# Hardy Oil and Gas plc

Annual Report and Accounts
FY2019

# Contents



# 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

# Summary FY2019

Hardy Oil and Gas plc (LSE: HDY), the oil and gas exploration and production company reports its results for the year ended 31 March 2019 (FY19).

**CY-OS/2**

- The Supreme Court of India (SC), after 48 listings over 24 months, overruled a previous Delhi High Court (HC) order and deemed that India Courts did have jurisdiction to hear the Government of India's (GOI) appeal of the CY-OS/2 international arbitration award (Award) Hardy is evaluating options available to the Company.
- In June 2018 the Washington District Court declined to Confirm the CY-OS/2 award reasoning that the restoration of the block was against US public policy and given the two parties did not agree on the methodology of computing the compensation portion of the award it could not be confirmed. Hardy Exploration & Production (India) Inc. (HEPI) had been seeking a lower figure than the GOI had represented. HEPI has not appealed the order.

**PY-3**

- The GOI review, of PY-3 unincorporated joint venture's (uJV) unanimously recommended Revised Full Field Development Plan (RFFDP) and application for an extension of the Production Sharing Contract (PSC), has been ongoing for more than 17 months which is beyond the time prescribed within the of GOI's own PSC extension policy. The PSC is due to expire in December 2019.
- In March 2019 ONGC notified Hardy that it had been instructed by Directorate General of Hydrocarbons (DGH) to exercise its right to assume operatorship of PY-3. ONGC's notification included several conditions which are not in accordance with the PSC.
- An arbitration between HEPI and the PY-3 uJV partners continues and the matter is reserved for judgment since November 2018.

**Financial**

- Having considered India's SC ruling, to allow an appeal of the CY-OS/2 award in India courts, Intangible Assets associated with CY-OS/2 exploration expenditures was written-down by $51.1 million. This resulted in a significantly higher total comprehensive loss of $56.3 million for FY19 compared to a loss of $4.7 million for FY18. General and administrative expenditure included legal expense of $2.5 million compared with $1.8 million in FY18.
- Cash and short-term investments at 31 March 2019 amounted to $4.2 million.

## OUTLOOK

- CY-OS/2 – The GOI appeal of the CY-OS/2 arbitration Award in the Delhi HC has been adjourned until September 2019. This is the third time that the matter has been adjourned and is consistent with the past ineffectiveness of the India Judiciary. It is expected that the appeal process will take three to five years to conclude and the Board are evaluating options available to the Group.
- PY-3 – The GOI's protracted review of the uJV's unanimously agreed revised full field development plan (RFFDP) and extension application has compromised the likelihood that production can recommence prior to the expiry of the PY-3 PSC.
- PY-3 - The arbitration tribunal, overseeing the arbitration between HEPI and the other uJV partners, was expected to issue a decision by the end of July 2019.
- Strategic Review – review the Group's strategic objectives which could include one or more of the following, a sale of HEPI, individual asset sales, securing litigation funding or the other means of raising capital.

Our considerable efforts to enforce the CY-OS/2 Arbitration Award, handed down in 2013, have not produced a meaningful outcome. The GOI has consistently been allowed by the judicial institutions in India, UK and US to abuse legal process and frustrate enforcement. Consequently, we initiated a strategic review of the Group to consider all options including the possible sale of HEPI. I will report back the conclusions of this review to shareholders in due course

# Strategic Report

## OVERVIEW

The Group's strategy has been 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 events surrounding Hardy Exploration & Production (India) Inc's (HEPI) attempts to enforce the CY-OS/2 Award has lead the Board to conclude that contracts entered into with the GOI do not provide basic protection from unilateral amendment to, deviation from, and termination of agreements. In November 2018 the Board initiated a strategic review which remains ongoing.

### Activity

Notwithstanding the GOI's documented abuse of legal process, the Supreme Court of India (SC) order, allowing the GOI to appeal the CY-OS/2 arbitration Award, was fundamentally flawed. The order made no reference to, or acknowledgement of, HEPI's arguments. The contractual provisions regarding international arbitration were put in place precisely to avoid the sovereign appealing an award within its own judiciary. We are further disappointed that the GOI has not completed its review of the PY-3 RFFDP and extension application. It is understood that the delay in calling a Management Committee meeting is a deliberate attempt to compromise the health of HEPI. On the Ministry of Petroleum and Natural Gas's (MOPNG) instruction ONGC, a state-owned company, notified the uJV partners that it intended to assume operatorship of the PY-3 field. Finally, one of the PY-3 uJV partners has written to the MOPNG and other uJV partners proposing an alternative development plan thereby reneging on its previous Operating Committee (OC) approvals.

The GOI continued to escalate pressure on HEPI. On 14 June 2019, HEPI received an order from India's Commissioner of GST and Central Excise (CGCE) levying service tax of INR 29 crores and a penalty of INR 29 crores ($8.2 million total). On 15 November 2018, the Customs Excise & Service Tax Appellate Tribunal (CESTAT) passed an order upholding HEPI's claim of a service tax refund (initially filed in May 2009) of over $1.9 million. The written order was received on 11 January 2019 and HEPI formally requested the refund on 12 April 2019. Notwithstanding the finality of the order the CGCE authorities have asked for many clarifications and required in person meetings. HEPI has fully cooperated but as of this date we are not in receipt of our entitlement.

### Strategy

We continue to be frustrated by India specific constraints including the GOI's avoided adherence to the dispute resolution procedures provided for in the Production Sharing Contracts. Further it is apparent that the GOI is not prepared to sanction any activity wherein HEPI is involved including the approval for the PY-3 Revised full field development plan (RFFDP) and GOI sanctioning of an extension of the production sharing contract (PSC). The state owned ONGC's action to assume operatorship is further evidence of the challenges facing HEPI in India. Having carefully considered the deteriorating environment Hardy has initiated a review to identify possible alternative activity to realise value for shareholders in the near term. The focus being on a reduced level of participation in the India Upstream industry. This review remains ongoing and we will update shareholders in due course.

### Market Overview

The EIA forecasts Brent spot prices will average $67 per barrel in 2019 and remain at $67 per barrel in 2020. EIA's lower 2019 Brent price path reflects rising uncertainty about global oil demand growth. We do not anticipate much change in the cost of upstream services and equipment.

### Financial

While the CY-OS/2 award remains valid, having considered that it has been over five years since the tribunal issued the award and the GOI appeal in the Delhi High Court is expected to take a considerable amount of time, the intangible asset associated with the CY-OS/2 block was written down at the time of the Group's interims in November 2018. This resulted in a significant increase in the consolidated loss of the Group.

The Group is reporting a total comprehensive loss of $56.2 million for the year ended 31 March 2019 (FY19) compared to a loss of $4.7 million for the year ended 31 March 2018 (FY18). This included a write-down of $51.1 million of intangible assets associated with past exploration expenditures on the CY-OS/2 asset. General and administrative expenditure of $4.8 million included legal expenses of over $2.5 million.

Conservation of cash resources is paramount for the Group and the Board has acted to reduce certain legal and administrative expenditures. The Group is considering other actions to reduce ongoing administrative expenditures while the strategic review is ongoing. The Group projects administrative expenses for FY20 to be around $1.6 million.

Cash used in operating activities amounted to $5.4 million for the year ended 31 March 2019 compared to a cash outflow of $5.4 million for the year ended 31 March 2018. The Group's capital expenditure was marginal and investment income was $0.5 million.

**Governance**

On 10 September 2018, Pradip Shah stepped down as Non-Executive Director of Hardy Oil and Gas plc on medical grounds. On 31 October 2018, T.K. Ananth Kumar stepped down as a Director of Hardy Exploration & Production (India) Inc. Considering the current circumstances of the Company the composition of the Board will be maintained. The non-executive directors of Hardy have voluntarily reduced their director fees to £30,000 per annum each to conserve the Group's cash resources.

Further details of the Board's activities this year can be found in the Corporate Governance section of the Annual Report. The Group's near-term principal risks remain that the timing or execution of planned activities may not commence as forecast; the possible relinquishment of appraisal acreage; liabilities related to ongoing disputes and cost 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 period longer than the 12 months required for the "Going Concern" statement. The Board conducted this review for a period of three years to 31 March 2022, considered the current challenges facing the Group in India and the ongoing strategic review. The underlying conditions, described in note 1.b. of the Accounts, indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern within the adopted viability horizon. The Directors have however 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 to operate for the 12 months from the date of approval of these financial statements.

**Objectives and outlook**

Our considerable efforts to enforce the CY-OS/2 Arbitration Award, handed down in 2013, have not produced a meaningful outcome. The GOI has consistently been allowed by the judicial institutions in India, UK and US to abuse legal process and frustrate enforcement. Consequently, we initiated a strategic review of the Group to consider all options including the sale of HEPI. I will report back the conclusions of this review to shareholders in due course.

Alasdair Locke
*Chairman*

26 June 2019

# Market Overview

The IFC estimated that global growth will be 2.6 per cent in 2019 and rise to 2.8 per cent by 2021. The IFC predicts continued benign global financing conditions, as well as a modest recovery in emerging market and developing economies (EMDEs) previously affected by financial market pressure. However, EMDEs are expected to remain constrained by subdued investment, which is dampening prospects and impeding progress toward achieving development goals. Risks are also firmly on the downside, in part reflecting the possibility of destabilizing policy developments, including a further escalation of trade tensions between major economies; renewed financial turmoil in EMDEs; and sharper-than-expected slowdowns in major economies.

Brent crude oil spot prices averaged $71 per barrel in May almost $6/b lower than the price in May of last year. The EIA forecasts Brent spot prices will average $67 per barrel in 2019 and remain at $67 per barrel in 2020. EIA's lower 2019 Brent price path reflects rising uncertainty about global oil demand growth. The EIA also predict that the United States becomes a net energy exporter in 2020 and remains so throughout their projection period due in part to large increases in crude oil, natural gas, and natural gas plant liquids (NGPL) production coupled with slow growth in U.S. energy consumption. Natural gas prices are expected to remain comparatively low compared with historical prices, leading to increased use of this fuel across end-use sectors and increased liquefied natural gas exports. The EIA also expect an increase in energy efficiency across end-use sectors to keep U.S. energy consumption relatively flat, even as the U.S. economy continues to expand.

**India**

In India, the economy continues to enjoy strong economic growth outlook with the country's median GDP growth forecast at 7.1 per cent for FY20 and 7.2 per cent for FY 21, according to a survey. The industry body FICCI's economic outlook survey said the minimum and maximum growth estimate stood at 6.8 per cent and 7.3 per cent, respectively, for 2019-20. CPI inflation in FY2019 is estimated at 4.0 per cent, close to the midpoint of the target band (4 per cent ±2 per cent). The country recently concluded a national election wherein Prime Minister Narendra Modi and the Bharatiya Janata Party was handed another significant majority.

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 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.

Transparency International ranked India 78 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[1]. In the World Bank's assessment of the ease of doing business India ranked 166 for enforcement of contracts. It noted that the average dispute case takes over 1,400 days and legal expenses on average amount to one third of the claim value. HEPI has experienced first-hand exceptionally protracted and expensive judicial resolutions due, in part, to the under resourced and inefficient judicial system. As a result, the Hardy Board is not confident that the contracts entered into in India can be enforced within reasonable timelines and resources.

[1]PEOPLE AND CORRUPTION: ASIA PACIFIC – GLOBAL CORRUPTION BAROMETER, Transparency International, March 2017

# 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;

## Obtaining exploration rights (1–3 years)

**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 Programme (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.

## Exploration (2–5 years)

**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.

## Appraisal (2–5 years)

**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.

**HARDY FOCUS**

## Development (3–10 years)

**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.

## Production optimisation and enhanced recovery

**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.

## Return profits to shareholders

**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.

# 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 two 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 posit ion and our underlying commitment to ensuring safe operations. A summary is provided in the table below:

| | KPI | Definition | Relevance | Progress | FY20 outlook/ target | Key activity |
|---|---|---|---|---|---|---|
| 1 | **Enforcement of the CY-OS/2 Award** | 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 Ganesha discovery. Compensation of approximately $79 million to significantly improve the Group's financial position. | India's Supreme Court ruled that it had jurisdiction to hear an appeal of the Award. | Commence defense of GOI appeal in the Delhi High Court. Maintain rights to enforce the Award in other jurisdictions. | Preparation and delivery of robust representations in India. |
| 2 | **Control of overhead cash flow** | Cash administrative expense in India and UK. | 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. | Board and Executive remuneration and other professional fees significantly reduced. | Significantly reduce expenditure in India. Curtail litigation expenditure. | Close monitoring of all expenditures and recovery of uJV partner recharges |
| 3 | **Government Sanctioning of PY-3 FFDP and extension of PSC** | Management Committee (MC) approval of an RFFDP 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. | MOPNG failed to conclude their review of the OC recommended RFFDP within the legislated timeline then instructed ONGC to assume operatorship. | 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 tendering process. |
| 4 | **Resolution of litigation** | The Group is involved in a number of litigation proceedings initiated by third parties and the Group. 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. Successful in maintaining refund claim for $1.8 million in service tax payments (India). | Timely resolution or avoidance of matters largely dependent on PY-3 results. | Where practical, approach counterparts to reach mutually equitable conclusion to proceedings. |

# Operational Review

**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 in 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)

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 km2. 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.

In 2009 the GOI notified HEPI that the CY-OS/2 block stood relinquished. Subsequently, HEPI has undertaken to rely on the contractual rights provided to it under the CY-OS/2 Production Sharing Contract between HEPI, GAIL and the GOI. The table below summarises the extraordinary actions the GOI has taken to deny responsibility for the illegal expropriation of the CY-OS/2 licence.

| Date | Event | Description |
|---|---|---|
| 2007<br>January 2009 | Discovery<br>GOI Unilateral Relinquishment | Natural Gas discovery "Ganesha-1"<br>GOI unilaterally notified Hardy that the CY-OS/2 block was deemed relinquished citing they had classified the discovery as Oil which allowed for 2 years appraisal wherein Gas discoveries allowed for 5 years. |
| May 2010 | Arbitration initiated | HEPI, with the formal consent of its uJV partners GAIL and ONGC, initiated a dispute under the provisions of the CY-OS/2 PSC. |
| February 2013 | Award | A tribunal, comprising of three former Chief Justices of India, unanimously judged that the relinquishment of the Block by the MOPNG of the GOI was illegal and the block should be returned.The 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. |
| July 2013 | GOI Appeal – India | GOI files Section 34 appeal (initial) petition to the Delhi High Court under the Indian Arbitration Act. The Delhi High Court ignored the delay and accepted the application. |
| July 2015 | Appeal dismissed | The Delhi HC dismissed the GOI appeal due to the GOI withdrawal of the Section 34 application. |
| February 2016 | GOI Appeal – India | GOI files Section 37 appeal (challenging the July 2015 order) petition before Division Bench of Delhi High Court. |
| July 2016 | GOI Appeal Dismissed | Delhi HC Division Bench dismisses GOI Section 37 appeal petition on grounds of jurisdiction citing; Arbitration in accordance with UNICTRAL Model Law, Award written and handed down in Kuala Lumpur, Malaysia. Therefore, concluded that Malaysian law has jurisdiction and not India. |
| Oct 2016 | GOI filed SLP to SC | GOI files a Special Leave Petition (SLP) requesting the SC to consider overturning the Delhi HC dismissal. |

# Operational Review *continued*

| Date | Event | Description |
|---|---|---|
| 1 May 2018 | SC Order | The GOI SLP was listed before the SC bench, comprising of Hon'able Judges Rajesh Kumar Agrawal and Abhay Manohar Sapre, on 41 occasions covering over 17 months. At the request of the GOI, the SC bench allowed the matter to be adjourned over 30 times. Following this protracted and costly process, the India SC bench took the decision not to pass judgement and instead referred the matter to a larger SC bench. |
| June - September 2018 | HEPI Arguments | HEPI argued before the Special Bench of the SC that:<br>1. The arbitration agreement within the CY-OS/2 Production Sharing Contract (PSC) specified that the venue of arbitration shall be Kuala Lumpur. The Pre-NELP bid round was the first to invite non-Indian companies to participate with a neutral venue designated for dispute resolution.<br>2. The arbitration agreement within the PSC makes mention of the Permanent Court of Arbitration at the Hague in three places thereby conferring international influence on the process.<br>3. The arbitration agreement within the PSC specifies that the arbitration proceedings shall be conducted in accordance with the UNCITRAL Model Law on International Commercial Arbitration 1985 (a departure from reference to Indian domestic law i.e. the Indian Arbitration and Conciliation Act 1996).<br>4. The final hearings of the arbitration proceedings were held at Kuala Lumpur, Malaysia.<br>5. The arbitration award was made, signed and handed down (delivered) by the Tribunal sitting in Kuala Lumpur, Malaysia<br>6. Kuala Lumpur was not a convenient place for all the parties involved in the arbitration process thereby it was to establish the seat outside of India.<br>7. Hardy presented a number of precedent cases from both the courts of India and England & Wales wherein similar arbitration agreements which contained the term 'venue' was determined to mean 'seat' (of arbitration). |
| 25 September 2018 | SC Order | The Special Bench of the SC consisting of Chief Justice D Misra, Justice Dr DY Chandrachud and Justice AM Khanwilkar judged that Indian courts have jurisdiction over the Award, thereby allowing the Civil Appeal filed by GOI to be heard by the High Court. The Special Bench of the SC order did not acknowledge or make reference to HEPI's arguments |
| 24 October 2018 | HEPI Review Petition | HEPI files a Review Petition before the newly appointed Chief Justice Ranjan Gogoi (D Misra had superannuated on 2 October 2018.) and was rejected on 2 February 2019. |
| October 2018 | GOI Section 34 Appeal | GOI files request for their Section 34 Appeal to challenge the Tribunals award. It has been listed 5 times and adjourned 3 times at the request of the GOI. It has now been adjourned until 23 September 2019 |

The summary table above illustrates that India's Judiciary required over five years to conclude that the Seat of arbitration was India and not Malaysia. The significance of this decision was to allow the GOI to appeal the Award in India courts. HEPI notes that the India Arbitration Act allows a significant wider ground to appeal compared with the Malaysia Arbitration Act. There is also the obvious conflict of the Judiciary considering a negative Award against the GOI that is in favour of a foreign company.

### International Enforcement

USA - On 8 June 2018, Judge Rudolph Contreras denied HEPI's confirmation petition which would have allowed HEPI to enforce the award within the US. He concluded that the restoration of the CY-OS/2 exploration license and post-Award interest was against USA public policy wherein the CY-OS/2 exploration license was within the GOI sovereign boundary and the post interest compensation award interlinked to the former action. He further concluded that the initial Award of compensation was not confirmed as HEPI and the GOI had presented different methodologies for computing the intended magnitude of such. Of note HEPI had represented that the Award provided for compensation to be calculated on a simple interest basis where the GOI had represented that a compounding computation was provided. The result being that HEPI was claiming a significantly smaller amount than that represented by the GOI.

Judge Contreras did note that the GOI appeal in India "…which has been delayed over and over again due to the actions of the Government of India and the Supreme Court". Notwithstanding this fact, Judge Contreras granted, over the course of the proceedings, the GOI time extensions totaling 22 weeks and also took over nine months to issue his order.

## International Enforcement *continued*

HEPI is particularly aggrieved that Judge Contreras relied on the parties' divergent representation of compensation calculation as a basis of denial, particularly given that he elected to not convene an oral hearing to clarify. The GOI had formally requested an oral hearing.

UK – On 27 July 2018 Deputy Judge Peter Macdonald-Eggars, of the London Commercial High Court of Justice, discharged an interim third-party debt order (TPDO) that HEPI had secured against a guarantee fee payable from India Infrastructure Finance Company UK Limited (IIFC) to the GOI. Judge Macdonald-Eggars discharged the TPDO accepting the GOI arguments;

- *The Debt was not situs in the UK – (IIFC is a UK registered company, the GOI guarantee is for funds borrowed by IIFC, IIFC primary business is in the UK and the guarantee fee was to be made from one UK account to GOI Ministry of Finance.)*
- *Real risk that payment to HEPI would not discharge IIFC liability to GOI resulting in double payment – (the GOI is the sole shareholder of IIFC, GOI had not issued default notices to IIFC).*
- *The debt under the Guarantee Fee Agreements was not "due or accruing due" on 28th February 2018 and 5th March 2018 when the Interim Order was made and served.*

Further, IIFC and the GOI were awarded substantial costs which fell due in August 2018.

There remains in place an enforcement order which the GOI is currently contesting. A hearing is expected to take place in FY20. In May 2018 HEPI had contested the late filing of the GOI set aside application of the enforcement order. The GOI represented to Justice Moulder that the late filing was an "honest mistake" and had no record of receipt of service. HEPI produced a copy of the British High Commission's service note which clearly outlined purpose and date of service. Justice Moulder scolded HEPI for suggesting that the "honest mistake" was not possible, accepted the GOI representations and granted their extension of time.

**FY20 Objectives –** The immediate impact of the SC order was to allow the GOI to have their Section 34 appeal of the Award heard. It is expected that should the HC uphold the Award, the GOI will file a Section 37 appeal and should that fail to overturn the Award the GOI will appeal to the SC which we have seen is prepared to extend the maximum privilege to the GOI. It is therefore expected that the process will take three to five years to conclude.

As at 31 March 2019, Hardy's 75 per cent share of the compensation awarded by the Hon'ble Arbitration Tribunal amounted to approximately $80.0 million.

# Operational Review *continued*

## 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 ten years. In December 2017, HEPI had 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 (Extension Policy). As per the Extension Policy, DGH, the technical regulator wing of the Ministry of Petroleum, GOI had six months and then MOPNG had 3 months to conclude its review of the application. HEPI addressed all queries issued by the regulator however after 10 months, since the application was submitted, an MC meeting has not been called, despite repeated requests from HEPI to both MOPNG and DGH officials.

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 gas field infrastructure to export produced gas.*

ONGC operatorship – on 1 March 2019 ONGC wrote to the uJV partners informing them of their intention to assume operatorship of PY-3 as provided for under Article 6.1 of the joint operating agreement. ONGC placed several conditions including;

1. Each Party confirm that ONGC, as Operator shall not be responsible and liable for any of the past liabilities / claims /disputes / litigation incurred before the effective date by HEPI in its capacity as operator and the same shall continue to be the liability of HEPI, as operator.
2. Each Party to the contract become Joint Licensee / Lessee for the Block in proportion to your PI and to pay cess, royalty, taxed and statutory dues as applicable on respective license and lease directly to the Government in terms of Gazette Notification dated 14.08.2018 issued by Government of India. Each Party to apply to the Government for the same within 30 days from receipt of notice.
3. The transfer of Operatorship to ONGC will be effective on fulfilment of above condition precedents or 180 days from the date of issue of notice, whichever is later.
4. ONGC to subsequently form a Joint Operatorship model, the modalities of which shall be discussed mutually amongst all JV partners.

HEPI has acknowledged ONGC's right to assume the operatorship but has rejected all pre-conditions. It is understood that ONGC's above action is due to instructions from the MOPNG and are intended to undermine the viability of HEPI and its activity in CY-OS/2 enforcement.

Samson Maritime Limited (Samson) has previously secured an award, amounting to $5.3 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 make payments in India and is seeking partial relief from the attachment order. On 6 June 2018 the Madras High Court issued an order for HEPI to write to the MOPNG to have funds held in the PY-3 Site restoration fund (SRF) to meet the liability to Samson. The Madras High Court accepted MOPNG's representation that the funds held in the special scheme between the PY-3 uJV and the GOI is not a legally attachable asset. On 13 March 2019, Justice R Subramanian of the Madras High Court issued an order to detain an employee of HEPI. On 20 March 2019, Justice M.M. Sundresh and Justice C Saravanan issued an order staying the detainment.

In March 2017, Hardy initiated arbitration with the uJV partners to collect approximately $11 million 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. Final written arguments have been submitted and the Tribunals' decision was initially expected to be issued by the end of 2018. In May 2019 the tribunal notified the parties that an order would not be passed until July 2019, more than 8 months after final submissions.

**FY20 Objective –** The sequence of events for FY20 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)*
- *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 HEPI'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 km2 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 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 HEPI 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. HEPI has previously provided for $0.3 million of liquidated damages which is HEPI's share of the Operator's estimate.

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 bbld 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 $km^2$.

# Financial Review

In the year ended 31 March 2019, the Group recorded a total comprehensive loss of $56.3 million. As at 31 March 2019 the Group held total cash and short-term investments of $4.2 million with no debt.

| CONSOLIDATED INCOME STATEMENT | FY19 (audited) US$ million | FY18 (audited) US$ million |
|---|---|---|
| **Operating expense**<br>$0.3 million of expenses associated with direct expenditures of HEPI operated blocks and an Inventory charge of $0.6 million associated with the write-down of two subsea trees | **(0.9)** | 0.0 |
| **Exploration Cost Provision - Block CY-OS/2**<br>the write-down charge has been incurred having considered that; whilst the award remains valid; it has been over five years since a tribunal issued the order for the block to be reinstated; the SC ruling has allowed the Delhi HC to hear an appeal of the award; it is expected that the appeal process will take a considerable amount of time. | **(51.1)** | - |
| **Administrative expense**<br>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 $2.5 million. Excluding legal costs and exchange lose of 0.4 million, G&A expenditure was $1.9 million a decrease of $0.2 million from FY18.<br><br>Overall to date HEPI has incurred $4.8 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 had initiated enforcement of the award in the US and the UK.<br><br>HEPI continues to be involved in two arbitrations with Aban Offshore, and the PY-3 uJV partners. | **(4.8)** | (5.2) |
| **Interest and investment income**<br>The Group realised interest and investment income of $0.5 million and incurred no finance costs. | **0.5** | 0.5 |
| **Taxation**<br>No current tax is payable. 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. | **-** | - |
| **Total comprehensive loss**<br>The Group's increase in total comprehensive loss is attributable to the write-down of CY-OS/2. | **(56.3)** | (4.7) |

| STATEMENT OF FINANCIAL POSITION | **FY19 (audited) US$ million** | FY18 (audited) US$ million |
|---|---|---|
| **Non-current assets** .<br>The Group fully wrote down the intangible asset of $51.1 million attributable to CY-OS/2. This non-current asset represented successful or work-in-progress exploration expenditure incurred ten years ago. The rationale for the write down is provided in the statement of consolidated loss. Any compensation is likely to be subject to tax.<br><br>The remaining non-current asset comprises of an Indian Rupee denominated site restoration deposit of $5.2 million relating to PY-3. The Company regularly reviews the underlying assumptions used to support the carrying value of the assets | **5.1** | 56.2 |
| **Current assets**<br>The Group's cash and short-term investments reduced by $5.0 million to $4.2 million. This is primarily due to the payment of general and administrative expenses. Trade and other receivables of $5.4 million represents net amounts due to be recovered from joint arrangements operated by HEPI regarding PY-3 and CY-OS/2. Inventory comprising of two subsea trees was written-down by a further $0.6 million. | **9.7** | 14.6 |
| **Provisions**<br>The Group's provisions represent a provision for the decommissioning of the PY-3 field. The provision has been estimated based on observed long-term industry cost trends. | **3.9** | 3.9 |
| **Current liabilities**<br>Trade and other accounts payable comprise amounts due to vendors and other provisions associated with various joint arrangements including the award of $5.3 million due to Samson Maritime plus interest accruing thereon. | **9.3** | 9.1 |

# Financial Review *continued*

| STATEMENT OF CASH FLOW | **FY19 (audited) US$ million** | FY18 (audited) US$ million |
|---|---|---|
| **Cash flow (used in) operating activities**<br>Cash used in operating activities of $4.0 million comprised primarily of administrative costs. Net debtor and creditor movement was $(0.5) million. | **(5.4)** | (5.4) |
| **Capital expenditure**<br>The Company did not incur any material capital expenditures in the year. A $0.2 million charge is associated with the reinvestment of interest accrued on a deposit committed to site restoration of the PY-3 field. | **(0.0)** | (0.3) |
| **Financing activity**<br>Interest and investment income realised from Indian rupee and USD deposits, amounted to $0.3 million and $0.1 million respectively. | **0.5** | 0.5 |
| **Cash and short-term investments**<br>Hardy has resources available to meet specific operating and administrative expenditure. Hardy and HEPI have no debt. | **4.2** | 9.2 |

Service Tax Claims - On 14 June 2019, HEPI received an order from India's Commissioner of GST and Central Excise (CGCE) levying service tax of INR 29 crores and a penalty of INR 29 crores ($8.2 million gross). The CGCE issued the demand on the basis that the Production Sharing Contract entered into with the GOI is a service contract and consideration is the Cost Oil recovered expenditures. The GOI has been classified the service recipient and as such the liability to pay the service tax falls with them. The CGCE however, has issued a fine on HEPI for not collecting from the GOI to remit back to the GOI. Management have not provided for the Cost Oil claim as it is not believed to be legally maintainable and will have far greater consequence for all producers.

In a separate matter, On 15 November 2018, the Customs Excise & Service Tax Appellate Tribunal (CESTAT) passed an order upholding HEPI's claim of a service tax refund (initially filed in May 2009) of over $1.9 million. The written order was received on 11 January 2019 and HEPI formally requested the refund on 15 April 2019. Notwithstanding the finality of the order the CGCE authorities have asked for many clarifications and required in person meetings. HEPI has fully cooperated but as of this date we are not in receipt of our entitlement.

Notwithstanding the finality of the service tax refund court order there remains a level of uncertainty regarding likelihood and timing of receipt from the GOI.

Transparency International ranked India 78 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.

# Principal Risks And Uncertainties

The Group has adopted 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 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 FY20 and established clear policies and responsibilities to mitigate their possible negative impact on the business, a summary of which is provided below:

| Risk or uncertainty | Mitigation action |
|---|---|
| **Strategic –** The Group is reconsidering strategic options to mitigate exposure to ongoing arbitration and litigation and the outcomes of such. The Group has sought 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. | |
| Asset portfolio exclusively in one geopolitical region | Convey business constraints to accomplishing our objective via direct and open dialogue with government officials. |
| **Financial –** Financial risks facing the Group could be: adverse results from ongoing or pending arbitration and litigation; cost overruns; financing constraints for further development; | |
| Prolonged delay in enforcement of CY-OS/2 Award | Secure high-quality cost effective and reputable legal counsel. Secure litigation specific funding |
| Arbitration and Litigation – the Group is involved in disputes with service providers, uJV partners and Indian tax authorities | The Group has secured high quality, reputable professional advisors and legal counsel in India and other jurisdictions. |
| Cost of litigation | Estimated cost to continue litigation remain high. The Group mitigates costs through effective management and the monitoring of advisory costs. The Group has employed strict funding constraints to HEPI related litigation. |
| Liquidated damages started (LD), unfinished Minimum Work Programme (MWP) | 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. |
| **Operational –** 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. | |
| Securing approval for further development of PY-3 including extension of the PSC | We have complied with all criteria outlined in the GOI's extension policy. Lobby regulatory and Ministry personnel. |
| PY-3 HSE – status of PY-3 wells | 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. |
| Contractual dispute with uJV partners | Initiated the dispute resolution procedures provided for under the PY-3 joint operating agreement. PY-3 uJV partners have filed counter claims. Matter expected to conclude in 2019. |
| Enforcement of arbitration award | 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. |
| **Compliance –** 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. | |
| Regulatory and political environment in India | Ensure full compliance of all laws, regulations and provision of contracts. Develop sustainable relationships with government and communities. |
| Taxation and significant third-party claims | 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. |

# Principal Risks And Uncertainties *continued*

**Viability Statement**

In accordance with the provision of section C.2.2 of the 2016 UK Code, the Directors have assessed the viability of the Group over a three-year period to 31 March 2022, 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 maintain a positive cash position to September 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 cashflow position is projected to fall to a level wherein a funding deficit is likely to arise should cash outflow in respect of payment of current liabilities (including Samson Maritime) without commensurate recovery of debts due from uJV partners; or the materialisation of contingent liabilities or unprovided for claims by third parties and government authorities.

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 previously determined that the three-year period is an appropriate period over which to provide its Viability Statement. The current assessment covers the period when the Group hopes to have the PY-3 RFFDP and PSC extension approved as well as clarity regarding its holdings in CY-OS/2 and GS-01. The PY-3 RFFDP is an asset that will 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 funds from a claim against the GOI of $80.0 million, recovery from uJV partners in excess of the Samson liability and other tax refund claims.

# Sustainability

### 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.

### 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 2018 to 31 March 2019 have been estimated at 140 tCO2e equating to 10.7 tC02e/FTE. The estimate is based on the previous years' report that was 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.

| Reporting period | Scope 1 emissions $tCO_2e$ | Scope 2 emissions $tCO_2e$ | Total carbon footprint $tCO_2e$ | Intensity metric $tCO_2e$/FTE |
|---|---|---|---|---|
| **FY19** | **19** | **120** | **140** | **10.7** |
| FY18 | 19 | 120 | 139 | 10.7 |
| FY17 | 11 | 125 | 136 | 9.0 |

### 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.

### Rider Sustainability

As of June 2019 the Company employed 14 (including non-executive directors) which can be broken into the following categories; Location - 5 in the UK and 9 in India; Gender - 13 male and 1 female.

# Governance

## Board of Directors

### Alasdair Locke (aged 65)

*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. 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**

Mr Locke is the chairman of Argenta Holdings plc, Motor Fuel Group and First Property Group plc. He is also non-executive director of other companies.

**Committee membership**

Chairman of the Nomination and Remuneration Committees and a member of the Audit and risk sub-committee.

### Ian MacKenzie (aged 62)

*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**

Chairman of the Risk Sub-Committee.

### Peter Milne (aged 65)

*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 Deloittes in 1977 and was an executive director of Abbot Group plc (a former FTSE250 company) and KCA DEUTAG Drilling Group up until 2010.

**External appointments**

Member of the audit committee of the University of Aberdeen.

**Committee membership**

Chairman of the Audit Committee, a member of the Remuneration Committee, Nomination Committee and Risk Sub-Committee.

# Management Committee

## 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. Mr Galvin 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. Mr Galvin 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. Mr Satya Sai 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.

**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.

**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. 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. Set out below are Hardy's corporate governance practices for the year ended 31 March 2019. 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. 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 typically timed to align with key events in the Group's corporate calendar. 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 2019, the Board met on 11 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 2019, 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 | | |
|---|---|---|
| Alasdair Locke | (Chairman) | 11 of 11 |
| Ian MacKenzie | | 11 of 11 |
| Peter Milne | | 11 of 11 |
| Pradip Shah* | | 3 of 3 |

** P Shah resigned on 10 September 2018*

**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 Director has a broad range of business and commercial experience. He has 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. He is kept aware of current issues affecting the Group via informal discussions and ad hoc updates from the Chairman and Chief Executive Officer.

**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 26 to 29, the Remuneration Committee on pages 30 to 40, and the Nomination Committee on page 41. 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 of a Non-Executive Chairman, Chief Executive Officer and a Non-Executive Director. Biographical details of the Board members are set out on page 18 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 12 September 2018, shareholders re-elected Alasdair Locke as a Director of the Company.

**Independence**

The Board considers Alasdair Locke and Peter Milne to be independent Directors in character and judgement.

**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 compliment the Group's leadership requirements.

**Commitments**

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

**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 of 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.

**Re-election**

Peter Milne will stand for re-election at the Company's 2019 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.

**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 page 44. 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 26 to 29.

**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 and note 1.a to consolidated financial statements. 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 sufficient working capital to execute their ongoing activities and could access additional financing, if required. 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 to operate 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 Group's Viability Statement can be found on page 16 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 requirement 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 Groups' 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 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 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 create 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 30 to 34 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. 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 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.

**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 2018 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 2018 | Ordinary | 34,471,547 | 2,066 | 0 | 34,473,613 | 100 |
| 2 | To receive and consider the Report on Remuneration | Ordinary | 22,508,526 | 11,965,087 | 0 | 34,473,613 | 65 |
| 3 | To re-elect Pradip Shah as a Director of the Company. | Withdrawn | - | - | - | - | - |
| 4 | To re-elect Alasdair Locke as a Director of the Company. | Ordinary | 33,176,649 | 1,296,964 | | 34,473,613 | 96 |
| 5 | Re-appointment of Crowe UK LLP as auditor | Ordinary | 34,471,547 | 2,066 | 0 | 34,473,613 | 100 |
| 6* | Disapplication 5 per cent of issued share capital | Special | 34,470,165 | 3,448 | 0 | 34,473,613 | 100 |
| 7* | Authority to make market purchases of ordinary shares | Special | 34,470,755 | 2,858 | 0 | 34,473,613 | 100 |

| | |
|---|---|
| Total shares issued | 73,764,035 |
| Total instructed | 34,473,613 |

**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 2019:

| Code provision | Subject matter | Discussion |
|---|---|---|
| B.1.1 Non-Executive Directors meeting independence requirements | Pradip Shah had served on the Board for more than nine years | Mr Shah voluntarily resigned from the Board on 10 September 2018. |
| B.1.2. Except for smaller companies, at least half the board, excluding the chairman, should comprise non-executive directors determined by the board to be independent. A smaller company should have at least two independent non-executive directors | Following the resignation of Mr Shah, the Board comprises of an independent Non-Executive, a Chairman and Chief Executive Officer. Therefore, less than half of the Board is independent. | Having considered the current status of the Company the Board is satisfied that the composition of its members is appropriate. Following the completion of a strategic review the Board intends to re-evaluate the needs of the Group. |

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 and maturity and complexity of the organisation.

Alasdair Locke
*Chairman*

26 June 2019

# Audit Committee Report

### Governance

The Audit Committee comprises of 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. Mr Locke was appointed to the Audit Committee following the resignation of Mr Pradip Shah.

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 2019 and the attendance of members at the Audit Committee meetings held in the current reporting period were as follows:

| Committee member | Meetings attended |
|---|---|
| Peter Milne (Chairman) | 3 of 3 |
| Alasdair Locke | 1 of 1 |
| Pradip Shah* | 2 of 2 |

**Mr Shah resigned on 10 September 2018*

### 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 make 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. 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 2019

- 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.
- Considered and adopted where appropriate requirements provided for in the 2016 UK Code, 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 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 FY19 accounts.

# Audit Committee Report *continued*

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

The primary areas of judgement considered by the Audit Committee in relation to the FY19 accounts and how these were addressed are detailed below:

| Issue | Action taken by the Committee |
|---|---|
| **Intangible assets – exploration CY-OS/2**<br><br>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 was material to the Group balance sheet. Details of the dispute and arbitration award are provided for on note 14 on page 63. In 2018 the Supreme Court of India overturn a high Court order in determining that India courts had jurisdiction to hear an appeal of a tribunal award ordering the reinstatement of the CY-OS/2 licence and compensation. Management advised the committee that the GOI appeal in India courts would take several years to conclude and recommended the write-down of the Intangible asset. | 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 and the Supreme Court's decision to overturn the Delhi High Court's ruling against the GOI appeal. It assessed the consequences of the Supreme Court's decision, the expected duration to conclude the GOI appeal and considered implications of HEPI's enforcement actions outside of India. The Committee challenged Management's assumptions in regard to the implications of continuing to operate effectively in India. The Committee concurred with Management assessment that the CY-OS/2 intangible asset of $51.1 million was impaired and that it be written down fully. |
| **Legal matters**<br><br>The Group is currently involved in several disputes with third parties, uJV partners, and taxation authorities which may result in material cash inflow and outflows. In the event of adverse findings could result in material movements in working capital.<br><br>Management has provided assessments of the merits of such claims and counter claims and made appropriate provisions for likely outcomes. | The Committee reviewed, with management and some of its professional advisors, the status of various disputed matters and their likely outcomes as well as the Samson Maritime enforcement action in India. The committee challenged management's assessment and assumptions regarding certainty of recovery of long outstanding debts due from uJV partners. The Committee requested robust stress test 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. |
| **PY-3 field**<br><br>The PY-3 field has been shut-in since July 2011 and had been fully written-down previously. In FY18 the uJV unanimously agreed to apply for the extension of the PY-3 PSC which included, among other things, a recommend 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 to the recommencement of production. Management has considered the prevailing circumstances and recommended maintaining the full write-down of the asset at the current time. | 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.<br><br>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 FY20 when the outcome of the RFFDP and extension application is known. |
| **Provisions for decommissioning costs**<br><br>Estimates of the cost of future decommissioning and restoration of the PY-3 field are based on current technical and legal requirements, 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 made no change to the provision. | 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 4 on page 59. |

**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 Group will be able to continue in operation. In making this statement the Directors are expected to look forward significantly longer than 12 months. The Group's Viability Statement can be found on page 16 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. The Committee has further reviewed and concurs with going concern matters described note 1.b of the financial statements which indicate a material uncertainty.

**External auditor**

The Company's external auditor is Crowe U.K. LLP (Crowe). During the year our auditors changed their name from Crowe Clark Whitehill LLP to Crowe U.K. LLP. Authorisation of non-audit services provided to the Group is a matter reserved for the Audit Committee. In the year ended 31 March 2019 Crowe did not provide any non-audit related services to the Company. Crowe undertook a review of the Group's Interim Statement and Accounts for the six months ended 30 September 2018.

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, without the presence of management.

The Committee is satisfied that Crowe 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, 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 2020 audit at the earliest.

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 2019 Annual General Meeting.

Peter Milne
*Chairman of the Audit Committee*

26 June 2019

# Directors' Remuneration Report

The Remuneration Committee's Report for the 12 months ended 31 March 2019 comprises of two sections:

- An annual statement providing a summary of the Committee's activities in the 12 months ended 31 March 2019 and its intention going forward.
- A copy of the Directors' Remuneration Policy which was put to an advisory shareholder resolution at the 2018 Annual General Meeting.

# 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 2019 (including payment and awards in respect of incentive arrangements) and how shareholders voted at the 2018 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 35 to 40.

**The Remuneration Committee- governance**

The Company's Remuneration Committee comprises of two Non-Executive Directors: Alasdair Locke (Chairman) 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.

**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 two times in the 12 months ended 31 March 2019. Mr Shah resigned as a Director effective 12 September 2018 and subsequently Mr Locke was appointed chairman of the committee. The attendance of members at the Remuneration Committee meetings was as follows:

| Number of Committee member | Meetings attended |
|---|---|
| Pradip Shah (Chairman)* | 2 of 2 |
| Alasdair Locke (Chairman)* | 2 of 2 |
| Peter Milne | 2 of 2 |

** Mr Shah resigned on 10 September 2019, Mr Locke appointed to Chairman*

**Committee advisors**

No remuneration advisors were retained by the Remuneration Committee during the year ended 31 March 2019. The Company has consulted 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 remuneration package remained unchanged at £296,297 for the year ended 31 March 2019.

**Non-Executive**

Effective 1 July 2018 the Chairman's annual fee was reduced from £90,000 to £30,000. Effective 1 October 2018 Mr Milne's annual fee was reduced from £60,000 to £30,000.

# Annual Report on Remuneration *continued*

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

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

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

| Executive | | Fixed | | Long term | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Director | | Salaries / fees | Benefits | Bonuses | LTI vesting | Pension contribution | Other | Total |
| | | (a) | (b) | (c) | (d) | (e) | (f) | |
| Ian MacKenzie[1] | FY19 | 388,996 | 3,543 | - | - | - | - | 392,539 |
| | FY18 | 390,267 | 3,697 | - | - | - | - | 393,964 |
| | FY17 | 365,227 | 3,262 | - | - | - | - | 368,489 |

| Non-Executive | | Fixed | | Long term | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Director | | Salaries / fees | Benefits | Bonuses | Share awards | Pension contribution | Other | Total |
| | | (a) | (b) | (c) | (d) | (e) | (f) | |
| Alasdair Locke | FY19 | 59,062 | - | - | - | - | - | 59,062 |
| | FY18 | 120,315 | - | - | - | - | - | 120,315 |
| | FY17 | 117,394 | - | - | - | - | - | 117,394 |
| Peter Milne | FY19 | 58,870 | - | - | - | - | - | 58,870 |
| | FY18 | 80,210 | - | - | - | - | - | 80,210 |
| | FY17 | 78,263 | - | - | - | - | - | 78,263 |
| Pradip Shah | FY19[2] | 32,913 | - | - | - | - | - | 32,913 |
| | FY18 | 66,842 | - | - | - | - | - | 66,842 |
| | FY17 | 65,219 | - | - | - | - | - | 65,219 |

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

2 Pradip Shah resigned in September 2018.

**Long-term incentive plans**

**Unapproved Share options**

The Committee did not recommend an award under this scheme FY2019. The last award provided under this scheme was on 11 April 2014 wherein 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 ten 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 2019:

| | As at 31 March 2018 | Granted during FY19 | Forfeited during FY19 | As at 31 March 2019 | Date of grant | Vested at end of FY19 | Expiry date | Exercise price per share (£) |
|---|---|---|---|---|---|---|---|---|
| Ian MacKenzie[1] | 250,000 | – | | 250,000 | 11–Apr–14 | – | 10–Apr–19 | 0.65 |
| **Total** | 250,000 | – | | 250,000 | | | | |

[1] Mr MacKenzie's options awarded in 2014 were subject to the conditions outlined above. As at 11 April 2019 these conditions had not been met and the options have expired.

### 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.


Shareholders return and index performance
5 June 2005-31 March 2019

### Chief Executive Officer's remuneration

| | FY17 | FY18 | FY19 |
|---|---|---|---|
| Total remuneration ($) | 368,489 | 393,964 | 388,996 |
| Months of service | 12 | 12 | 12 |
| Total remuneration ($/mth) | 30,707 | 32,780 | 32,416 |
| Annual bonus (%)[1] | Nil | Nil | Nil |
| Option vesting | Nil | Nil | Nil |

[1] 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 28 March 2019, the market price of an Ordinary Share of Hardy Oil and Gas plc was £0.049 per share. The highest and lowest market price of an Ordinary Share of Hardy during the year ended 31 March 2018 was £0.16 on 10 May 2018 and £0.0168 on 20 December 2018.

# Annual Report on Remuneration *continued*

**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 2018 and financial year 31 March 2019 compared to that of the average for all employees of the Group.

| | Salary | Benefits | Bonus |
|---|---|---|---|
| Chief Executive Officer | 0 | 0 | 0 |
| Average employees | 0 | 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.

| | FY18 | FY19 | %[1] |
|---|---|---|---|
| Total employee remuneration ($ million) | 1.2 | 1.1 | (6) |
| Dividend and share buyback | 0 | 0 | 0 |

[1] Weighted average change.

**Shareholder voting at the last Annual General Meeting**

At last year's Annual General Meeting, held on 12 September 2018, 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 | 22,508,526 | 11,965,087 | 0 | 34,473,613 |
| | % of votes cast | | | | |

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

The Directors who held office at 31 March 2019 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 2019 | As at 31 March 2018 |
|---|---|---|---|
| Alasdair Locke | Non-Executive Chairman | 1,198,153 | 1,198,153 |
| Peter Milne | Senior Non-Executive Director | 319,595 | 319,595 |
| Ian MacKenzie | Chief Executive Officer | 350,000 | 350,000 |

Other than 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.

Alasdair Locke
*Chairman of the Remuneration Committee*

26 June 2019

# Directors' Remuneration Policy

In this section, we set out our Remuneration Policy which was approved by shareholders on 13 September 2017, 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.

### 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 of 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 (eg 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.

# Directors' Remuneration Policy *continued*

### Director fees

This clause is not currently applied to Non-Executive remuneration see page 40 for further details;

> *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 what would reasonably be expected in the execution of their roles and responsibilities.*

The Non-Executive Directors have voluntarily agreed to waive the entitlement provided below;

> *{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.

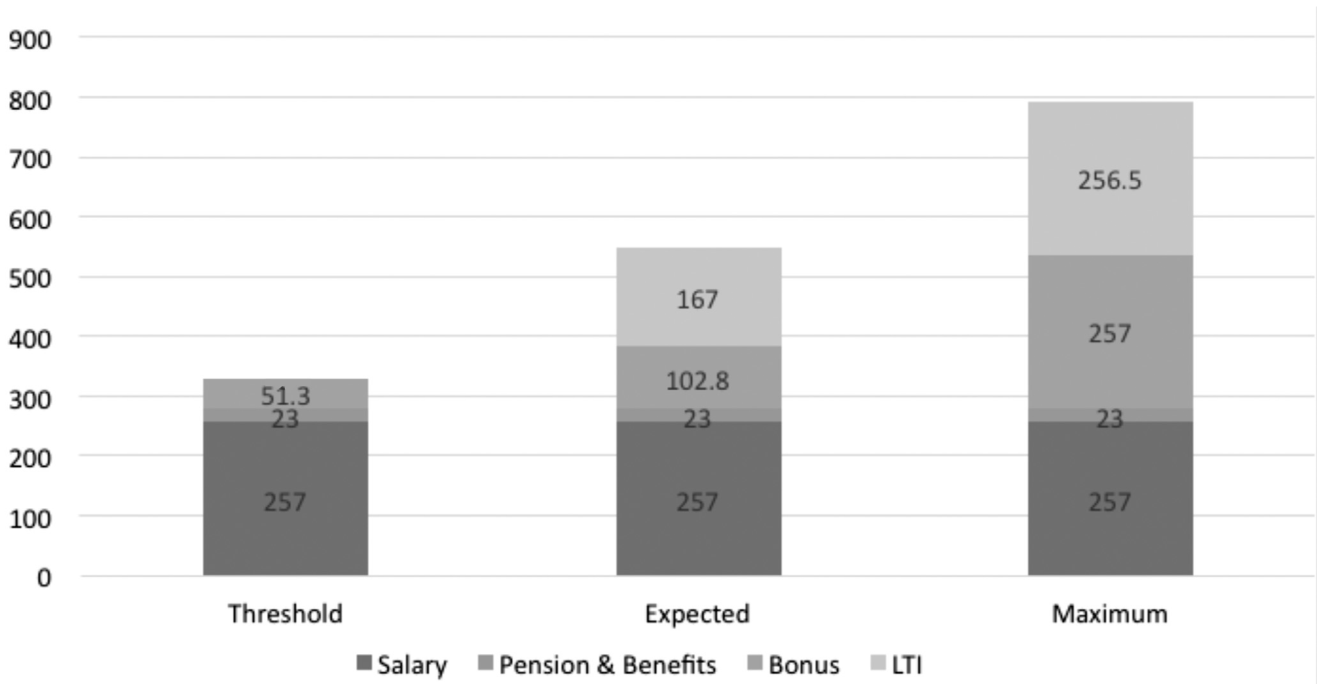
### Chairman's additional remuneration

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 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 (eg 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 (ie cash for cash, equity for equity), vesting periods (ie 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 circumstance 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.

# Directors' Remuneration Policy *continued*

**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.

**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:<br>• scale, scope and responsibility of the role;<br>• skills, experience and performance of the individual;<br>• retention risk; and<br>• base salary of other individual undertaking similar roles in companies of comparable size and complexity. |
| Opportunity | Changes to the Executive Director's salary, presented in the "Application of policy in FY19" row below, will not normally exceed the average change awarded to other UK-based employees. |
| Framework for recovery | None. |
| Application of policy in FY19[1] | Executive Director Base salary £296,297 (may be reviewed annually by the Committee effective 1 January). Effective 1 April 2019 reduced to £180,000 |

[1] Not part of the policy report.

| **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 FY19[1] | No change. |

[1] 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 | 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 objective:<br>• 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. |
| | Annual long-term equity-based award will be made in line with the Committee's assessment of the strategic targets:<br>• Unapproved Share Option Plan, ExSOP (a structured option plan) or restricted shares;<br>• annual long-term equity-based award based on performance of the Company and personal performance; and<br>• option and restricted share awards will normally vest after three years, subject to certain performance conditions and continued service. |
| Opportunity | Annual bonus plan – the maximum annual level of award is 100 per cent of salary for the Executive Director.<br>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. |
| 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 FY19[1] | Award will be based on the Boards 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.

[1] Not part of the policy report.

# Directors' Remuneration Policy *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 the 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 FY19[1] | Current Non-Executive Director fees: | |
| | Basic annual non-executive | £50,000 To £30,000 |
| | **Additional fees** | |
| | Chairman of the Board | £40,000 to nil |
| | Chairman Audit Committee | £10,000 – to Nil |
| | Other fees to remain at the same level as FY18. | |

[1] Not part of the policy report.

**Non-Executive Director terms of appointment**

The services of Alasdair Locke and Peter Milne 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 | 7 | 12 January 2012 |
| Peter Milne | 2012 | 7 | 29 February 2012 |

# 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 it works to ensure that the Company's senior management have the necessary competencies to execute the organisation's strategic objectives.

The Hardy Board comprises of two members. The Committee 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 an intermittent basis to assess 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:

- Review the structure, size and composition of the Board and make 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
- Make 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 of three Non-Executive Directors with Alasdair Locke as Chairman of the Committee. The Nomination Committee met twice in the 12 months ended 31 March 2019. The membership and attendance of members at Committee meetings held are provided below:

| Committee | Meetings attended |
|---|---|
| Alasdair Locke (Chairman) | 2 of 2 |
| Peter Milne | 2 of 2 |
| Pradip Shah* | 2 of 2 |

* resigned on 10 September 2018

**Committee activities**

The principal activities of the Committee during the year ended 31 March 2019 and after year end were:

**Board composition** – on 10 September 2018 Mr Pradip Shah voluntarily resigned from the Board citing ill health. Following his resignation, the Board reassessed the structure, size and composition of the Board. It was agreed that the current composition of the Board is adequate to fulfil its obligations to stakeholders.

**Management resources** -The Committee members relied upon its regular contact with the Executive to assess the Company's senior management capabilities and expertise. The Committee is satisfied that the Company currently has enough human resources to achieve the Company's short-term objectives.

**Board Committee membership** – It was agreed that following the departure of Mr Shah, Mr Locke would join the Audit Committee and Mr Locke would assume the chair of the Remuneration Committee. Membership of the Nomination Committee remained unchanged. A copy of the Committee's terms of reference can be found on the Company's website www.hardyoil.com.

The Committee have 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. The Committee recognise the benefit of gender diversity however with due consideration to current circumstances there is no immediate plan to change the composition of the Board.

Alasdair Locke
*Chairman of the Nomination Committee*

26 June 2019

# Directors' Report

Directors of Hardy Oil and Gas plc present their Annual Report together with the audited financial statements for the year ended 31 March 2019.These will be presented before the shareholders at the Annual General Meeting scheduled to be held on 12 September 2019.

### 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 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 2019 and plans for the year ended 31 March 2020 can be found in the Strategic Report section on pages 2 to 17 of the Annual Report, which are incorporated herein by reference.

### Directors

The Directors that served in office throughout the year ended 31 March 2019 were:

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

* Mr Pradip Shah resigned from the board effective 10 September 2018

### 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$ 56,299,750 for the year ended 31 March 2019 compared to a comprehensive loss of US$4,736,187 for the year ended 31 March 2018. 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 2019, Peter Milne will offer himself for re-election as Director of HOGL. Biographical details for Mr Milne are set out on page 18. The Board of Directors believe that the contribution being made by Mr Milne continues to be of value and is satisfied that he conducts himself in an appropriate manner and in the best interest of shareholders.

Messrs Locke and Milne 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.

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 2019 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[1], as of the date of this report are as follows:

| | | |
|---|---|---|
| Richard Griffiths and controlled undertaking | 21,931,218 | 29.73% |
| Aberforth Partners LLP | 9,462,230 | 12.83% |
| 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% |

*[1] 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 an 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 17.

**Diversity**

The disclosures concerning Director, management and employee gender diversity as required by law are included in the Strategic Report on page 17.

**Annual General Meeting**

The Company's next Annual General Meeting will be held at Dorsey & Whitney LLP, 199 Bishopsgate, London, EC2M 3UT, UK on 30 September 2019 at 4.00 pm. 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 2019, 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.

# Directors' Report *continued*

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 the 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 UK 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 U.K. LLP as auditor of the Company will be proposed at the next Annual General Meeting.

### Going concern

Going Concern - The financial information has been prepared assuming the Group will continue as a going concern. The basis to which the Directors have formed this Critical accounting estimates and judgment is further outlined in note 1.a of the Group's consolidated accounts.

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 2019

There have not been any material events that have occurred since 31 March 2019 to the date of this report.

**Approved by the Board of Directors.**

Alasdair Locke
*Chairman*

26 June 2019

# 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 2019 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 2019 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements 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
- the financial statements 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 Group and Parent 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.

### Material Uncertainty Related to Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Notes 1 b) and 2 in the financial statements concerning the Group's and Company's ability to continue as a going concern within the adopted Viability horizon. As set out in note 1 b), the Groups pursuit of strategic objectives and the financing of on-going overheads will require additional funding, with the directors identifying how that funding may be sourced.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

### 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 $200,000 (2018: $700,000), based on 4% of the Group's adjusted result for the year being the reported loss for the year excluding the impairment of Block CY-OS/2 (2017: 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 $6,000 (2018: $20,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

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

**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 entity with activities in India. The operations that were subject to these audit procedures made up 100% of consolidated results and financial position.

**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.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report. 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 |
|---|---|
| *Provisions and contingent liabilities*<br><br>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. | Our audit work included, but was not restricted to:<br>• Obtaining management's assessment of the likely outcome of ongoing disputes;<br>• Reviewing board minutes and legal invoices for evidence of additional legal disputes which we were not previously made aware;<br>• Reviewing the legal advice received and discussing matters directly with Hardy's relevant legal and professional advisors.<br><br>We reviewed the disclosure made concerning this matter to ensure that it is consistent with our understanding of the current legal position.<br><br>We validated the completeness and appropriateness of the related disclosures through assessing that the disclosure of the uncertainties in note 2 and note 25 of the financial statements was sufficient. |
| Estimation of the future liability in respect of decommissioning<br><br>The carrying value of the decommissioning provision, relating to the PY-3 field, is \$3.9m. We considered the risk that the assumptions were not appropriate in current market conditions and that the liability was materially misstated. | We reviewed the underlying economic models challenging the key assumptions made by management. This included:<br>• Comparison of rig day rate assumptions to available market data;<br>• Considering the appropriateness of the assumptions concerning the timing and discounting of the cash flows; and<br>• Performing of scenario analysis of the various underlying assumptions.<br><br>We reviewed the disclosure made concerning this matter to ensure that it is consistent with our understanding. |

The Audit Committee's consideration of these matters is set out on page 28.

**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' loans and 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 20, 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

**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/auditors responsibilities. 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 U.K. LLP
Statutory Auditor
London

26 June 2019

# Consolidated Statement of Comprehensive Income

## For the year ended 31 March 2019

| | Notes | Year ending 31 March 2019 US$ | Year ending 31 March 2018 US$ |
|---|---|---|---|
| **Continuing Operations** | | | |
| **Revenue** | 3 | **-** | - |
| **Cost of Sales** | | | |
| Production costs | 4 | **(867,363)** | 21,679 |
| Impairment of Block CY-OS/2 | 14 | **(51,128,272)** | - |
| **Gross (loss) / profit** | | **(51,995,635)** | 21,679 |
| Administrative expenses | | **(4,760,806)** | (5,241,983) |
| **Operating loss** | 5 | **(56,756,441)** | (5,220,304) |
| Interest and investment income | 10 | **456,691** | 484,117 |
| **Loss before taxation** | | **(56,299,750)** | (4,736,187) |
| Taxation | 11 | **-** | - |
| **Loss after taxation** | | **(56,299,750)** | (4,736,187) |
| **Total other comprehensive income** | | - | - |
| **Total comprehensive loss for the year attributable to owners of the parent** | | **(56,299,750)** | (4,736,187) |
| **Loss per share** | | | |
| Basic & diluted | 12 | **(0.76)** | (0.06) |

# Consolidated Statement of Changes in Equity

## For the year ended 31 March 2019

| | Share capital US$ | Share Premium US$ | Shares option reserve US$ | Retained earnings/ (loss) US$ | Total US$ |
|---|---|---|---|---|---|
| **At 31 March 2017** | 737,641 | 120,936,441 | 764,488 | (59,842,294) | 62,596,276 |
| Total Comprehensive loss for the year | - | - | - | (4,736,187) | (4,736,187) |
| **At 31 March 2018** | **737,641** | **120,936,441** | **764,488** | **(64,578,481)** | **57,860,089** |
| Total Comprehensive loss for the year | **-** | **-** | **-** | **(56,299,750)** | **(56,299,750)** |
| Adjustment of lapsed vested options | - | - | (659,545) | 659,545 | - |
| **At 31 March 2019** | **737,641** | **120,936,441** | **104,943** | **(120,218,686)** | **1,560,339** |

# Consolidated Statement of Financial Position
## As at 31 March 2019

| | Notes | **31 March 2019 US$** | 31 March 2018 US$ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **16,811** | 22,863 |
| Intangible assets | 14 | **-** | 51,128,774 |
| Site restoration deposits | 20 | **5,076,807** | 5,059,523 |
| **Total non-current assets** | | **5,093,618** | 56,211,160 |
| **Current assets** | | | |
| Inventories | 15 | **20,000** | 659,656 |
| Trade and other receivables | 16 | **5,486,731** | 4,740,148 |
| Short-term investments | 17 | **3,957,079** | 8,934,123 |
| Cash and cash equivalents | 23 | **204,160** | 241,952 |
| **Total current assets** | | **9,667,970** | 14,575,879 |
| **Total assets** | | **14,761,588** | **70,787,039** |
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 18 | **737,641** | 737,641 |
| Share premium | 19 | **120,936,441** | 120,936,441 |
| Shares option reserve | 19 | **104,943** | 764,488 |
| Retained loss | | **(120,218,686)** | (64,578,481) |
| **Total equity** | | **1,560,339** | 57,860,089 |
| **Provisions** | | | |
| Provision for decommissioning | 20 | **3,854,995** | 3,854,995 |
| **Total provisions** | | **3,854,995** | 3,854,995 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **9,346,254** | 9,071,955 |
| **Total current liabilities** | | **9,346,254** | 9,071,955 |
| **Total liabilities** | | **13,201,249** | 12,926,950 |
| **Total equity and liabilities** | | **14,761,588** | 70,787,039 |

Approved and authorised for issue by the Board of Directors on 26 June 2019

# Consolidated Statement of Cash Flows

## For the year ended 31 March 2019

| | Notes | **Year ending 31 March 2019 US$** | Year ending 31 March 2018 US$ |
|---|---|---|---|
| **Operating activities** | | | |
| Cash flow (used in) operating activities | 6 | **(5,448,232)** | (5,428,470) |
| Tax (deducted) / refund | | **(1,719)** | - |
| **Net Cash (used in) operating activities** | | **(5,449,951)** | (5,428,470) |
| **Investing activities** | | | |
| Expenditure on other fixed assets | | **(4,292)** | (9,193) |
| Site restoration deposit | | **(17,284)** | (336,286) |
| Realised from short term investments | | **4,977,044** | 5,244,903 |
| **Net cash from investing activities** | | **4,955,468** | 4,899,424 |
| **Financing activities** | | | |
| Interest and investment income | | **456,691** | 484,117 |
| **Net cash from financing activities** | | **456,691** | 484,117 |
| **Net (decrease) in cash and cash equivalents** | | **(37,792)** | (44,929) |
| Cash and cash equivalents at the beginning of the year | | **241,952** | 286,881 |
| **Cash and cash equivalents at the end of the year** | 23 | **204,160** | 241,952 |

# Notes to the Consolidated Financial Statements

For the year ended 31 March 2019

## 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.

The financial information contained in this announcement does not constitute the Company's statutory financial statements for the year ended 31 March 2019 but has been extracted from them. The auditors have reported on these financial statements, and their report was unqualified but the report highlights a material uncertainty in relation to going concern as follows:

**Material Uncertainty Related to Going concern**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Notes 1 b) and 2 in the financial statements concerning the Group's and Company's ability to continue as a going concern within the adopted Viability horizon. As set out in note 1 b), the Groups pursuit of strategic objectives and the financing of on-going overheads will require additional funding, with the directors identifying how that funding may be sourced.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

These financial statements are for the year ending 31 March 2019.

### a) Basis of measurement

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

### b) Going Concern

The financial information has been prepared assuming the Group will continue as a going concern. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. As at the 31 March 2019 the Group had cash and short-term investments of US $4.2 million. The Group recognises that it is faced with challenges isolated within India which are symptomatic of its ongoing dispute with the Union of India including a claim against the UOI amounting to $80 million. Having regard for this, the Group's pursuit of strategic objectives and the financing of on-going overhead will require additional funding. This funding may be sourced through collection from joint venture partners, collection of tax refund, share issues, private equity litigation funding, sale of certain assets or other means. The Board has formed its view on Going Concern assuming that the Group will satisfy the outstanding amount due to Samson Maritime ($5.3 million) once outstanding amounts from PY-3 uJV partners ($11.0 million) have been collected. Projections provided for further cost control measures and the continuing pursuit of several litigation matters. These conditions indicate the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern within the adopted Viability horizon. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern. The Directors have formed a judgement considering a review of the strategic options available to the Group, that the going concern basis should be adopted in preparing the financial statements.

### c) Basis of Preparation

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

The Group adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' for the year commencing 1 April 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces a new impairment model for financial assets, as well as new rules for hedge accounting, this did not have a material impact on the financial statements. The Group has no revenue from customers which falls to be accounted for under the new IFRS 15 standard and the introduction of the standard has no effect on current or prior year results, assets or liabilities shown in these financial statements.

At the date of authorisation of these financial statements, a number of Standards and Interpretations were in issue but not yet effective. The adoption of these standards and interpretations, or any of the amendments made to existing standards as a result of the annual improvements cycle, including the introduction of IFRS 16, will not have a material effect on the financial statements in the year of initial application nor will require restatement of prior year results, assets or liabilities.

# Notes to the Consolidated Financial Statements *continued*

For the year ended 31 March 2019

## 1. Accounting Policies *continued*

### 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. The functional currency for Group's Indian operations are Indian Rupees and for the UK operations it is British Pound.

### e) Basis of consolidation

The consolidated financial statements include the results of Hardy Oil and Gas plc and its subsidiary undertaking. The Group comprises of the parent company, Hardy Oil and Gas plc, and the wholly owned subsidiary Hardy Exploration & Production (India) Inc. ('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.

#### *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 the finance costs.

## 1. Accounting Policies *continued*

*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, an impairment review is performed. 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 subsidiary 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 2019

## 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 difference arising from transactions during the year and from the year end retranslation are reflected in the Statement of Comprehensive Income.

Rate of exchanges were as follows:

| | **31 March 2019** | 31 March 2018 |
|---|---|---|
| US$ to £1 | **1.32** | 1.40 |
| Indian Rupees to US$1 | **69.18** | 64.89 |

### 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 is only recognised in the year when the receipt becomes virtually certain.

## 2. Critical accounting estimates and judgments

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 reporting 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) Going Concern*

The financial information has been prepared assuming the Group will continue as a going concern. The basis to which the Directors have formed this Critical accounting estimates and judgment is further outlined in note 1.b of the Group's consolidated accounts.

## 2. Critical accounting estimates and judgments *continued*

***ii) Intangible assets- exploration***

Intangible assets comprise of 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 judgment 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 an indication of impairment and fully written-down.

***iii) 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 these have not been paid, pertaining to period from 2011 to 2018 and the Group commenced arbitration against PY-3 partners in FY17 seeking $8.36 million (plus interest). The Group has strong legal advice that its claim is valid and it will continue to pursue this amount by all legal means. Due however to the length of time the amounts have been outstanding prudent provision has been made against the sums due totalling US$ 5.3 million (2018: US$ 5.1 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, standing of the individual organisations and legal advice.

***iv) 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.

***v) 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.

***vi) 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. On approval of development plan by Government of India we will review the economic model to determine the appropriate asset value. If circumstances change the total impairment recognised in FY16 and FY17 of $5.8m could be written back. Further details are contained in note 13.

## 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.

# Notes to the Consolidated Financial Statements *continued*

For the year ended 31 March 2019

## 3. Segment analysis *continued*

| | India | UK | Inter-segment eliminations | 2019 US$ Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| Other income | - | - | - | - |
| Operating loss | (55,326,687) | (1,429,754) | - | (56,756,441) |
| Interest income | 332,719 | 123,972 | - | 456,691 |
| Interest income on inter-corporate loan | - | 3,332,366 | (3,332,366) | - |
| Impairment of investment in & loan to Subsidiary | - | (55,561,950) | 55,561,950 | - |
| Interest expense on inter-corporate loan | (3,332,366) | - | 3,332,366 | - |
| Loss before taxation | (58,326,334) | (53,535,366) | 55,561,950 | (56,299,750) |
| Taxation | - | - | - | - |
| Loss for the period | (58,326,334) | (53,535,366) | 55,561,950 | (56,299,750) |
| Non-current assets | 5,086,852 | 6,766 | | 5,093,618 |
| Current assets | 5,557,062 | 4,110,908 | | 9,667,970 |
| Total Segment assets | 10,643,914 | 4,117,674 | | 14,761,588 |
| Inter-corporate loan (net of impairment) | - | - | - | - |
| Non-current liabilities | (3,854,995) | - | - | (3,854,995) |
| Current liabilities | (9,217,487) | (128,767) | - | (9,346,254) |
| Total Segment liabilities | (13,072,482) | (128,767) | - | (13,201,249) |
| Inter-corporate borrowings | (122,909,635) | - | 122,909,635 | - |
| Capital expenditure | 2,821 | 1,471 | - | 4,292 |
| Depreciation, depletion and amortisation | 6,755 | 4,091 | - | 10,846 |

## 3. Segment analysis *continued*

| | India | UK | Inter-segment eliminations | 2018 US$ Total |
|---|---|---|---|---|
| **Revenue** | | | | |
| 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 |

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:

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Production costs | 227,707 | 293,533 |
| Write down of inventories | 639,656 | 282,709 |
| Change in decommissioning estimate | - | (597,921) |
| Cost of Sales | 867,363 | (21,679) |

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.

# Notes to the Consolidated Financial Statements *continued*

For the year ended 31 March 2019

## 5. Operating loss

Operating loss is stated after charging:

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Depreciation and amortisation | **10,846** | 12,942 |
| Impairment of Block CY-OS/2 | **51,128,272** | - |
| Operating lease costs - Land and buildings | **152,761** | 159,142 |
| External auditors' remuneration | | |
| - Fees payable to the Group's auditors for the audit of the Group's annual accounts | **72,600** | 75,205 |
| - Audit related assurance services | **10,958** | 11,234 |
| Exchange loss | **349,320** | 15,423 |

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

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Operating loss | **(56,756,441)** | (5,220,304) |
| Impairment of Block CY-OS/2 | **51,128,272** | - |
| Depletion, amortisation and depreciation | **10,846** | 12,942 |
| | **(5,617,323)** | (5,207,362) |
| Decrease in inventory | **639,656** | 282,709 |
| Increase in trade and other receivables | **(744,864)** | (877,492) |
| Increase in trade and other payables | **274,299** | 373,675 |
| Cash (used in) operating activities | **(5,448,232)** | (5,428,470) |

The only movement in debt during the year was arising from cash flows.

## 7. Staff costs

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Wages and salaries | 974,440 | 1,032,506 |
| Social security costs | 170,340 | 186,564 |
| | 1,144,780 | 1,219,070 |

Staffs 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 are as follows:

| | **2019** | 2018 |
|---|---|---|
| Management and administration | 8 | 8 |
| Operations | 5 | 5 |
| | 13 | 13 |

The number of permanent employees of the Group as at 31 March 2019 is 12 (2018: 13).

## 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 2018 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:

| | **Number of options** | **2019 Weighted average price** | Number of options | 2018 Weighted average price |
|---|---|---|---|---|
| Outstanding at beginning of the year | **675,000** | **£1.74** | 675,000 | £1.74 |
| Granted during the year | **-** | **-** | - | - |
| Lapsed during the year | **425,000** | **£2.37** | - | - |
| Outstanding at the end of the year | **250,000*** | **£0.65** | 675,000 | £1.74 |
| Exercisable at the end of the year | **-** | **-** | 100,000 | £7.69 |

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

| | 1 April 2018 | | **Lapsed FY 2019** | | **31 March 2019** | |
|---|---|---|---|---|---|---|
| FY | 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 | **-** | **-** | **250,000** | **0.65** |

The weighted average contractual life of options outstanding is 5 years (2018: 4.82 years).

* - These options expired on 11 April 2019 due to non-vesting

### 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

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Bank interest | **331,035** | 339,198 |
| Other interest income | **1,684** | 502 |
| Dividend | **123,972** | 144,417 |
| | **456,691** | 484,117 |

# Notes to the Consolidated Financial Statements *continued*

For the year ended 31 March 2019

## 11. Taxation

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

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Current tax charge | | |
| UK corporation Tax | **-** | - |
| Foreign Tax – India | **-** | - |
| Minimum alternate tax | **-** | - |
| Foreign tax – USA | **-** | - |
| Total current tax charge | **-** | - |
| Deferred tax charge | **-** | - |
| Taxation charge | **-** | - |

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Charge in respect of change in tax rates | **-** | - |
| Losses incurred during the year | **(23,220,650)** | (1,659,847) |
| Origination and reversal of temporary differences | **562,381** | 75,409 |
| De-recognition due to potential non-reversal of deferred tax asset | **22,658,269** | 1,584,438 |
| Deferred tax charge | | - |

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

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Loss before taxation from continuing operations | **(56,360,802)** | (4,736,187) |
| Loss before taxation multiplied by the appropriate rate of tax in respective countries (2018: 41.2%) | **(23,220,650)** | (1,951,309) |
| Adjustment for expired carried forward losses | **-** | 291,462 |
| Others | **562,381** | 75,409 |
| De-recognition due to potential non-reversal of deferred tax asset | **22,658,269** | 1,584,438 |
| Total tax charge | **-** | - |

Indian operations of the Group are subject to a tax rate of 41.2 per cent which is higher than UK and US corporations tax rates. To the extent that the Indian profits are taxable in the US and/or the UK, those territories should provide relief for Indian taxes paid, principally under the provisions of double taxation agreements. When considering deferred tax assets, the Group considers the highest and best use of the losses available, this 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 FY19.

## 12. Loss per share

Loss per share is calculated on a loss of US$56,299,750 for the year ended 31 March 2019 (2018: US$4,736,187) on a weighted average of 73,764,035 Ordinary Shares for the year ended 31 March 2019 (2018: 73,764,035). No diluted loss per share is calculated.

## 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$ |
|---|---|---|---|
| **Cost** | | | |
| **At 1 April 2017** | 35,465,279 | 1,786,498 | 37,251,777 |
| Additions | - | 9,193 | 9,193 |
| Disposals | - | - | - |
| **At 31 March 2018** | **35,465,279** | **1,795,691** | **37,260,970** |
| Additions | - | 4,292 | 4,292 |
| Disposals | - | - | - |
| At 31 March 2019 | 35,465,279 | 1,799,983 | 37,265,262 |
| **Depletion, depreciation and amortisation** | | | |
| **At 1 April 2017** | 35,465,279 | 1,761,613 | 37,226,892 |
| Charge for the year | - | 11,215 | 11,215 |
| Disposals | - | - | - |
| **At 31 March 2018** | **35,465,279** | **1,772,828** | **37,238,107** |
| Charge for the year | - | 10,344 | 10,344 |
| Disposals | - | - | - |
| **At 31 March 2019** | **35,465,279** | **1,783,172** | **37,248,451** |
| **Net book value at 31 March 2019** | **-** | **16,811** | **16,811** |
| Net book value at 31 March 2018 | - | 22,863 | 22,863 |

## 14. Intangible assets

| | Exploration US$ | Others US$ | Total US$ |
|---|---|---|---|
| **Costs and net book value** | | | |
| **At 1 April 2017** | 51,128,272 | 2,229 | 51,130,501 |
| Amortisation for the year | - | (1,727) | (1,727) |
| **At 31 March 2018** | 51,128,272 | 502 | 51,128,774 |
| Impairment of Block CY-OS/2 | (51,128,272) | - | (51,128,272) |
| Amortisation for the year | - | (502) | (502) |
| **At 31 March 2019** | **-** | **-** | **-** |

### Legal proceedings concerning block CY-OS/2

In March 2009, HEPI was informed by the Government of India (GOI) that the block CY-OS/2, in which HEPI 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.

# Notes to the Consolidated Financial Statements *continued*

For the year ended 31 March 2019

## 14. Intangible assets *continued*

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 HEPI and its partners and to allow them a period of three years from the date of restoration to complete the appraisal programme. In addition, the arbitrators awarded costs of $0.2 million and interest on the exploration expenditure incurred to date. As at 30 September 2018, HEPI's 75 per cent share of the interest awarded is approximately $71.6 million.

On 2 August 2013, the GOI filed an appeal, against the arbitration award, with the High Court (HC) Delhi. On 27 July 2016, the GOI's second appeal to the Delhi HC was dismissed based on jurisdiction. The GOI subsequently filed a Special Leave Petition with the Supreme Court of India (SC) challenging the Delhi HC ruling. On 25 September 2018, the SC overruled the HC ruling and ordered that India Courts did have jurisdiction and that the GOI could recommence its appeal of the Arbitration award. HEPI had filed a Review Petition with the SC and this was dismissed without an open hearing. Based on the SC ruling and past performance in the matter it is uncertain how long the judiciary will take to conclude the appeal process. As the GOI is the appellant, impartiality of the India judiciary may not be assured.

While the CY-OS/2 award remains valid, having considered that it has been over five years since the tribunal issued the award and the GOI allowed appeal in the Delhi High Court is expected to take considerable amount of time, the intangible asset associated with the CY-OS/2 block has been provided against.

## 15. Inventories

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Drilling and production stores and spares | **20,000** | 659,656 |
| | **20,000** | 659,656 |

An amount of US$282,709 was recognised as an expense in the previous year relating to a write down in the carrying value of inventory.

## 16. Trade and other receivables

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Amounts due from joint venture partners | **5,332,406** | 4,533,773 |
| Other receivables and prepayments | **154,325** | 206,375 |
| | **5,486,731** | 4,740,148 |

## 17. Short term investments

| | **2019 US$** | 2018 US$ |
|---|---|---|
| HSBC US$ Liquidity Fund | **3,956,841** | 8,933,870 |
| HSBC £ Liquidity Fund | **238** | 253 |
| | **3,957,079** | 8,934,123 |

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$39,571 (2018: US$89,341) for every one percent change in interest rates.

## 18. Share Capital

| | Number $0.01 Ordinary Shares | US$ |
|---|---|---|
| **Authorised Ordinary Shares** | | |
| At 1 April 2018 | 200,000,000 | 2,000,000 |
| **At 31 March 2019** | **200,000,000** | **2,000,000** |
| **Allotted, issued and fully paid Ordinary Shares** | | |
| **At 1 April 2017** | 73,764,035 | 737,641 |
| **At 1 April 2018** | **73,764,035** | **737,641** |
| **At 31 March 2019** | **73,764,035** | **737,641** |

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

## 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 2017 | 4,452,916 |
| Change in decommissioning estimate | (597,921) |
| **At 1 April 2018** | **3,854,995** |
| Change in decommissioning estimate | - |
| **At 31 March 2019** | **3,854,995** |

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 of 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. 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. 351,213,465 (US$5,076,807) (2018: Rs. 328,312,446 (US$5,059,523)) 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.

# Notes to the Consolidated Financial Statements *continued*

For the year ended 31 March 2019

## 21. Trade and other payables

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Trade payables | **7,162,319** | 7,231,255 |
| Accruals and other payables | **2,183,935** | 1,840,700 |
| | **9,346,254** | 9,071,955 |

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 risks. 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 proceeding 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 terms 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.

## 22. Financial risk management *continued*

### 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 in the objectives, policies or processes during the year ended 31 March 2019.

### Maturity of financial liabilities

The maturity of financial liabilities, which consists of trade and other payables and the decommissioning provision as at 31 March 2019 and 31 March 2018 are as follows:

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Within one year | **9,346,254** | 9,071,955 |
| In more than one year but not more than two years | **3,854,995** | 3,854,995 |
| In more than two years but not more than five years | **-** | - |
| 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 2019 is as follows:

| **2019** | **Fixed rate Financial assets US$** | **Floating rate Financial assets US$** | **Financial assets - no interest is earned US$** | **Total US$** |
|---|---|---|---|---|
| US Dollars | **-** | **9,636** | **61,527** | **71,163** |
| Pound Sterling | **-** | **74** | **85,311** | **85,385** |
| Indian Rupees | **-** | **-** | **47,612** | **47,612** |
| Short term investments | **-** | **3,957,079** | **-** | **3,957,079** |
| Cash and cash equivalents | **-** | **3,966,789** | **194,450** | **4,161,239** |

| **2018** | **Fixed rate Financial assets US$** | **Floating rate Financial assets US$** | **Financial assets - no interest is earned US$** | **Total US$** |
|---|---|---|---|---|
| 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 |

# Notes to the Consolidated Financial Statements *continued*

For the year ended 31 March 2019

## 22. Financial risk management *continued*

An amount of Rs. 351,213,465 (US$5,076,807) (2018: Rs. 328,312,446 (US$5,059,523)) 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$39,668 (2018: US$89,425) for every one percent change in interest rates.

### Currency exposures

The currency exposures of the monetary assets denominated in currencies other than US dollars of the Group as at 31 March 2019 are as follows:

| **2019** | **Indian Rupees US$** | **Pound Sterling US$** | **Total US$** |
|---|---|---|---|
| US$ | **5,124,419** | **85,385** | **5,209,804** |

| **2018** | Indian Rupees US$ | Pound Sterling US$ | Total US$ |
|---|---|---|---|
| US$ | 5,064,673 | 195,796 | 5,260,469 |

An amount of US$ 73,835 was recognised as foreign exchange loss (2018: exchange gain of US$74,140) because of exchange rate fluctuations on bank balances and investments made in currencies other than US dollars.

Exchange gains will increase by US$52,619 (2018: US$53,131) for every one percent appreciation of Indian rupee and sterling and loss of US$51,577 (2018: US$52,079) for one percent 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

| Financial assets at fair value through profit or loss | **Book value 2019 US$** | **Fair value 2019 US$** | Book value 2018 US$ | Fair value 2018 US$ |
|---|---|---|---|---|
| Short term investments | **3,957,079** | **3,957,079** | 8,934,123 | 8,934,123 |
| Financial assets – loans and receivables | | | | |
| Cash and short term deposits | **204,160** | **204,160** | 241,952 | 241,952 |
| Trade and other receivables | **5,486,731** | **5,486,731** | 4,740,148 | 4,740,148 |
| Site restoration deposits | **5,076,807** | **5,076,807** | 5,059,523 | 5,059,523 |
| | **14,724,777** | **14,724,777** | 18,975,746 | 18,975,746 |

### Financial liabilities

| Financial liabilities measured at amortised cost | **Book value 2019 US$** | **Fair value 2019 US$** | Book value 2018 US$ | Fair value 2018 US$ |
|---|---|---|---|---|
| Accounts payable | **9,346,254** | **9,346,254** | 9,071,955 | 9,071,955 |

All the above financial assets (except site restoration deposits) 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:

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Land and buildings: | | |
| One year | **33,000** | 15,707 |
| Two to five years | **46,750** | - |

## 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 twelve 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.

### Others

Disputed claims amounting to approximately $0.4 million by the suppliers to the Group have not been acknowledged as debt.

## 26. Related party transactions

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

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Short term employee benefits | 945,950 | 1,095,593 |
| Share based payments | - | - |
| | 945,950 | 1,095,593 |

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 Director's 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 2019

| | Share capital US$ | Share premium US$ | Share option reserve US$ | Retained earnings US$ | Total US$ |
|---|---|---|---|---|---|
| At 1 April 2017 | 737,641 | 120,936,441 | 764,489 | (59,842,289) | 62,596,282 |
| Total comprehensive loss for the year | - | - | - | (4,736,185) | (4,736,185) |
| At 31 March 2018 | 737,641 | 120,936,441 | 764,489 | (64,578,476) | 57,860,097 |
| Total comprehensive loss for the year | - | - | - | (53,535,376) | (53,535,374) |
| Adjustment of lapsed vested options | - | - | (659,546) | 323,725 | (335,821) |
| **At 31 March 2019** | **737,641** | **120,936,441** | **104,943** | **(117,790,123)** | **3,988,902** |

# Parent Company Statement of Financial Position

## As at 31 March 2019

| | Notes | **31 March 2019 US$** | 31 March 2018 US$ |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | **6,766** | 9,386 |
| Investments | 10 | **-** | 48,815,982 |
| **Total non-current assets** | | **6,766** | 48,825,368 |
| **Current assets** | | | |
| Trade and other receivables | 11 | **71,038** | 79,720 |
| Short term investments | 12 | **3,957,079** | 8,934,123 |
| Cash and cash equivalents | 15 | **82,791** | 207,297 |
| **Total current assets** | | **4,110,908** | 9,221,140 |
| **Total assets** | | **4,117,674** | 58,046,508 |
| **Equity and liabilities** | | | |
| **Equity attributable to the owners** | | | |
| **Equity** | | | |
| Called-up share capital | 13 | **737,641** | 737,641 |
| Share premium | | **120,936,441** | 120,936,441 |
| Share option reserve | | **104,943** | 764,489 |
| Retained earnings | | **(117,790,123)** | (64,578,474) |
| **Total equity** | | **3,988,902** | 57,860,097 |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **128,772** | 186,411 |
| **Total liabilities** | | **128,772** | 186,411 |
| **Total equity and liabilities** | | **4,117,674** | 58,046,508 |

Approved and authorised for issue by the Board of Directors on 26 June 2019.

# Parent Company Statement of Cash Flows

## For the year ended 31 March 2019

| | Notes | **Year ending 31 March 2019 US$** | Year ending 31 March 2018 US$ |
|---|---|---|---|
| **Operating activities** | | | |
| Cash flow (used in) operating activities | 4 | **(1,474,628)** | (1,542,237) |
| **Net Cash (used in) operating activities** | | **(1,474,628)** | (1,542,237) |
| **Investing activities** | | | |
| Expenditure on other fixed assets | | **(1,471)** | (6,212) |
| Short term investments | | **4,977,044** | 5,244,903 |
| **Net cash from investing activities** | | **4,975,573** | 5,238,691 |
| **Financing activities** | | | |
| Investment income | | **123,972** | 144,417 |
| Inter corporate loan | | **(3,749,423)** | (3,790,918) |
| **Net cash (used in) financing activities** | | **(3,625,451)** | (3,646,501) |
| **Net (decrease) / increase in cash and cash equivalents** | | **(124,506)** | 49,953 |
| Cash and cash equivalents at the beginning of the year | | **207,297** | 157,344 |
| **Cash and cash equivalent at the end of the year** | 16 | **82,791** | 207,297 |

# Notes to the Parent Company Financial Statements

## For the year ended 31 March 2019

### 1. Accounting Policies

The company follows the accounting policies of the Group.

### 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$ 53,535,374 (2018: US$4,736,185).

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

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Operating loss | **(1,429,754)** | (1,582,500) |
| Depreciation | **4,091** | 5,462 |
| | **(1,425,663)** | (1,577,037) |
| Increase in trade and other receivables | **8,682** | (4,838) |
| Increase /(decrease) in trade and other payables | **(57,647)** | 39,639 |
| Cash flow (used in) operating activities | **(1,474,628)** | (1,542,237) |

### 5. Staff costs

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Wages and salaries | **701,007** | 714,865 |
| Social security costs | **152,681** | 166,143 |
| | **853,688** | 881,008 |

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 Directors employed by the company, are as follows:

| | **2019** | 2018 |
|---|---|---|
| Management and administration | **5** | 5 |

### 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 2019 is US$ 10,000 (2018: US$10,000 ).

# Notes to the Parent Company Financial Statements *continued*

For the year ended 31 March 2019

### 8. Interest and investment income

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Interest on inter corporate loan | **3,332,366** | 2,288,570 |
| Dividend | **123,972** | 144,417 |
| | **3,456,338** | 2,432,987 |

### 9. Property, plant and equipment

| | Total US$ |
|---|---|
| **Cost** | |
| At 31 March 2017 | 196,907 |
| Additions | 6,212 |
| At 31 March 2018 | 203,119 |
| Additions | 1,471 |
| **At 31 March 2019** | **204,590** |
| **Depreciation** | |
| At 31 March 2017 | 188,271 |
| Charge for the year | 5,462 |
| At 31 March 2018 | 193,733 |
| Charge for the year | 4,091 |
| **At 31 March 2019** | **197,824** |
| **Net book value at 31 March 2019** | **6,766** |
| Net book value at 31 March 2018 | 9,386 |

### 10. Investments

| | Shares in subsidiary US$ | Loan to subsidiary US$ |
|---|---|---|
| **Carrying value at 31 March 2017** | 695,402 | 47,627,764 |
| Additional investment during the year | - | 6,079,490 |
| Impairment of investment in subsidiary | - | (5,586,674) |
| **Carrying value at 31 March 2018** | 695,402 | 48,120,580 |
| Additional investment during the year | - | 7,081,789 |
| Impairment of investment in subsidiary | **(695,402)** | **(55,202,369)** |
| **Carrying value at 31 March 2019** | **-** | **-** |

Shares in subsidiary represent the investment made as at 31 March 2019 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 the year HEPI fully wrote down investment in Block CY-OS/2 and had previously written down investment in the PY-3 and GS-01 assets. HEPI’s ongoing challenges in India are expected to continue and as a result the petroleum assets are not expected to generate cashflow in the foreseeable future. The Company’s strategic review remains ongoing and the outcome remains uncertain. 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 2019 consists of US$ 122,909,628 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.

### 11. Trade and other receivables

| | 2019 US$ | 2018 US$ |
|---|---|---|
| Other receivables | **13,750** | 11,180 |
| Prepayments and accrued income | **57,288** | 68,540 |
| | **71,038** | 79,720 |

### 12. Short term investments

| | 2019 US$ | 2018 US$ |
|---|---|---|
| HSBC US$ Liquidity Fund | **3,956,841** | 8,907,081 |
| HSBC £ Liquidity Fund | **238** | 27,042 |
| | **3,957,079** | 8,934,123 |

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 2019 and 31 March 2018.

### 13. Share capital

| | Number $0.01 Ordinary shares '000 | US$ |
|---|---|---|
| **Authorised Ordinary Shares** | | |
| At 1 April 2017 | 200,000 | 2,000,000 |
| At 31 March 2018 | 200,000 | 2,000,000 |
| **At 31 March 2019** | **200,000** | **2,000,000** |
| | | |
| **Allotted, issued and fully paid ordinary shares** | | |
| At 1 April 2017 | 73,764,035 | 737,641 |
| Restricted shares issued | - | - |
| At 31 March 2018 | 73,764,035 | 737,641 |
| Restricted shares issued | - | - |
| **At 31 March 2019** | **73,764,035** | **737,641** |

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

### 14. Trade and other payables

| | 2019 US$ | 2018 US$ |
|---|---|---|
| Trade payables | **38,697** | 88,989 |
| Accruals | **90,075** | 97,422 |
| | **128,772** | 186,411 |

# Notes to the Parent Company Financial Statements *continued*

For the year ended 31 March 2019

### 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 2019 is as follows:

| **2019** | **Fixed rate Financial assets US$** | **Floating rate Financial asset US$** | **Financial asset no interest is earned US$** | **Total US$** |
|---|---|---|---|---|
| US Dollars | **-** | **-** | **13,021** | **13,021** |
| Pound Sterling | **-** | **74** | **69,696** | **69,770** |
| Short term investments | **-** | **3,957,079** | **-** | **3,957,079** |
| Cash and cash equivalents | **-** | **3,957,153** | **82,717** | **4,039,870** |

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 |

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$ | |
|---|---|---|
| | **2019** | 2018 |
| US$ | **69,770** | 186,588 |

Foreign exchange loss recognised on account of exchange rate for the year ended 31 March 2019 is US$ 20,961 (2018: gain of US$ 74,170).

### 16. Financial instruments

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

#### Financial assets

| Primary financial instruments | **Book value 2019 US$** | **Fair Value 2019 US$** | Book value 2018 US$ | Fair Value 2018 US$ |
|---|---|---|---|---|
| Loan to subsidiary | **-** | **-** | 48,120,580 | 48,120,580 |
| Short term investments | **3,957,079** | **3,957,079** | 8,934,123 | 8,934,123 |
| Cash and short term deposits | **82,791** | **82,791** | 207,297 | 207,297 |
| Trade and other receivables | **71,038** | **71,038** | 79,720 | 79,720 |
| | **4,110,908** | **4,110,908** | 57,341,720 | 57,341,720 |

With the exception of loan to subsidiary, all of the above financial assets are current and unimpaired as at 31 March 2019. Please see Note 10 for further details in relation to the impairment of loan to subsidiary.

## 16. Financial instruments *continued*

### Financial liabilities

| Primary financial instruments | **Book value 2019 US$** | **Fair Value 2019 US$** | Book value 2018 US$ | Fair Value 2018 US$ |
|---|---|---|---|---|
| Accounts Payable | **(128,772)** | **(128,772)** | (186,411) | (186,411) |

All of the above financial liabilities are current as at 31 March 2019.

## 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:

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Land and buildings | | |
| One year | **33,000** | 15,707 |
| Two to five years | **46,750** | - |

## 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:

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Amount owed from subsidiary undertaking | - | 48,120,580 |

During FY19, HEPI has fully impaired in investment in Block CY-OS/2. Monetising the other assets of HEPI may entail additional investments and may also take more time. Considering these aspects, Hardy Oil & Gas Plc has fully 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 company:

| | **2019 US$** | 2018 US$ |
|---|---|---|
| Inter-company interest income | **3,332,366** | 2,288,570 |

# Additional Information

## Reserves and Resources

To comply with the GOI extension policy for Pre-NELP PSC's the PY-3 uJV commissioned Gaffney Cline & Associates to perform an audit of the PY-3 uJV Resource estimates provided for in an PY-3 Operating Committee recommended revised full field development plan. Due to limited activity the Company 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.

**Contingent Resources (2C)**

Net 2C gas Contingent Resources are bcf.

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

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

[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 | |
|---|---|---|---|---|---|
| Risked Prospective Resources (Best Estimate)[1, 2] | | | | Gross | Net |
| CY-OS/2[3, 4] | Prospects | Gas | bcf | **113** | **84** |
| GS-01 | Prospects | Gas | bcf | **142** | **14** |
| Total Risked Prospective Resources (Best Estimate)[1, 2] | | Gas | bcf | **255** | **98** |

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

[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 km2, produces high quality light crude oil (49° API).

**Block GS-OSN-2000/1 (GS-01):** Appraisal (HEPI 10 percent 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 bbld of condensate through a 56/64 inch choke at flowing tubing head pressure of 1,346 psi. The GS-01 licence is located in the Gujarat-Saurashtra offshore basin off the west coast of India, northwest of the prolific Bombay High oil field, with water depths varying between 80 m and 150 m. The retained discovery area covers 600 km2.

**Block CY-OS/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 interest1, 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 859km. The licence comprises of two retained areas with the Ganesha-1 natural gas discovery located in the northern area, which comprises an area of approximately 300 km2.

**Ganesha-1 -** The natural gas discovery Ganesha-1, announced in January 2007, was drilled to a depth of 4,089 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 are a party and operator to a PSC for the CY-OS/2 block. Hardy holds 75 per cent participating interest in the block. Hardy and GAIL declared a gas discovery on 8 January 2007 which 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 3 Arbitrators who were former Chief Justices of India. The Hon'ble Tribunal passed the award on 2 February 2013 at Kuala Lumpur, Malaysia.

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

- 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.

1 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 percent.

# Definitions and Glossary of Terms

| | |
|---|---|
| %: | Per cent |
| $: | United States dollars |
| tCO2e: | Tonnes of carbon dioxide equivalent |
| tCO2e/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°: | American Petroleum Institute gravity |
| the CY-OS/2 Award: | CY-OS/2 international arbitration award as described on page 81 |
| bbl: | 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 pages 15 and 81 |
| 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 |
| Ganesha: | 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 |

| | |
|---|---|
| JA: | Joint Arrangement |
| KG Basin: | Krishna Godavari sedimentary basin comprising an area on the south east India continental shelf |
| km: | Kilometre |
| km2: | 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 Expanding 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
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