Conditional Sale of HEPI
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1 July 2019

Hardy Oil and Gas plc
(LSE: HDY)

CONDITIONAL SALE OF HEPI

Hardy Oil and Gas plc ("**Hardy**" or "**Company**"), the oil and gas exploration and production company focussed in India, announces that it has entered into a conditional share purchase agreement ("**SPA**") to sell Hardy Exploration & Production (India) Inc. ("**HEPI**") to Hindustan Oil Exploration Company Limited ("**HOEC**") for consideration of US$1,500,000 in cash ("**Transaction**").

HEPI is a wholly-owned subsidiary of the Company and is incorporated in the US State of Delaware. HEPI holds interests in three oil and gas block assets (together, the "**Assets**") located in India. Further details of the Assets are set out below. As the Company's shareholders are aware, and has been previously announced by the Company, the Company and HEPI ("**Group**") have faced significant challenges in respect of the Assets, including protracted litigation with the Government of India ("**GOI**") and disputes with partners and the GOI. These challenges have been ongoing for an extended period of time and have resulted in the Group being unable to operate or commercialise the Assets. As a result of these challenges, the board of the Company ("**Board**") determined that the Assets have no financial value and the Asset CY-OS/2 was written-off in the Group's accounts for the half-year ended 30 September 2018 and the other two Assets were written-off in the Group's accounts in earlier financial periods. Given these write-offs and the conclusion of the initial phase of a strategic review of the Group, as outlined in the preliminary results announcement of the Company for the year ended 31 March 2019, as announced on 27 June 2019 ("**2019 Preliminary Final Results Announcement**"), the directors of the Company ("**Directors**") have concluded that attempting to realise some value in respect of the Assets by way of a disposal of HEPI is in the best interests of the Company and its shareholders.

Due to the difficulties associated with the Assets, HEPI has been reliant on the Company to provide it with funds for it to continue to trade and fund the ongoing litigation and disputes. The ongoing funding requirements of HEPI are a significant financial burden on the Company, particularly when it is not certain when, or if, any of the Assets will start generating returns for shareholders.

Following receipt of a number of approaches to acquire HEPI, the Directors have concluded that the disposal of HEPI made in accordance with the terms of the Transaction is in the best interests of the Company and its shareholders.

Background to and reasons for the Transaction

The Group's ongoing objective has been to evaluate and exploit oil and gas exploration rights in India by acquiring oil and gas block assets, exploring and appraising their value and then developing them with the ultimate goal of commencing oil and/or gas production. The Group holds interests in the following three Assets, all of which are licensed by HEPI:

- **CY-OS/2**: HEPI has a 75% interest in CY-OS/2 with the remaining 25% being held by GAIL (India) Ltd under the terms of a production sharing contract;
- **PY-3**: HEPI has an 18% interest in PY-3 with the remainder being held by TATA Petrodyne Private Limited (21% interest), HOEC (21% interest) and Oil & Natural Gas Corporation Limited (40% interest) under the terms of a production sharing contract; and
- **GS-01**: HEPI has a 10% interest in GS-01 with the remaining 90% held by Reliance Industries Limited who also acts as operator under the terms of a production sharing contract.

As shareholders are aware, and as has been previously announced by the Company, the Group has faced significant challenges in recent years operating and commercialising the Assets. During the financial year ended 31 March 2019 HEPI made a loss of US$58,326,333.

The Board has explored numerous options to find a solution to the challenges faced in respect of the Assets and the Directors have concluded that the Transaction is the best option for the Company and its shareholders for the following reasons:

- the development work on each Asset has been suspended for an extended period of time and so the Group has earned no revenue from any of the Assets since 2011 due to ongoing litigation and disputes and consequently, in recent years, the Group has been unable to commercialise or realise any value from the Assets;
- given the current status of the ongoing litigation and disputes, the Group cannot predict when, or if, such matters will be resolved or monetised in favour of the Group. Therefore the Board is unable to determine when development work in respect of each Asset will recommence (if at all);
- the Transaction will eliminate the need to fund the ongoing litigation and disputes going forward; and
- the Transaction and Capitalisation and Waiver (as defined below) would eliminate ongoing operational losses, indebtedness and associated cash outflows which would arise if HEPI was to remain within the Group.

As a result of the factors set out above, the Board unanimously believes that the Transaction is in the best interest of the Company and its shareholders. The Transaction is of sufficient size relative to the Group to constitute a class 1 transaction for the purposes of the Listing Rules and the Transaction is therefore conditional upon the approval of shareholders. The Company is in the process of preparing a circular in order to seek approval of the Company's shareholders to the Transaction and to the associated proposed transfer of the Company's listing from the Premium Segment of the Official List to the Standard Segment ("**Transfer of Listing**") (resulting from the Group no longer having an independent business under FCA guidelines) which is expected to be posted to the Company's shareholders, together with a notice of an extraordinary general meeting, within the next few weeks. Further announcements will be made in due course regarding the Transaction and the Transfer of Listing.

Capitalisation and Waiver

As a result of the Company's continued financing of HEPI, as of 30 June 2019, HEPI owed the Company approximately US$124 million by way of an intra-group debt ("**Intra-Group Debt**"). As part of the Transaction, the Company proposes to (i) capitalise substantially all of the Intra-Group Debt as at the date of completion of the Transaction ("**Completion**") in consideration of the issue by HEPI of further shares in HEPI; and (ii) waive its rights to the repayment of the remainder of Intra-Group Debt such that the remainder of Intra-Group Debt will be written off and HEPI will not have any indebtedness to the Company following Completion ("**Capitalisation and Waiver**"). This means that the Intra-Group Debt will no longer appear in the Company's financial statements. In the event that Completion does not occur, the Company will not proceed with the Capitalisation and Waiver and the Intra-Group Debt will remain outstanding.

Impact of the Transaction on the Company

Following Completion, HEPI will cease to be part of the Group and the Company will be a "cash shell" with no subsidiaries or operational assets. Given the Company will operate as a "cash shell" post Completion, the approval of the Company's shareholders will be sought in relation to the Transfer of Listing. Completion of the Transaction requires resolutions approving both the Transaction and the Transfer of Listing being passed by the Company's shareholders.

Principal Terms of the Transaction

Pursuant to the terms of the SPA, HOEC has agreed to acquire the whole of the capital stock of HEPI for cash consideration of US$1,500,000. Under the terms of the SPA, HOEC is required to pay the consideration to the Company's solicitors within five business days of the date of signing of the SPA in order for the SPA to have any force or effect. As the Company's solicitors have received the consideration within the required period, the SPA is now binding. The consideration will be released to Hardy on Completion.

Completion of the Transaction is conditional only on the Company's shareholders passing (i) a resolution approving the Transaction; and (ii) a resolution approving the Transfer of Listing. Neither the Company nor HOEC has any right to terminate the SPA between signing and Completion and the SPA is not subject to any other conditions.

The Company is not giving any warranties, indemnities or tax covenant to HOEC under the terms of the SPA except for warranties as to title to the shares in HEPI, HEPI's share capital and its capacity to enter into the SPA and sell the shares.

Information on HOEC

HOEC is an Indian oil and gas company with a portfolio of nine assets based in various geographical locations around India. HOEC holds a minority stake in PY-3 and was the first private oil and gas company in India. HOEC was incorporated in 1983 and listed on the Bombay Stock Exchange in 1990 (it is now listed on multiple Indian stock exchanges). It has a number of successfully commercialised assets and last year commenced full commercial production from Dirok field PY-1. For 2018, HOEC had revenues of approximately INR4,871.25 lakhs (US$7.0 million).

Current Trading, Use of Net Proceeds and Future Prospects

Information concerning the Company's current trading and prospects was included in the 2019 Preliminary Final Results Announcement on 27 June 2019:

"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.

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."

Given the developments outlined in the 2019 Preliminary Final Results Announcement, the Directors remain of the view that attempting to realise some value in respect of the Assets by way of a disposal of HEPI is in the best interests of the Company and its shareholders. Following Completion, the Company will transfer its listing from the premium segment to the standard segment of the Official List and the net proceeds from the Transaction will be retained to provide additional working capital for the Company and will be added to the Company's cash resources for the Company to seek new investment opportunities.

Commenting on the Transaction, Alasdair Locke, Chairman, said: "The Board unanimously considers that the Transaction is in the best interests of all shareholders. It reduces significantly the outgoings associated with HEPI remaining part of the Group, it draws a line under the protracted - and we believe unfair - treatment of the Group by the Indian judiciary and it removes a major element of uncertainty for investors.

"If approved by shareholders, the Transaction will result in Hardy becoming a clean cash shell with a Standard main board listing on the London Stock Exchange."

For further information please visit www.hardyoil.com or contact:

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