ongoing activities and, having regard to the Group's existing working capital position, the Directors are of the opinion that the Group has adequate resources to enable it to undertake its planned 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 funds 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, there are several standards and interpretations that are in issue but not yet effective. The Directors have specifically considered IFRS 15 and IFRS 9. 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) Presentational currency

These financial statements are presented in US dollars. All financial information presented is rounded to the nearest US dollar, with some disclosures rounded to the nearest million.

#### e) Basis of consolidation

The consolidated financial statements include the results of Hardy Oil and Gas plc and its subsidiary undertaking. The Group comprises the parent company, Hardy Oil and Gas plc, and the wholly owned subsidiary Hardy Exploration & Production (India) Inc. ("HEPI") 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 arrangements which involve the joint control of assets used in the Group's oil and gas exploration and production activities. The Group accounts for all its joint arrangements as joint operations by recognising its share of assets, liabilities, income and expenditure of joint arrangement in the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income as appropriate.

#### f) Revenue

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). Revenues are recognised when crude oil has been lifted and title has been passed to the buyer.

#### 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 and are held within intangible exploration assets and not depleted.

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.



**1. Accounting policies** continued**g) Oil and gas assets** continued

## 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 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 is 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 within the depletion charge on oil and gas assets in the Statement of Comprehensive Income and unwinding of the discount on the provision is included in 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 recognised in the Statement of Comprehensive Income.

Impairment reviews on development/producing oil and gas assets for each field are carried out when indicators of impairment exist 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. If the net book value of the cost pool is higher than the associated discounted future cash flows, the excess amount is recognised in the Statement of Comprehensive Income as impairment and deducted from the pool value.

**i) Investments**

Investments by the parent company in its subsidiaries are stated at cost less any impairment provisions.

**j) 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 all income is remitted and recognised as interest and investment income and 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.

**k) Inventory**

Inventory of crude oil is valued at the lower of average cost or 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.

**l) Financial instruments**

Financial assets and financial liabilities are initially recognised 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 any necessary provisions for estimated irrecoverable amounts. Trade payables are not interest bearing and their fair value is deemed to be their nominal value.

**m) Equity**

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

# Notes to the Consolidated Financial Statements continued

## For the year ended 31 March 2018

### 1. Accounting policies continued

#### n) 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 items 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 tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available in the future against which deductible temporary differences can be utilised.

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.

#### o) 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 exchange rate. Exchange differences arising from transactions during the year and from the year-end retranslation are reflected in the Statement of Comprehensive Income.

Rates of exchange were as follows:

	31 March 2018	31 March 2017
US\$ to £1	1.40	1.23
Indian Rupees to US\$1	64.89	64.85

#### p) 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 market conditions are considered. 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 option reserve is adjusted to retained earnings as a reserve movement.

#### q) 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 are only recognised in the year when the receipt becomes virtually certain.

### 2. Critical accounting estimates and judgements

The preparation of the Group's financial statements requires the use of estimates and judgements that affect the carrying value of assets and liabilities at the balance sheet date and the reported amounts of revenue and expenditure for the year. These estimates and judgements are made based on management's knowledge of the facts, taking into account historical experiences and expectations of future events that are believed to be reasonable under the particular circumstances. By definition, the actual results will most likely differ from the estimates made. The estimates and assumptions that could have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are addressed below:

#### i) Intangible assets – exploration

Intangible assets comprise capitalised exploration expenditures associated with a natural gas discovery on the CY-OS/2 exploration licence. The GOI had notified the Group of the relinquishment of the licence to which Hardy and the GOI entered arbitration to resolve the dispute. The arbitration tribunal ruled in favour of HEPI and ordered the reinstatement of the licence. The GOI has subsequently appealed the award at several levels of the Indian judicial system. Full details are disclosed in note 14 to these financial statements. This is regarded as a significant area of judgement and management having considered that the arbitration tribunal has confirmed that the relinquishment was illegal, the appeal by the GOI was dismissed by the District Bench of the High Court of Delhi, and legal advice maintains a legal right to the licence. As a result, it has been adjudged that there is no indication of impairment.

#### ii) Recoverability of receivables from PY-3 Joint Venture Partners

Where the Group is the operator of, or is the largest owner in, a field, it recovers a percentage of the costs incurred from its joint arrangement partners in accordance with the levels of participating interests. Partners may either be Indian state-owned companies or private enterprises. Cash calls on partners are usually made in advance of incurring field expenditure. However, a number of these have not been paid, pertaining to the period from 2011 to 2017, and the Group commenced arbitration against PY-3 partners in FY2017, seeking \$8.36 million (plus interest). The Group has strong legal advice that its claim is valid and it will continue to pursue this amount by all legal means. However, due to the length of time the amounts have been outstanding, prudent provision has been made against the sums due totalling US\$ 5.1 million (2017: US\$ 4.8 million). There is always uncertainty associated with any arbitration process and the amount recovered may therefore materially differ both from that claimed and from the amount recognised. This is regarded as a significant estimate and management have considered the correspondence between the Group and the debtors, the standing of the individual organisations and legal advice.

**2. Critical accounting estimates and judgements** continued**iii) Provisions**

The Group records provisions where it considers it has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate of the amount thereof can be made. The recording of provisions is an area which requires the exercise of management's judgement relating to the nature, timing and probability of the liability. The Group's balance sheet includes provisions for liquidated damages on minimum work programmes, Indian taxes and contractual disputes.

**iv) Decommissioning**

The liability for decommissioning is reviewed based on cost estimates which are predominated by the charter hire charges of drill ships and supply boats. Accordingly, the provision made in the books will reflect the risk free discounted estimated future cost for decommissioning. Further details are contained in note 20.

**v) Carrying value of Oil & Gas and exploration assets**

Management has fully impaired the Group's oil and gas assets due to ongoing uncertainty of likelihood of development and the availability of extension at the end of the current Production Sharing Agreement in 2019. If a development was sanctioned the calculation of the recoverable amount would require the estimation of future cash flows. Previously management's key assumptions and estimates in the impairment models related to: commodity prices that are based on forward commodity price estimates, fiscal structuring specific to individual assets, commercial reserves and the related cost profiles. Should a development plan be approved by all the partners in the PY-3 field and the Government of India, we will review the economic model to determine the appropriate asset value. If circumstances change, the total impairment recognised in FY2016 and FY2017 of \$5.8m could be written back. Further details are contained in notes 13 and 14.

**3. Segment analysis**

The Group is organised into two business units: India and United Kingdom. The Indian 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.

	2018			Total
	India	UK	Inter-segment eliminations	
	US\$			
<b>Revenue</b>				
Other income	-	-	-	-
Operating loss	(3,637,805)	(1,582,499)	-	(5,220,304)
Interest income	339,700	144,417	-	484,117
Interest income on inter-corporate loan	-	2,288,570	(2,288,570)	-
Impairment of investment in & loan to subsidiary	-	(5,586,675)	5,586,675	-
Interest expense on inter-corporate loan	(2,288,570)	-	2,288,570	-
Loss before taxation	(5,586,675)	(4,736,187)	5,586,675	(4,736,187)
Taxation	-	-	-	-
Loss for the period	(5,586,675)	(4,736,187)	5,586,675	(4,736,187)
Non-current assets	56,201,774	9,386	-	56,211,160
Current assets	5,354,740	9,221,139	-	14,575,879
Total segment assets	61,556,514	9,230,525	-	70,787,039
Inter-corporate loan (net of impairment)	-	48,120,580	(48,120,580)	-
Non-current liabilities	(3,854,995)	-	-	(3,854,995)
Current liabilities	(8,885,544)	(186,411)	-	(9,071,955)
Total segment liabilities	(12,740,539)	(186,411)	-	(12,926,950)
Inter-corporate borrowings	(115,827,839)	-	115,827,839	-
Capital expenditure	2,982	6,211	-	9,193
Depreciation, depletion and amortisation	7,480	5,462	-	12,942

## Notes to the Consolidated Financial Statements continued

### For the year ended 31 March 2018

#### 3. Segment analysis continued

	2017 US\$			
	India	UK	Inter-segment eliminations	Total
<b>Revenue</b>				
Other income	–	–	–	–
Operating loss	(3,488,958)	(1,637,591)	–	(5,126,549)
Interest income	332,430	97,427	–	429,857
Interest income on inter-corporate loan	–	1,517,533	(1,517,533)	–
Impairment of investment in & loan to subsidiary	–	(65,873,695)	65,873,695	–
Interest expense on inter-corporate loan	(1,517,533)	–	1,517,533	–
Loss before taxation	(4,674,061)	(65,896,326)	65,873,695	(4,696,692)
Taxation	(5,321,891)	836,229	–	(4,485,662)
Loss for the period	(9,995,952)	(65,060,097)	65,873,695	(9,182,354)
Non-current assets	55,869,987	8,636	–	55,878,623
Current assets	4,859,675	14,411,253	–	19,270,928
Total segment assets	60,729,662	14,419,889	–	75,149,551
Inter-corporate loan (net of impairment)	–	47,627,764	(47,627,764)	–
Non-current liabilities	(4,452,916)	–	–	(4,452,916)
Current liabilities	(7,953,585)	(146,774)	–	(8,100,359)
Total segment liabilities	(12,406,501)	(146,774)	–	(12,553,275)
Inter-corporate borrowings	(109,748,349)	–	109,748,349	–
Capital expenditure	3,998	2,330	–	6,328
Impairment of Block CY-OS-90/1 (PY-3)	(3,026,688)	–	–	(3,026,688)
Depreciation, depletion and amortisation	(7,257)	(11,515)	–	(18,772)

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 arrangement operations and miscellaneous receipts, if any.

#### 4. Production costs

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

	2018 US\$	2017 US\$
Production costs	<b>293,533</b>	288,656
Write down of inventories	<b>282,709</b>	–
Change in decommissioning estimate	<b>(597,921)</b>	(803,181)
Cost of sales	<b>(21,679)</b>	(514,525)

As the PY-3 asset has been fully impaired, the change in the value of the decommissioning provision has been recognised immediately in production costs.

## 5. Operating loss

Operating loss is stated after charging:

	2018 US\$	2017 US\$
Depreciation and amortisation	12,942	18,772
Operating lease costs – Land and buildings	159,142	151,228
External auditors' remuneration		
– Fees payable to the Group's auditors for the audit of the Group's annual accounts	75,205	75,385
– Audit related assurance services	11,234	10,610
Exchange loss/(gain)	15,423	(53,347)

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. No non-audit services were provided during the year or in the prior year.

## 6. Reconciliation of operating loss to operating cash flows

	2018 US\$	2017 US\$
Operating loss	(5,220,304)	(5,126,549)
Impairment of Block PY-3	–	3,026,688
Depletion, amortisation and depreciation	12,942	18,772
Share based payment expense	–	78,163
	<b>(5,207,362)</b>	<b>(2,002,926)</b>
Decrease in inventory	282,709	–
Increase in trade and other receivables	(877,492)	(710,767)
Increase/(decrease) in trade and other payables	373,675	(526,559)
Cash (used in) operating activities	<b>(5,428,470)</b>	<b>(3,240,252)</b>

## 7. Staff costs

	2018 US\$	2017 US\$
Wages and salaries	1,032,506	960,332
Social security costs	186,564	188,077
Share based payments charge	–	78,163
	<b>1,219,070</b>	<b>1,226,572</b>

Staff costs, including Executive Directors' salaries, fees, benefits and share based payments, are shown gross before amounts recharged to joint arrangements.

The average monthly number of employees, including Executive Directors, employed by the Group is as follows:

	2018	2017
Management and administration	9	9
Operations	5	6
	<b>14</b>	<b>15</b>

The number of permanent employees of the Group as at 31 March 2018 is 13 (2017: 15).



## Notes to the Consolidated Financial Statements continued

### For the year ended 31 March 2018

#### 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 2017 and 2024 at prices of £0.65 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, subject to compounded share price growth. 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:

	2018		2017	
	Number of options	Weighted average price	Number of options	Weighted average price
Outstanding at beginning of the year	675,000	£1.70	1,715,000	£1.78
Granted during the year	-	-	-	-
Lapsed during the year	-	-	1,040,000	£1.80
Outstanding at the end of the year	675,000	£1.70	675,000	£1.70
Exercisable at the end of the year	100,000	£7.69	100,000	£7.69

Details of outstanding options at the end of the year with the weighted average exercise (WAEP) price are as follows:

FY	1 April 2017		Lapsed FY2018		31 March 2018	
	Number	WAEP	Number	WAEP	Number	WAEP
2009	100,000	7.69	-	-	100,000	7.69
2013	50,000	1.19	-	-	50,000	1.19
2014	275,000	0.66	-	-	275,000	0.66
2015	250,000	0.65	-	-	250,000	0.65
Total	675,000	1.74	-	-	675,000	1.74

The weighted average contractual life of options outstanding is 4.82 years (2017: 5.82 years).

#### 9. Directors' emoluments

Details of each Director's remuneration and share options are set out in the Directors' Remuneration Report that forms part of the Company's Annual Report. Directors' emoluments are included within the remuneration of the key management personnel in note 26.

#### 10. Interest and investment income

	2018 US\$	2017 US\$
Bank interest	339,198	312,320
Other interest income	502	20,110
Dividend	144,417	97,427
	<b>484,117</b>	<b>429,857</b>

## 11. Taxation

### a) Analysis of taxation charge/(credit) for the year

	2018 US\$	2017 US\$
Current tax charge		
UK corporation tax	-	-
Foreign tax – India	-	-
Minimum alternate tax	-	-
Foreign tax – USA	-	-
Total current tax charge	-	-
Deferred tax charge	-	4,485,662
Taxation charge	-	4,485,662

	2018 US\$	2017 US\$
Charge in respect of change in tax rates	-	-
Losses incurred during the year	<b>(1,659,847)</b>	(1,792,196)
Origination and reversal of temporary differences	<b>75,409</b>	1,641,911
De-recognition due to potential non-reversal of deferred tax asset	<b>1,584,438</b>	4,635,947
Deferred tax charge	-	4,485,662

### b) Factors affecting tax charge for the year

	2018 US\$	2017 US\$
Loss before taxation from continuing operations	<b>(4,736,187)</b>	(4,696,692)
Loss before taxation multiplied by the appropriate rate of tax in respective countries (2017: 41.2%)	<b>(1,951,309)</b>	(1,930,237)
Adjustment for expired carried forward losses	<b>291,462</b>	2,614,561
Others	<b>75,409</b>	(834,609)
De-recognition due to potential non-reversal of deferred tax asset	<b>1,584,438</b>	4,635,947
Total tax charge	-	4,485,662

Indian operations of the Group are subject to a tax rate of 41.2 per cent, which is higher than UK and US corporation 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. When considering deferred tax assets, the Group considers the highest and best use of the losses available, which is considered to be in India. 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.

No deferred tax asset has been recognised in FY2018.

#### Write-off of deferred tax asset in the previous year

The Group wrote off the deferred tax asset of US\$4,485,662 during FY2017. This was in light of the fact that there was no Joint Venture partners agreed field development plan for Block PY-3 as a result of which the Group was not expected to generate profits within a reasonable timeframe to be offset by unused tax losses. Further, a portion of the losses carried forward in the Indian operations of the Group had expired in FY2017, resulting in a write off of the deferred tax asset.

## 12. Loss per share

Loss per share is calculated on a loss of US\$4,736,187 for the year ended 31 March 2018 (2017: US\$9,182,354) on a weighted average of 73,764,035 Ordinary Shares for the year ended 31 March 2018 (2017: 73,764,035). No diluted loss per share is calculated.

## Notes to the Consolidated Financial Statements continued

### For the year ended 31 March 2018

#### 13. Property, plant and equipment

Oil and gas assets represent interest in producing oil and gas assets falling under the India cost pool. Other fixed assets consist of office furniture, computers, workstations and office equipment.

	Oil and gas assets US\$	Other fixed assets US\$	Total US\$
<b>Cost</b>			
<b>At 1 April 2016</b>	35,465,279	1,780,170	37,245,449
Additions	–	6,328	6,328
Disposals	–	–	–
<b>At 31 March 2017</b>	<b>35,465,279</b>	<b>1,786,498</b>	<b>37,251,777</b>
Additions	–	9,193	9,193
Disposals	–	–	–
<b>At 31 March 2018</b>	<b>35,465,279</b>	<b>1,795,691</b>	<b>37,260,970</b>
<b>Depletion, depreciation and amortisation</b>			
<b>At 1 April 2016</b>	32,438,591	1,744,568	34,183,159
Charge for the year	–	17,045	17,045
Impairment of Block PY-3 asset	3,026,688	–	3,026,688
Disposals	–	–	–
<b>At 31 March 2017</b>	<b>35,465,279</b>	<b>1,761,613</b>	<b>37,226,892</b>
Charge for the year	–	11,215	11,215
Disposals	–	–	–
<b>At 31 March 2018</b>	<b>35,465,279</b>	<b>1,772,828</b>	<b>37,238,107</b>
<b>Net book value at 31 March 2018</b>	<b>–</b>	<b>22,863</b>	<b>22,863</b>
Net book value at 31 March 2017	–	24,885	24,885

#### 14. Intangible assets

	Exploration US\$	Others US\$	Total US\$
<b>Costs and net book value</b>			
<b>At 1 April 2016</b>	51,128,272	3,956	51,132,228
Amortisation for the year	–	(1,727)	(1,727)
<b>At 31 March 2017</b>	51,128,272	2,229	51,130,501
Amortisation for the year	–	(1,727)	(1,727)
<b>At 31 March 2018</b>	<b>51,128,272</b>	<b>502</b>	<b>51,128,774</b>

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

	US\$
Exploration expenditure – Block CY-OS/2	51,128,272

The exploration intangible asset is carried in the books at capitalised costs based on the following facts.

**14. Intangible assets** continued**Legal proceedings concerning Block CY-OS/2**

In March 2009, HEPI was informed by the Government of India that Block CY-OS/2, in which Hardy acts as Operator and holds a 75 per cent participating interest, was relinquished as HEPI had failed to declare commerciality within the two years from the date of discovery which is applicable to an oil discovery. HEPI 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 compensation based on the exploration expenditure incurred to date. The compensation awarded is calculated based on 9 per cent per annum charge on expenditure incurred until the date of the award and 18 per cent per annum charge thereafter. As at 31 March 2018, HEPI's 75 per cent share of the compensation awarded is approximately \$78.2 million.

On 2 August 2013, the Government of India filed an appeal, against the arbitration award, with the Delhi High Court. On 27 July 2016, the GOI's second appeal to the Delhi High Court was dismissed based on jurisdiction. The GOI subsequently filed a Special Leave Petition with the Supreme Court of India challenging the Delhi HC ruling. The Special Leave Petition was listed before the SC bench, 41 times over a 17 month period. On 1 May 2018 the India SC bench took the decision not to pass judgment and instead referred the matter to a larger SC bench. Hardy has previously filed an execution petition with the Delhi HC and this has run in parallel with the GOI's appeal although the matter has been continually adjourned due to the ongoing GOI appeal. It is expected that the execution hearings will progress upon the conclusion of the review by a larger bench of the Supreme Court of India.

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.

In late July 2017, the Group initiated enforcement proceedings in the UK's High Court of Justice. HEPI had previously initiated confirmation proceedings in the Federal Court of Washington DC, United States of America. These actions have been initiated to maintain HEPI's right to enforce all or a part of the Award in the US and the UK. The confirmation proceedings in the Federal Court of DC have been due since November 2017. To date there has been no indication when the Federal Court will pass judgment. HEPI's primary objective remains to conclude the appeal and enforcement process within the Indian judicial system.

**15. Inventories**

	2018 US\$	2017 US\$
Drilling and production stores and spares	659,656	942,365
	<b>659,656</b>	<b>942,365</b>

An amount of US\$282,709 (2017: Nil) was recognised as an expense relating to a write down in the carrying value of inventory.

**16. Trade and other receivables**

	2018 US\$	2017 US\$
Amounts due from joint venture partners	4,533,773	3,582,557
Other receivables and prepayments	206,375	280,099
	<b>4,740,148</b>	<b>3,862,656</b>

**17. Short-term investments**

	2018 US\$	2017 US\$
HSBC US\$ Liquidity Fund	8,933,870	14,129,513
HSBC £ Liquidity Fund	253	49,513
	<b>8,934,123</b>	<b>14,179,026</b>

The above investments are in liquid funds which can be converted into cash at short notice. The book value of these investments approximates to their fair values. The fair value is determined based on quoted market prices and is a level 1 valuation under IFRS 13.

Income will increase or decrease by US\$89,341 (2017: US\$141,790) for every one per cent change in interest rates.

## Notes to the Consolidated Financial Statements continued

### For the year ended 31 March 2018

#### 18. Share capital

	Number \$0.01 Ordinary Shares	US\$
<b>Authorised Ordinary Shares</b>		
At 1 April 2017	200,000,000	2,000,000
<b>At 31 March 2018</b>	<b>200,000,000</b>	<b>2,000,000</b>
<b>Allotted, issued and fully paid Ordinary Shares</b>		
<b>At 1 April 2016</b>	73,764,035	737,641
Restricted shares issued during the period	–	–
<b>At 1 April 2017</b>	<b>73,764,035</b>	<b>737,641</b>
Restricted shares issued during the period	–	–
<b>At 31 March 2018</b>	<b>73,764,035</b>	<b>737,641</b>

Ordinary Shares issued have equal voting and other rights with no guarantee to dividend or other payments.

No restricted shares were awarded in FY2018. Included within the Ordinary Shares are 432,693 restricted shares in issue. The restricted shares have been issued to certain Directors and will unconditionally vest three years from the date of issue provided the individual is still a Director of Hardy. During the period of restriction, while Directors are eligible for voting rights and dividends, they are not allowed to dispose of these shares.

#### 19. Reserves

Hardy holds the following reserves, in addition to share capital and retained earnings:

##### Share premium account

The share premium account is the additional amount over and above the nominal share capital that is received for shares issued less any share issue costs.

##### Share option reserve

The share option reserve represents the fair value of share options issued to Directors and employees.

#### 20. Provision for decommissioning

	US\$
At 1 April 2016	5,256,097
Change in decommissioning estimate	(803,181)
<b>At 1 April 2017</b>	<b>4,452,916</b>
Change in decommissioning estimate	(597,921)
<b>At 31 March 2018</b>	<b>3,854,995</b>

A provision for the decommissioning of the PY-3 field has been made by estimating the cost of abandonment of existing wells and any required reclamation of the area at current prices using existing technology. The projected costs comprise primarily the cost of a drillship to abandon the field's existing wells; the provision has been calculated using a drillship day-rate of US\$143,000. The estimate is calculated based on decommissioning occurring after the end of the current Production Sharing Contract in December 2019. These underlying assumptions are reviewed on a regular basis.

Having considered the fall in drillship rates, the Group has reduced the projected decommissioning cost by US\$0.6m (2017: \$0.8m). A 5 per cent change in the underlying assumption for the drillship rate would result in an adjustment of approximately \$0.14 million to the Decommissioning Provision.

An amount of Rs. 328,312,446 (US\$5,059,523) (2017: Rs. 306,301,889 (US\$4,723,237)) is on deposit with State Bank of India for site restoration obligations. This amount has been treated as a non-current asset as this deposit has end use restriction for site restoration.

On an execution petition filed by Samson Maritime Limited, the Madras High Court allowed the freezing of the bank accounts of Hardy Exploration & Production (India) Inc. State Bank of India has incorrectly frozen the deposit for site restoration obligations. This is being contested at the Madras High Court and the Group is fairly confident of obtaining a favourable verdict.



## 21. Trade and other payables

	2018 US\$	2017 US\$
Trade payables	7,231,255	6,662,368
Accruals and other payables	1,840,700	1,437,991
	<b>9,071,955</b>	<b>8,100,359</b>

Trade and other payables are unsecured.

## 22. Financial risk management

Hardy finances its operations through a mixture of equity and retained earnings. Finance requirements are reviewed by the Board when funds are required for acquisition, exploration and development of projects.

Hardy's objective is to maintain a strong financial position to sustain future development of the business. There were no changes to the Group's capital management approach during the year.

Hardy's treasury functions are responsible for managing fund requirements and investments which include banking, cash flow management, interest and foreign exchange exposure to ensure adequate liquidity to meet cash requirements.

Hardy's principal financial instruments are cash, deposits, short-term investments, receivables and payables and these instruments are only for the purpose of meeting its requirement for operations.

Hardy's main financial risks are foreign currency risk, liquidity risk, interest rate risk and credit risk. Set out below are policies that are used to manage such risks:

### Foreign currency risk

The Group reports in US dollars and the majority of its business is conducted in US dollars. All revenues from oil sales are received in US dollars and the majority of costs except a portion of expenses for overhead are incurred in US dollars. For currency exposure other than US dollars, a portion of the cash is kept on deposit in other currencies to meet its payments as required. No forward exchange contracts were entered into during the period.

### Liquidity risk

The Group currently has cash which has been placed in deposits and short-term investments which can be converted into cash at short notice, ensuring sufficient liquidity to meet the Group's expenditure requirements. Hardy has no outstanding loan obligations at period end dates.

### Interest rate risk

Surplus funds are placed in deposits and short-term investments at fixed or floating rates. Hardy's policy is to place deposits only with well-established banks or financial institutions that offer competitive interest rates. Further details are disclosed in note 17.

### Credit risk

Where the Group is the operator of, or is the largest owner in, a field it recovers a percentage of the costs incurred from its joint arrangement partners in accordance with the levels of participating interests. Partners may either be Indian state-owned companies or private enterprises. Cash calls on partners are usually made in advance of incurring field expenditure. The Group is currently engaged in arbitration proceedings against partners in respect of unpaid cash calls; further details are disclosed in note 2.

Deposits and other money market instruments, as a general rule, are placed with banks and financial institutions that have ratings of not less than AA or equivalent, which are verified before placing the deposits. Cash surpluses are also invested in short-term investments in certain liquid funds. These funds are primarily invested in term deposits and graded commercial papers of not less than AA or equivalent.

The Board will continue to assess the strategies for managing credit risk and is satisfied with the existing policies. At the year end, credit risk existed in respect of unpaid cash calls as disclosed in note 2. The maximum financial risk exposure relating to the financial assets is the carrying value of such financial assets as at the year-end date.

### Capital management

The objective of the Group's capital management is to ensure that there is sufficient liquidity within the Group to carry out the committed work programme requirements of all its production sharing contracts. The Group monitors the long-term cash flow requirements of the business in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility. The Group considers its capital to consist of share capital only.

The Board manages the structure of its capital and makes necessary adjustments to accommodate the changes in the economic conditions. To maintain or adjust the capital structure, the Board may issue new shares for cash. No significant changes were made to the objectives, policies or processes during the year ended 31 March 2018.

## Notes to the Consolidated Financial Statements continued

### For the year ended 31 March 2018

#### 22. Financial risk management continued

##### Maturity of financial liabilities

The maturities of financial liabilities, which consist of trade and other payables and the decommissioning provision, as at 31 March 2018 and 31 March 2017 are as follows:

	2018 US\$	2017 US\$
Within one year	9,041,205	8,100,359
In more than one year but not more than two years	3,854,995	–
In more than two years but not more than five years	–	4,452,916
In more than five years	–	–

Included within current liabilities is an amount of \$4.9m on which interest of 5 per cent per annum is charged until payment.

##### Interest rate risk profile of financial assets

The interest rate risk profile of the financial assets of the Group as at 31 March 2018 is as follows:

	Fixed rate financial assets US\$	Floating rate financial assets US\$	Financial assets – no interest is earned US\$	Total US\$
<b>2018</b>				
US dollars	–	8,324	32,682	41,006
Pound sterling	–	95	195,701	195,796
Indian rupees	–	–	5,150	5,150
Short-term investments	–	8,934,123	–	8,934,123
Cash and cash equivalents	–	8,942,542	233,533	9,176,075
<b>2017</b>				
US dollars	–	34,381	25,053	59,434
Pound sterling	–	101	145,372	145,473
Indian rupees	–	–	81,974	81,974
Short-term investments	–	14,179,026	–	14,179,026
Cash and cash equivalents	–	14,213,508	252,399	14,465,907

An amount of Rs. 328,312,446 (US\$5,059,523) (2017: Rs. 306,301,889 (US\$4,723,237)) deposited with State Bank of India for site restoration obligation is treated as a non-current asset. The interest rate of this deposit is based on the highest rate of interest as applicable for the period paid by the State Bank of India.

Interest income will increase or decrease by US\$89,425 (2017: US\$142,135) for every one per cent change in interest rates.

**22. Financial risk management** continued**Currency exposures**

The currency exposures of the monetary assets denominated in currencies other than US dollars of the Group as at 31 March 2018 are as follows:

<b>2018</b>	<b>Indian rupees US\$</b>	<b>Pound sterling US\$</b>	<b>Total US\$</b>
US\$	<b>5,064,673</b>	<b>195,796</b>	<b>5,260,469</b>
	Indian rupees US\$	Pound sterling US\$	Total US\$
2017			
US\$	4,805,211	145,471	4,950,681

An amount of US\$74,140 was recognised as foreign exchange gain (2017: exchange gain of US\$43,141) because of exchange rate fluctuations on bank balances and investments made in currencies other than US dollars.

Exchange gains will increase by US\$53,131 (2017: US\$50,002) for every one per cent appreciation of Indian rupee and sterling and loss of US\$52,079 (2017: US\$49,012) for one per cent depreciation of Indian rupee and sterling.

**23. Financial instruments**

Book values and fair values of Hardy's financial assets and liabilities are as follows:

**Financial assets**

	<b>Book value 2018 US\$</b>	<b>Fair value 2018 US\$</b>	Book value 2017 US\$	Fair value 2017 US\$
Financial assets at fair value through profit or loss				
Short-term investments	<b>8,934,123</b>	<b>8,934,123</b>	14,179,026	14,179,026
Financial assets – loans and receivables				
Cash and short-term deposits	<b>241,952</b>	<b>241,952</b>	286,881	286,881
Trade and other receivables	<b>4,740,148</b>	<b>4,740,148</b>	3,862,656	3,862,656
Site restoration deposits	<b>5,059,523</b>	<b>5,059,523</b>	4,723,237	4,723,237
	<b>18,975,746</b>	<b>18,975,746</b>	23,051,800	23,051,800

**Financial liabilities**

	<b>Book value 2018 US\$</b>	<b>Fair value 2018 US\$</b>	Book value 2017 US\$	Fair value 2017 US\$
Financial liabilities measured at amortised cost				
Accounts payable	<b>9,071,955</b>	<b>9,071,955</b>	8,100,359	8,100,359

All the above financial assets and liabilities are current at the period-end dates.

**24. Other financial commitments under operating leases**

The Group entities have entered into commercial leases for land and building and office equipment. These leases have an average life of one to five years and there are no restrictions placed on the lessee by entering into these leases. The minimum future lease payments for the non-cancellable operating leases are as follows:

	<b>2018 US\$</b>	2017 US\$
Land and buildings:		
One year	<b>15,707</b>	63,525
Two to five years	<b>–</b>	12,766

## Notes to the Consolidated Financial Statements continued

### For the year ended 31 March 2018

#### 25. Contingent liabilities

##### Liquidated damages

The Group has minimum work commitments associated with various exploration licences granted by sovereign authorities through joint arrangements. A number of these commitments have not been fulfilled and consequently the Group is liable to pay liquidated damages. When a liquidated damage payment is probable a provision is created based on management's best judgement. In some instances, there may be a high degree of uncertainty. In such instances, an additional contingent liability is recognised. Currently a contingent liability exists estimated at \$1.7 million associated with unfinished minimum work programme liquidated damages. Management does not expect this to be resolved in the next 12 months.

##### Litigation and taxation

In the normal course of business, the Group may be involved in legal and tax disputes which may give rise to claims. Provision is made in the financial statements for all claims where a cash outflow is considered probable. No separate disclosure is made of the detail of claims as to do so could seriously prejudice the position of the Group.

#### 26. Related party transactions

The aggregate remuneration of Directors and the key management personnel, including its subsidiary undertaking, of the Group is as follows:

	<b>2018</b>	2017
	<b>US\$</b>	US\$
Short-term employee benefits	<b>1,095,593</b>	1,047,133
Share based payments	–	23,280
	<b>1,095,593</b>	1,070,413

Key management personnel include the Directors and members of the Management Committee of the Group as set out in the overview of the Board of Directors in the business review. Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report which forms part of the Group's 2018 Annual Report.

## Parent Company Statement of Changes in Equity

### For the year ended 31 March 2018

	Share capital US\$	Share premium US\$	Shares to be issued US\$	Retained earnings US\$	Total US\$
At 1 April 2016	737,641	120,936,441	1,854,350	4,216,343	127,744,775
Total comprehensive loss for the year	-	-	-	(65,060,097)	(65,060,097)
Share based payment	-	-	(88,396)	-	(88,396)
Adjustment of lapsed vested options	-	-	(1,001,465)	1,001,465	-
At 31 March 2017	737,641	120,936,441	764,489	(59,842,289)	62,596,282
Total comprehensive loss for the year	-	-	-	<b>(4,736,185)</b>	<b>(4,736,185)</b>
<b>At 31 March 2018</b>	<b>737,641</b>	<b>120,936,441</b>	<b>764,489</b>	<b>(64,578,474)</b>	<b>57,860,097</b>



## Parent Company Statement of Financial Position

### As at 31 March 2018

	Notes	31 March 2018 US\$	31 March 2017 US\$
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	9,386	8,636
Investments	10	48,815,982	48,323,166
<b>Total non-current assets</b>		<b>48,825,368</b>	48,331,802
<b>Current assets</b>			
Trade and other receivables	11	79,720	74,882
Short-term investments	12	8,934,123	14,179,026
Cash and cash equivalents	15	207,297	157,344
<b>Total current assets</b>		<b>9,221,140</b>	14,411,252
<b>Total assets</b>		<b>58,046,508</b>	62,743,054
<b>Equity and liabilities</b>			
<b>Equity attributable to the owners</b>			
<b>Equity</b>			
Called-up share capital	13	737,641	737,641
Share premium		120,936,441	120,936,441
Shares to be issued		764,489	764,489
Retained earnings		(64,578,474)	(59,842,289)
<b>Total equity</b>		<b>57,860,097</b>	62,596,282
<b>Current liabilities</b>			
Trade and other payables	14	186,411	146,772
<b>Total liabilities</b>		<b>186,411</b>	146,772
<b>Total equity and liabilities</b>		<b>58,046,508</b>	62,743,054

Approved and authorised for issue by the Board of Directors on 6 June 2018.

## Parent Company Statement of Cash Flows

### For the year ended 31 March 2018

	Notes	Year ending 31 March 2018 US\$	Year ending 31 March 2017 US\$
<b>Operating activities</b>			
Cash flow (used in) operating activities	4	(1,542,237)	(1,580,963)
<b>Net cash (used in) operating activities</b>		<b>(1,542,237)</b>	<b>(1,580,963)</b>
<b>Investing activities</b>			
Purchase of other property, plant and equipment		(6,212)	(2,330)
Short-term investments		5,244,903	2,558,915
<b>Net cash (used in) from investing activities</b>		<b>5,238,691</b>	<b>2,556,585</b>
<b>Financing activities</b>			
Interest and investment income		2,432,988	1,614,961
Inter corporate loan		(6,079,489)	(2,596,387)
<b>Net cash (used in) from financing activities</b>		<b>(3,646,501)</b>	<b>(981,426)</b>
<b>Net increase in cash and cash equivalents</b>		<b>49,953</b>	<b>24,196</b>
Cash and cash equivalents at the beginning of the year		157,344	133,148
<b>Cash and cash equivalent at the end of the year</b>	16	<b>207,297</b>	157,344

# Notes to the Parent Company Financial Statements

## For the year ended 31 March 2018

### 1. Accounting policies

The Company follows the accounting policies of the Group as outlined on pages 60-62.

### 2. Revenue

The Directors do not consider there to be more than one class of business or geographic segment for the purposes of reporting. The Company operates in one geographical area, the United Kingdom and the Company's activity is one class of business as holding company for the Group.

### 3. Statement of comprehensive Income

The Company has taken advantage of the exemption provided under section 3 of the Isle of Man Companies Act 1982 not to publish its statement of comprehensive income and related notes. The Company's loss for the year was US\$ 4,736,185 (2017: US\$65,060,097).

### 4. Reconciliation of operating loss to operating cash flows

	2018 US\$	2017 US\$
Operating loss	<b>(1,582,500)</b>	(1,637,590)
Depreciation	<b>5,462</b>	11,515
Share based payments	–	56,823
	<b>(1,577,038)</b>	(1,569,252)
Increase in trade and other receivables	<b>(4,838)</b>	(1,341)
Increase/(decrease) in trade and other payables	<b>39,639</b>	(10,370)
Cash flow (used in) operating activities	<b>(1,542,237)</b>	(1,580,963)

### 5. Staff costs

	2018 US\$	2017 US\$
Wages and salaries	<b>714,865</b>	653,467
Social security costs	<b>166,143</b>	167,859
Share based payments	–	56,823
	<b>881,008</b>	878,149

Staff costs include executive Directors' salaries, fees, benefits and share based payments. The Company has no pension commitments as at the year end dates.

The weighted average monthly number of employees, including executive Directors and individuals employed by the Company, are as follows:

	2018	2017
Management and administration	<b>3</b>	3

### 6. Share based payments

Share based payments are disclosed in note 8 to the consolidated financial statements.

### 7. Audit fees

Audit fees payable to the Company's auditors for the audit of the parent company financial statements for the year ended 31 March 2018 is US\$ 10,000 (2017: US\$ 10,000).

**8. Interest and investment income**

	2018 US\$	2017 US\$
Interest on inter corporate loan	2,288,570	1,517,533
Dividend	144,417	97,428
	<b>2,432,987</b>	1,614,961

**9. Property, plant and equipment**

	Total US\$
<b>Cost</b>	
At 31 March 2016	194,577
Additions	2,330
Deletion	–
At 31 March 2017	196,907
Additions	6,212
Deletion	–
<b>At 31 March 2018</b>	<b>203,119</b>
<b>Depreciation</b>	
At 31 March 2016	176,756
Charge for the year	11,515
Deletion	–
At 31 March 2017	188,271
Charge for the year	5,462
Deletion	–
<b>At 31 March 2018</b>	<b>193,733</b>
<b>Net book value at 31 March 2018</b>	<b>9,386</b>
Net book value at 31 March 2017	8,636

**10. Investments**

	Shares in subsidiary US\$	Loan to subsidiary US\$
<b>Carrying value at 31 March 2016</b>	4,593,733	107,151,962
Additional investment during the year	–	2,596,387
Adjustment for share based payments (net)	(145,219)	–
Impairment of investment in subsidiary	(3,753,112)	(62,120,585)
<b>Carrying value at 31 March 2017</b>	695,402	47,627,764
Additional investment during the year	–	6,079,490
Impairment of investment in subsidiary	–	<b>(5,586,674)</b>
<b>Carrying value at 31 March 2018</b>	<b>695,402</b>	<b>48,120,580</b>

Shares in subsidiary represent the investment made as at 31 March 2018 in Hardy Exploration & Production (India) Inc. ("HEPI"), the wholly owned subsidiary of Hardy Oil and Gas plc. Further details of this subsidiary are given in note 1(e) of the consolidated financial statements. During FY2017, HEPI had fully impaired its investment in Block PY-3. Monetising the other assets of HEPI may entail additional investments and may also take more time. Considering these aspects, Hardy Oil & Gas Plc continues to impair its investment and the loan collectible from HEPI to the extent of the net asset value of HEPI.

Loan to subsidiary at 31 March 2018 consists of US\$ 115,827,839 to Hardy Exploration & Production (India) Inc. This loan is long-term and is repayable on commercial production of the ongoing exploration projects. Interest on these loans is LIBOR plus 1 percent.

## Notes to the Parent Company Financial Statements continued

### For the year ended 31 March 2018

#### 11. Trade and other receivables

	2018 US\$	2017 US\$
Other receivables	11,180	6,094
Prepayments and accrued income	68,540	68,788
	<b>79,720</b>	74,882

#### 12. Short-term investments

	2018 US\$	2017 US\$
HSBC US\$ Liquidity Fund	8,907,081	14,129,513
HSBC £ Liquidity Fund	27,042	49,513
	<b>8,934,123</b>	14,179,026

The above investments are in liquid funds which can be converted into cash at short notice. Fair value of these investments approximates book values as at 31 March 2018 and 31 March 2017.

#### 13. Share capital

	Number \$0.01 Ordinary Shares '000	US\$
<b>Authorised Ordinary Shares</b>		
At 1 April 2016	200,000	2,000,000
At 31 March 2017	200,000	2,000,000
<b>At 31 March 2018</b>	<b>200,000</b>	<b>2,000,000</b>
<b>Allotted, issued and fully paid Ordinary Shares</b>		
At 1 April 2016	73,764,035	737,641
Restricted shares issued	–	–
At 31 March 2017	73,764,035	737,641
Restricted shares issued	–	–
<b>At 31 March 2018</b>	<b>73,764,035</b>	<b>737,641</b>

Ordinary Shares issued have equal voting and other rights with no guarantee to dividend or other payments.

#### 14. Trade and other payables

	2018 US\$	2017 US\$
Trade payables	88,989	52,464
Accruals	97,422	94,308
	<b>186,411</b>	146,772

## 15. Financial risk management

The Company follows the risk management policy stipulated in note 22 to the consolidated financial statements.

### Interest rate risk profile of financial assets

The interest rate risk profile of the financial assets of the Company as at 31 March 2018 is as follows:

2018	Fixed rate financial assets US\$	Floating rate financial asset US\$	Financial asset no interest is earned US\$	Total US\$
US Dollars	-	-	20,956	20,956
Pound Sterling	-	95	186,246	186,341
Cash and cash equivalents	-	95	207,202	207,297

The interest rate risk profile of the financial assets of the Company as at 31 March 2017 is as follows:

2017	Fixed rate financial assets US\$	Floating rate financial asset US\$	Financial asset no interest is earned US\$	Total US\$
US Dollars	-	-	16,902	16,902
Pound Sterling	-	99	140,343	140,442
Cash and cash equivalents	-	99	157,245	157,344

Financial asset include cash and deposits and the floating interest rates are based on the base rate of the relevant central bank.

### Currency exposures

The currency exposures of the monetary assets denominated in currencies other than US\$ of the Company are as follows:

	Pound sterling in equivalent US\$	
	2018	2017
US\$	186,588	189,955

Foreign exchange gain recognised on account of exchange rate for the year ended 31 March 2018 is US\$ 74,170 (2017: loss of US\$ 25,008).

## 16. Financial instruments

Book values and fair values of the Company's financial assets and liabilities as follows:

### Financial assets

	Book value 2018 US\$	Fair value 2018 US\$	Book value 2017 US\$	Fair value 2017 US\$
Financial assets at fair value through profit or loss				
Loan to subsidiary	48,120,580	48,120,580	47,627,764	47,627,764
Short-term investments	8,934,123	8,934,123	14,179,026	14,179,026
Cash and short term deposits	207,297	207,297	157,344	157,344
Trade and other receivables	79,720	79,720	74,882	74,882
	57,341,720	57,341,720	62,039,016	62,039,016

With the exception of loan to subsidiary, all of the above financial assets are current and unimpaired as at 31 March 2018. Please see note 10 for further details in relation to the impairment of loan to subsidiary.

### Financial liabilities

	Book value 2018 US\$	Fair value 2018 US\$	Book value 2017 US\$	Fair value 2017 US\$
Financial liabilities measured at amortised cost				
Accounts payable	186,411	186,411	146,774	146,774

All of the above financial liabilities are current as at 31 March 2018.



## Notes to the Parent Company Financial Statements continued

### For the year ended 31 March 2018

#### 17. Other financial commitments under operating leases

The Company has entered into commercial leases for land and building and office equipment. These leases have an average life of one to five years and there are no restrictions placed on the lessee by entering into these leases. The minimum future lease payments for the non-cancellable operating leases are as follows:

	<b>2018</b>	2017
	<b>US\$</b>	US\$
Land and buildings		
One year	<b>15,707</b>	33,210
Two to five years	–	12,766

#### 18. Related party transactions

a) The Company's wholly owned subsidiary is Hardy Exploration & Production (India) Inc. The following table provides the details of balances outstanding with subsidiary company at year end dates:

	<b>2018</b>	2017
	<b>US\$</b>	US\$
Amount owed from subsidiary undertaking	<b>48,120,580</b>	52,080,680

During FY2017, HEPI has fully impaired its investment in Block PY-3. Monetising the other assets of HEPI may entail additional investments and may also take more time. Considering these aspects, Hardy Oil & Gas Plc has impaired its investment and the loan collectible from HEPI to the extent of the net asset value of HEPI. Please see note 10 for further details in relation to the impairment of loan to subsidiary.

b) The following table provides the details of the transactions with subsidiary companies all of which were carried out at an arm's length basis:

	<b>2018</b>	2017
	<b>US\$</b>	US\$
Inter-company interest income	<b>2,288,570</b>	1,517,533

## Reserves and Resources

To comply with the GOI extension policy for Pre-NELP PSCs, in FY2018 the PY-3 uJV commissioned Gaffney Cline & Associates to undertake an audit of the PY-3 uJV Resource estimates provided for in an PY-3 Operating Committee recommended Revised Full Field Development Plan in regard to the Group's other assets. The Group did not and does not plan to commission a competent person's report until further data is acquired. The estimates provided in the Company's 2011 CPR are provided below and PY-3 audited updated resources.

### Contingent Resources (2C)

Net 2C gas Contingent Resources are bcf.

				31 December 2017	
				Gross	Net
PY-3 <sup>4</sup>	Suspended	Oil	mmbbl	<b>15.8</b>	<b>2.84</b>
				31 December 2010	
GS-01	B1 (Dhirubhai 33)	Gas	bcf	<b>83.0</b>	<b>8.3</b>
CY-OS/2 <sup>2,3</sup>	Ganesh-1	Gas	bcf	<b>130.0</b>	<b>97.5</b>
GS-01	B1 (Dhirubhai 33)	Oil	mmbbl	<b>1.9</b>	<b>0.2</b>
Total Contingent Resources <sup>1</sup> (2C)		Gas	bcf	<b>213.0</b>	<b>105.8</b>
4		Oil	mmbbl	<b>17.7</b>	<b>3.0</b>

1 GCA has used the Petroleum Resources Management System published by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers in March 2007 (SPE PRMS) as the basis for its classification and categorisation of hydrocarbon volumes.

2 With respect to the Ganesh-1 (CY-OS/2) non-associated natural gas discovery, in 2010 the Group formally commenced arbitration proceedings pursuant to dispute resolution provisions of the governing PSC regarding a licence extension request.

3 In the event of a commercial development of a discovery, ONGC has the option to back-into the CY-OS/2 licence at an interest of 30 per cent.

4 Net entitlement determined via participating interest of 18 per cent and not a true representation of economic entitlement which will not be materially different.

### Prospective Resources

Net Best Estimate Risked Prospective Resources are 494 bcf.

				31 December 2010	
				Gross	Net
Risked Prospective Resources (Best Estimate) <sup>1,2</sup>					
CY-OS/2 <sup>3,4</sup>	Prospects	Gas	bcf	<b>113</b>	<b>84</b>
GS-01	Prospects	Gas	bcf	<b>142</b>	<b>14</b>
Total Risked Prospective Resources (Best Estimate) <sup>1,2</sup>		Gas	bcf	<b>255</b>	<b>98</b>

1 Aggregated risked Prospective Resources have been derived by Hardy and are not aggregated or provided as risked volumes by GCA.

2 The GCA has used the Petroleum Resources Management System published by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers in March 2007 (SPE PRMS) as the basis for its classification and categorisation of hydrocarbon volumes.

3 With respect to the Ganesh-1 (CY-OS/2) non-associated natural gas discovery, in 2010 the Group formally commenced arbitration proceedings pursuant to dispute resolution provisions of the governing PSC regarding a licence extension request.

4 In the event of a commercial development of a discovery, ONGC has the option to back-into the CY-OS/2 licence at an interest of 30 per cent.

## Asset Description

### **Block CY-OS90/1 (PY-3):** Oil Field (HEPI 18 per cent interest – Operator)

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 (HEPI 10 per cent interest)

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 (HEPI 75 per cent interest – Operator)

Hardy is the operator of the CY-OS/2 exploration block and holds a 75 per cent participating interest<sup>1</sup>, through its wholly owned subsidiary Hardy Exploration & Production (India) Inc, and Gas Authority of India Limited (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. The licence comprises 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>.

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

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

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

**Hon'ble Tribunal** –This dispute was referred to Arbitration under the PSC to a Tribunal consisting of three 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:

- The Ganesha-1 discovery made by HEPI and GAIL is NANG
- The order of relinquishment by the MOPNG was illegal, being on the erroneous impression that the discovery was oil
- 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
- Hardy shall be entitled to a period of three years from the date on which the block is restored to it, to carry out further appraisal
- 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 of the award (as at 31 December 2013 – US\$22.2 million net to Hardy)
- From the date of award interest will accrue at a rate of 18 per cent per annum on the amount of Rs. 5.0 billion until such time as the block is restored to the parties
- In the event of a declaration of commerciality, the GOI'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.

## Definitions and Glossary of Terms

%:	Per cent
\$:	United States dollars
tCO <sub>2</sub> e:	Tonnes of carbon dioxide equivalent
tCO <sub>2</sub> e/FTE:	Tonnes of carbon dioxide equivalent for full time equivalent
2D/3D:	Two dimensional/three dimensional
2P:	Proven plus probable
AGM:	Annual General Meeting
AIM:	Alternative Investment Market of the LSE
AOGO:	Association of Oil and Gas Operators
API <sup>®</sup> :	American Petroleum Institute gravity
the CY-OS/2 Award:	CY-OS/2 international arbitration award as described on page 84
bbf:	Barrel
bbld:	Barrel per day
bcf:	Billion cubic feet
Board:	The Board of Directors of Hardy Oil and Gas plc
the Code:	Hardy's Code of Business Conduct
the Company:	Hardy Oil and Gas plc
Contingent Resources:	Those quantities of petroleum estimates, 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:
CNG:	Compressed natural gas
CPR:	Competent persons report
CY-OS/2:	Offshore exploration licence CY-OS/2 located on the east coast of India
D3:	Offshore Licence KG-DWN-2003/1 awarded in NELP V
D9:	Offshore Licence KG-DWN-2000/1 awarded in NELP III
DOC:	Declaration of commerciality
DGH:	Directorate General of Hydrocarbons of the Ministry of Petroleum and Natural Gas
Dhirubhai 33:	Gas discovery on GS01-B1 on page 84
ExSOP:	A structured option plan
FDP:	Field development plan
FFDP:	Full field development plan
FRC:	Financial Reporting Council
FY:	Financial year ended 31 March
GAIL:	Gas Authority of India Limited
Ganesh:	Gas discovery on Fan-A1 well located in CY-OS/2
GCA:	Gaffney, Cline & Associates Ltd
GDP:	Gross Domestic Product
GOI:	Government of India
the Group:	The Company and its subsidiaries
GS-01:	Offshore Licence GS-OSN-2000/1 awarded under NELP II
Hardy:	Hardy Oil and Gas plc
HC:	High Court
HDY:	LSE trading symbol for the Company
HEPI:	Hardy Exploration & Production (India) Inc.
HSE:	Health, safety and environment
IFRS:	International Financial Reporting Standards
IPO:	Initial public offering
IAS:	International Accounting Standard
ISA:	International Standards on Auditing

## Definitions and Glossary of Terms continued

JA:	Joint Arrangement
KG Basin:	Krishna Godavari sedimentary basin comprising an area on the south east India continental shelf
km:	Kilometre
km <sup>2</sup> :	Kilometre squared
KPI:	Key performance indicator
LSE:	London Stock Exchange plc
LNG:	Liquefied natural gas
LTI:	Long-term incentives
m:	Metre
Management Committee:	As per India PSCs, the Management Committee comprises representatives of each participating interest holder, DGH and the Ministry of Petroleum and Natural Gas of India
MC:	Management Committee
mmscfd:	Million standard cubic feet per day
mmscmd:	Million standard cubic metres per day
mmbbl:	Million stock tank barrels per day
mmbtu	Million British thermal units
MOPNG:	Ministry of Petroleum and Natural Gas
MWP:	Minimum work programme
NANG:	Non-associated natural gas
NCV:	Net calorific value
NELP:	New Exploration Licensing Policy of the Ministry of Petroleum and Natural Gas of India
OC:	Operating Committee
ONGC:	Oil and Natural Gas Corporation Limited
OPEC:	Organization of the Petroleum Exporting Countries
Operating Committee:	As per India PSCs, the Operating Committee comprises representatives of the various participating interest holders in the licence
Ordinary Share:	The Ordinary Share of US\$0.01 each in the capital of the Company
Prospective Resources:	Those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations
PSC:	Production sharing contract
psi:	Pounds per square inch
PY-3:	Offshore Licence CY-OS-90/1
Reliance:	Reliance Industries Limited
Rs.:	Indian rupee
RNS:	Regulatory news service
scf:	Standard cubic feet
scfd:	Standard cubic feet per day
TRI:	Total recordable injuries
UK:	United Kingdom
The UK Code:	UK Corporate Governance Code 2014
UMWP:	Unfinished minimum work programme
uJV:	Unincorporated joint venture
US:	United States of America
US\$:	United States dollars
WAEP:	Weighted average exercise price

# Company Information

## Directors and Advisors

### Hardy Oil and Gas plc

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### Board of Directors

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Ian MacKenzie (Chief Executive Officer)  
Peter Milne (Senior Non-Executive)  
Pradip Shah (Non-Executive)

### Executive Officer

Richard Galvin (Treasurer Corporate Affairs Executive)

### Hardy Exploration & Production (India) Inc.

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### Directors of HEPI

Ian MacKenzie (President and Chief Executive Officer)  
Richard Galvin (Executive Director)  
T.K Ananth Kumar (Non-Executive Director)

### Executive Officers

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Satya Sai (Vice President Geoscience of HEPI)

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