



Hardy Oil and Gas plc

Annual Report and Accounts
FY2017



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

Our key objectives this year

1

The enforcement of the CY OS/2 award

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

2

Realise production from our asset portfolio

A comprehensive re-development plan for the shut-in oil field PY-3 has been recommended. The development plan is projected to realise initial oil production of 8,000 bbl per day (gross) and additional recovery of over 14 million barrels of oil.

3

Returning value to shareholders

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

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for more information:
www.hardyoil.com

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Strategic Report

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

Summary FY2017

Hardy Oil and Gas plc (LSE: HDY), the oil and gas exploration and production company focused in India, reports final results for the year ended 31 March 2017

Summary

CY-OS/2

Government of India's (GOI) second appeal of the CY-OS/2 international arbitration award, in favour of Hardy, (the Award) was dismissed. The GOI has subsequently escalated their appeal to the Supreme Court of India. Legal process to confirm the Award in the US is under consideration by the Washington, DC judiciary.

PY-3

Maintained compliance activities while working closely with the GOI and the regulatory authority, Directorate General of Hydrocarbons (DGH), to establish a consensus view on the optimal development solution to recommence production.

GS-01

Resolution of the quantification of liquidated damages (LD) associated with the unfinished minimum work programme (UMWP) is awaited – GOI's agreement with the uJV's proposed estimate of LD should facilitate the Group's plans going forward.

Financial

Considering several uncertainties, which may or may not be resolved, the Group provided for the write-down of PY-3 and deferred tax asset of \$7.5 million resulting in a Total Comprehensive loss of \$9.2 million for the year ended 31 March 2017 (FY16 loss of \$16.8 million). Cash and short-term investments at 31 March 2017 amounted to \$14.5 million; Hardy has no debt.

Cash and short-term investments at 30 Sept 2017

\$14.5 million

Total Comprehensive loss (\$ million)

2017	9.2
2016	16.8

Read the full Financial Review on pages 16 to 17

Outlook

CY-OS/2

The GOI Supreme Court appeal is expected to be concluded in the second half of 2017. Enforcement of the arbitration award within the India judicial system is our priority.

PY-3

Establish a consensus view on the way forward of the development of the PY-3 field. Well monitoring activity has been proposed and failing the timely adoption of a FFDP and past budgets, planning for abandonment will need to be initiated.

GS-01

Resolution of penalties associated with UMWP are expected to continue into 2017. Further capital investment is dependent upon gas pricing under GOI's pricing policies.

Our foremost objective, the enforcement of the CY-OS/2 Award, will deliver new resources to the Group allowing us to expand our portfolio

Business Model

Revenue



Expenditure

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 New Exploration Licensing Policy (NELP), a periodic competitive closed bid process.
- (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)

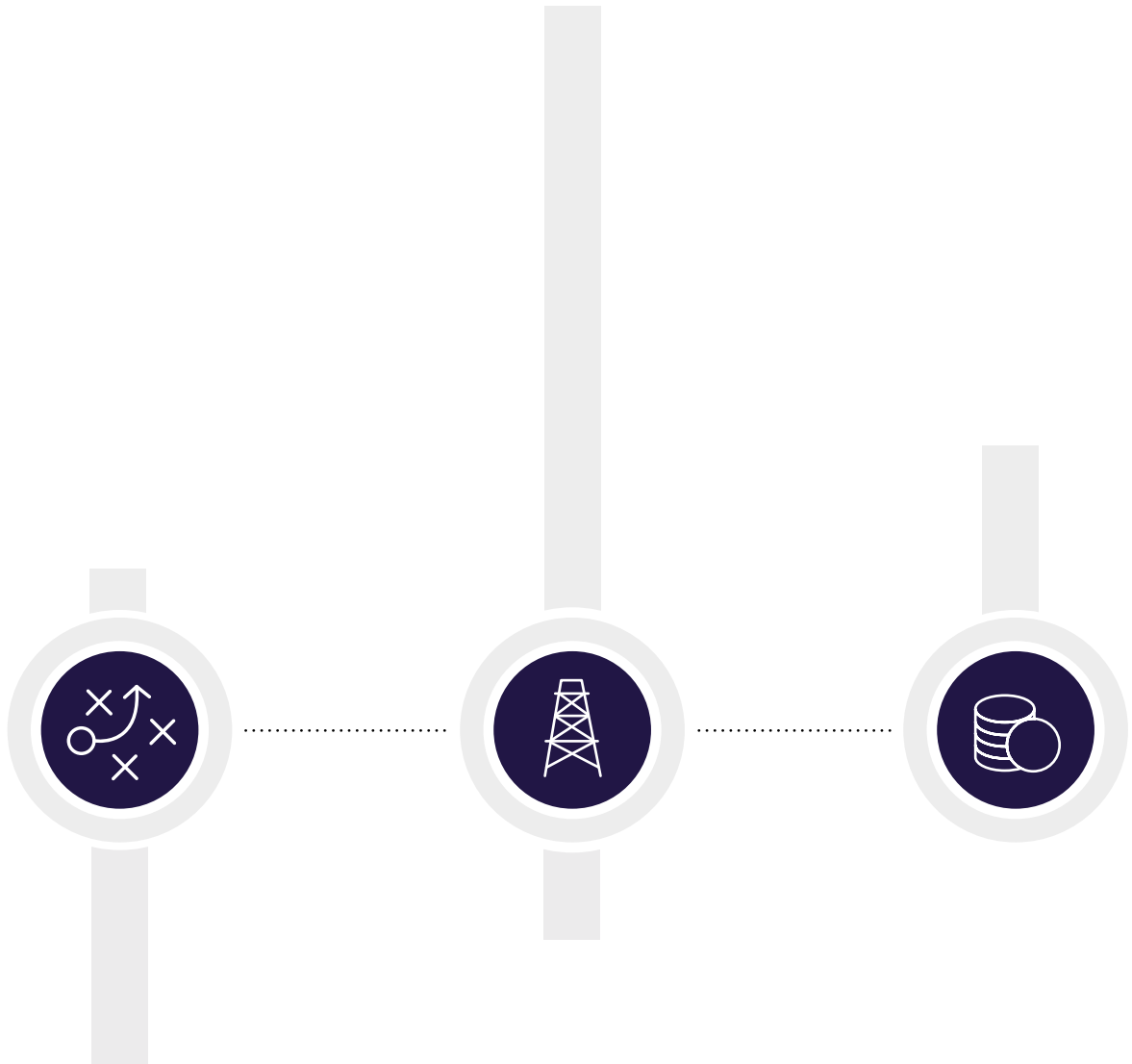
Geoscience surveys and studies, high-grade prospects, verify via drilling

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 formulated to facilitate the determination of commerciality. Markets to monetise the discovered hydrocarbons are also identified at this stage.



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.

Chairman's Statement

The Group has sufficient resources to realise our strategic objectives



Introduction

Throughout the year we continued our struggle to enforce our legal right to the reinstatement of the exploration licence CY-OS/2 and commensurate compensation. The Government of India (GOI) appeal of this Award was dismissed by the Division Bench of the Delhi High Court and is now being heard in the Supreme Court of India. We remain resolved to see off all legal challenges put forward by the GOI whether in India or in other jurisdictions in which we elect to execute this unanimous international arbitration award. Our other primary goal, securing approvals for the development of PY-3, did not advance. The lack of consensus on the way forward amongst stakeholders was a significant contributing factor to our decision to write-down the value of PY-3, and associated deferred tax asset, by some \$7.5 million.

Strategy

The Group's strategy is to be an active participant in the upstream oil and gas industry, and realise value from our current India focused portfolio and pursue new opportunities as they arise. We have in place clear plans to achieve our objectives that we believe can restore value for our shareholders. The successful conclusion to the enforcement of the CY-OS/2 Award process could provide Hardy with significant funds and better position the Group to add new upstream assets.

Market overview

Commodity markets remained volatile but traded within a relatively narrow range throughout the year and into FY 18. A modest improvement in the global growth outlook and the Organization of the Petroleum Exporting Countries' (OPEC's) and Russia's agreement to production restrictions contributed to an overall improvement in oil pricing. The North American producers have responded with a significant increase in drilling activity. Industry costs have stabilised but remain much lower than in 2014. We have adjusted our cost estimates for development scenarios of our portfolio. We expect costs to stabilise as excess capacity is removed from the market. India has enjoyed a period of robust growth and continues to rely on the import of oil and gas to meet energy requirements. Prime Minister Modi's objective to increase domestic production and improve energy security has resulted in more proactive measures being taken by the GOI.

Performance

As at 31 March 2017, the Group had over \$14.5 million of cash and short-term investments with no debt. The Group has sufficient resources to realise our strategic objectives. The Group maintains robust internal control and risk management systems appropriate for a company of our size and resources.

Governance

The Board composition remained constant throughout the year. Further details of the Board's activities this year can be found in the Corporate Governance section of this Annual Report. In accordance with provision C.2.2 of the 2014 revision of the UK Code, the Directors have assessed the prospects of the Group over a longer period than the 12 months required for the "Going Concern" statement. The Board conducted this review for a period of three years to 31 March 2020. The Group's near-term principal risks remain: the timing or execution of activities may not commence as forecast and delays may be experienced; the possible relinquishment of appraisal acreage; and liabilities related to ongoing disputes.

I would like to acknowledge management's continued commitment to our objectives notwithstanding the nugatory actions of the GOI regarding the appeal of the CY-OS/2 Award and of the uJV partners of PY-3. Under these challenging circumstances management's persistence and pragmatism are paramount to realising a successful outcome.

Objectives and outlook

We have in place clear plans for all our assets. Our foremost objective, the enforcement of the CY-OS/2 Award, will deliver new resources to the Group allowing us to expand our portfolio of upstream oil and gas assets. The other near-term priority of the Group remains the development of a consensus on the way forward for the PY-3 oil field which could take us closer to realising production from our portfolio of assets for the benefit of our shareholders.

Alasdair Locke
Chairman

8 June 2017

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

Chief Executive Officer's Review

Committed to the enforcement of the CY-OS/2 Award



Introduction

In FY17 we were successful in advancing the CY-OS/2 litigation process with the GOI, best highlighted by the Delhi High Court (HC) Division Bench dismissal of the GOI's second appeal. We are fully committed to seeing through the enforcement of the CY-OS/2 award which will provide significant capital infusion and allow us to recommence appraisal activity. We continued to fulfil our obligations as Operator of PY-3, including the assessment of field development options, protecting uJV interests against unfounded third-party claims, and the planning of well monitoring activity. Notwithstanding our efforts, a consensus on the way forward for PY-3 has not been reached and our consortium partners have not funded their obligations for several consecutive years.

Implementing our strategy

Enforcement of the CY-OS/2 Award is our primary focus. Successful implementation of the CY-OS/2 Award will create a robust platform for Hardy to rebuild our portfolio of upstream asset. The recommencement of production from the PY-3 field, considering current economic conditions, remains viable under several development concepts being considered by the PY-3 joint venture (uJV).

Operations

In July 2016, the GOI's second appeal to the Delhi HC against the CY-OS/2 international arbitration award was dismissed based on jurisdiction. The Delhi HC Division Bench summarised that India did not have jurisdiction over the foreign award. We were disappointed, but not surprised, that the GOI subsequently filed a Special Leave Petition with the Supreme Court of India challenging the Delhi HC ruling. Our execution application of the Award in the Delhi HC will likely remain pending until the conclusion of the Supreme Court appeal. We continue to believe that:

- The arbitration award, issued by a tribunal, comprising of three former Chief Justices of India, was unanimous and well-reasoned.
- The dispute resolution articles of the Production Sharing Contract (PSC) clearly state that an arbitration award is to be final and binding on all Parties. In our view therefore, the GOI's appeal breaks the sanctity of the PSC.

However, should the Supreme Court overrule the HC ruling then the merits of the award will be heard in an India High Court.

India is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (New York Convention). This allows entities / nation states the right to enforce foreign arbitral awards in any jurisdiction which is a signatory to the New York Convention. Statute of limitation constraints prompted Hardy

to initiate legal proceedings (award confirmation) in the USA to preserve our rights to enforce the CY-OS/2 Award. We are also exploring initiating enforcement of our legal rights in several other jurisdictions. Our preference remains to conclude the process within the framework of India's judicial system which would result in restoration of the block enabling Hardy to continue with an appraisal programme.

The resumption of production from our PY-3 asset remains a priority. We have been providing all possible support to the PY-3 consortium partners and other stakeholders to facilitate the timely conclusion of deliberation. A key contributing factor to the lack of consensus has been exceptionally high levy rates. Throughout the year, Hardy alongside major industry participants lobbied to seek relief from the excessive rates. Unfortunately, a rate reduction has not been achieved and a lack of consensus, among the uJV partners, persists. Considering present commodity prices, royalty and other financial levy rates, and the additional profit oil entitlement of the GOI beyond the primary term of the PSC (December 2019), a viable development plan will need to achieve significant cost savings. This is achievable but will require all uJV parties to approach discussions in a positive and proactive manner.

Our plan to acquire a further interest in, and operatorship of, our GS-01 asset remains in place. The acquisition process is primarily dependent on the settlement of liquidated damages relating to an Unfinished Minimum Work Programme. The GOI current gas pricing policy stipulates a price of \$2.5 per mmbtu which does not support the proposed development plan for Dhirubhai 33. If we can conclude the acquisition process we will need to explore alternative development plans or secure a change in the GOI policy to allow free market pricing.

Health, Safety and Environment (HSE)

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

Financial

The Group is reporting a total comprehensive loss of \$9.2 million for the year ended 31 March 2017 compared to a loss of \$16.8 million for the year ended 31 March 2016. The loss is attributable to the write-down of Property Plant and Equipment associated with PY-3 (\$3.0 million), and associated deferred tax asset (\$5.5 million). In FY16, the Group wrote-down intangible assets – exploration assets associated with GS-01 (\$4.9 million), property, plant and equipment associated with the PY-3 oil field

(\$2.8 million) and associated deferred tax asset (\$5.2 million). Conservation of cash resources is paramount for the Group. Total general and administrative expenditure decreased from \$4.0 million in FY16 to \$2.6 million. The decrease is primarily due to non-recurring expenditures amounting to \$1.6 million in FY16. The Group projects administrative expenses for FY18 to be more than \$3.0 million due to additional legal expenditures and other expenses.

Cash used in operating activities amounted to \$3.2 million for the year ended 31 March 2017 compared to a cash outflow of \$3.7 million for the year ended 31 March 2016. The Group's capital expenditure and investment income was nominal at \$0.3 million. With cash and short-term investments of \$14.5 million as at 31 March 2017, and no debt, the Group is well funded to meet its current work commitments on the Indian asset portfolio.

In July 2016, the GOI's second appeal to the Delhi HC against the CY-OS/2 international arbitration award was dismissed based on jurisdiction

Outlook

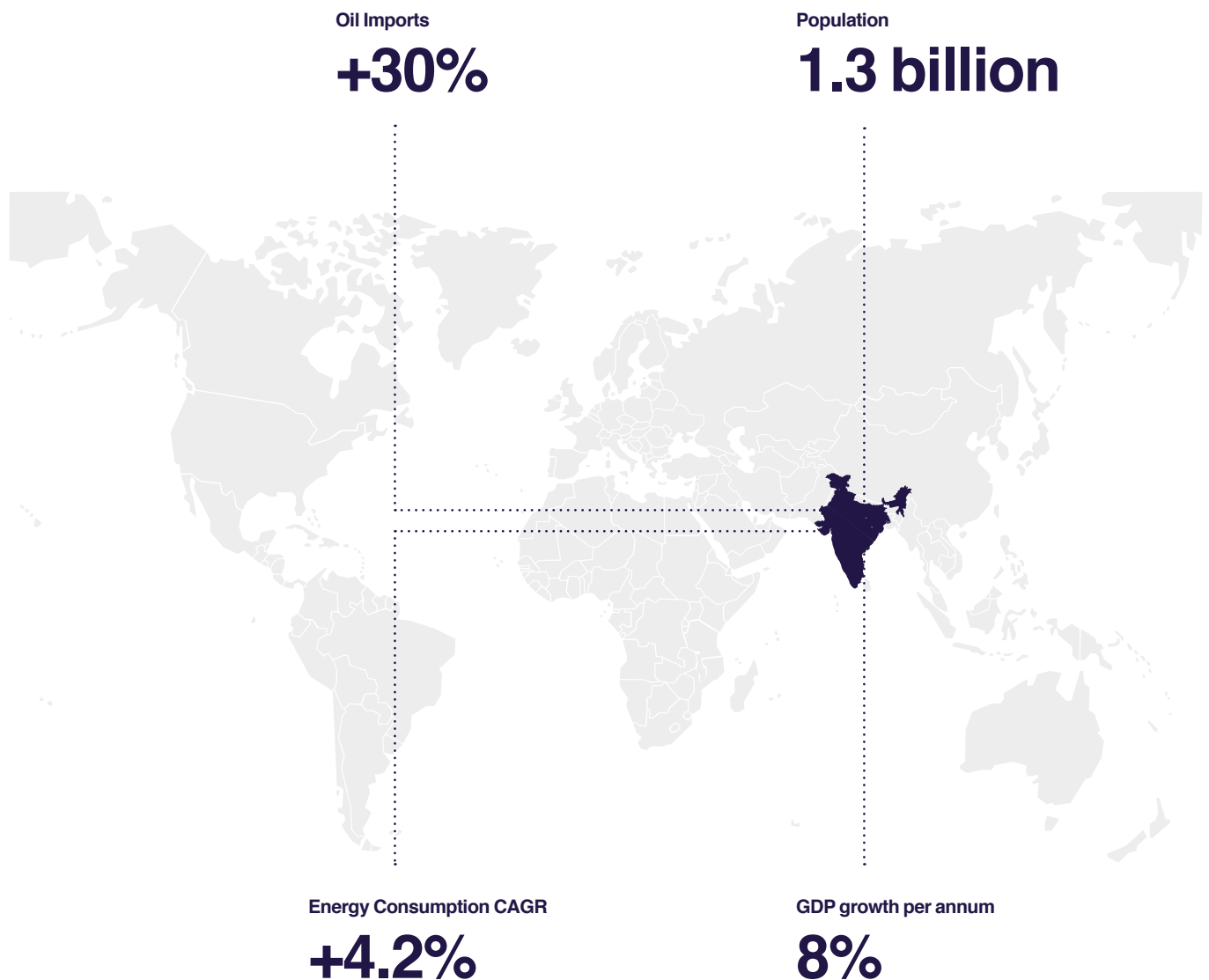
Our objectives remain to enforce the CY-OS/2 Award which will deliver new cash resources to expand our portfolio within or outside of India and securing stakeholders' approvals to initiate activity that will take us closer to realising production from our portfolio of assets for the benefit of our shareholders.

Ian MacKenzie
Chief Executive Officer

8 June 2017

Market Overview

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



Economic and political overview

Global economic activity is picking up which the IMF attributes to a cyclical recovery in investment, manufacturing and trade. The IMF projects global growth rates to rise from 3.1 per cent in 2016 to 3.6 per cent by 2018¹. Oil demand grew quicker than expected due to growth in Europe combined with expected long-term growth in China, India and non-OECD countries.

An agreement of OPEC countries and 11 non-OPEC countries to reduce production is believed to be an attempt to better manage supply and demand levels. Oil prices continued to show a high level of volatility ranging from a high of \$55 to below \$36 per bbl. The Dated Brent ICE Forward curve suggests prices will trade in a relatively narrow band between \$50 and \$60 per bbl for the foreseeable future. Long-term demand growth is projected to slow, due in part, to environmental legislation pressures and also improvements in fuel efficiency of transportation. Global conventional gas production, led by the Middle East, Russia and Australia, is projected to increase at 0.7 per cent per annum. Demand growth is projected to be driven by China, Middle East and the US.

The market rates for services continued to fall as contractors and operators remain focused on improvements in efficiencies. We have adjusted our capital and operating expenditure estimates to reflect the changed cost base. In a stabilised oil price environment, we would expect to see a return of some inflationary pressure on costs as excess capacity is removed from the market.

India

The IMF have stated that:

"The Indian economy is growing strongly and remains a bright spot in the global landscape. The halving of global oil prices that began in late 2014 boosted economic activity in India, further improved the external current account and fiscal positions, and helped lower inflation. In addition, continued fiscal consolidation, by reducing government deficits and debt accumulation, and an anti-inflationary monetary policy stance have helped cement macroeconomic stability. The government has made significant progress on important economic reforms, which will support strong and sustainable growth going forward. In particular, the upcoming implementation of the goods and services tax, which has been in the making for over a decade, will help raise India's medium-term growth to above 8 per cent, as it will enhance the efficiency of production and movement of goods and services across Indian states. Challenges remain, however, and there is little scope for complacency. A key concern for us is the health of the banking system, which is still dealing with a large amount of bad loans, and also heightened corporate vulnerabilities in several key sectors of the economy."

Turning to energy consumption, BP's Energy Outlook 2017² projected "India's energy consumption is set to grow 4.2 per cent a year by 2035, faster than that of all major economies in the world. India, Asia's second biggest energy consumer since 2008, had in 2015 overtaken Japan as the world's third largest oil consuming country behind the US and China. We project that India's energy consumption will grow the fastest among all major economies by 2035. As a result, the country remains import dependent. India's consumption of fossil fuels will be the highest by 2035 and is projected to overtake China as the largest growth market for energy in volume terms by 2030.

India's demand for natural gas is expected to grow by about 19 per cent per annum³ (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. Domestic supply by 2018 is projected to be 231 mmscmd, falling well short of expected demand.

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. Current prices are \$2.5 per mmbtu based on the net calorific value (NCV) of the sales gas. The GOI's recent policies regarding the auction of Discovered Small Fields and HELP, which provided for freedom to market gas, and a more market aligned benchmark criteria for deep water, high pressure and high temperature discoveries are possible indications of an intention to migrate to full marketing freedom.

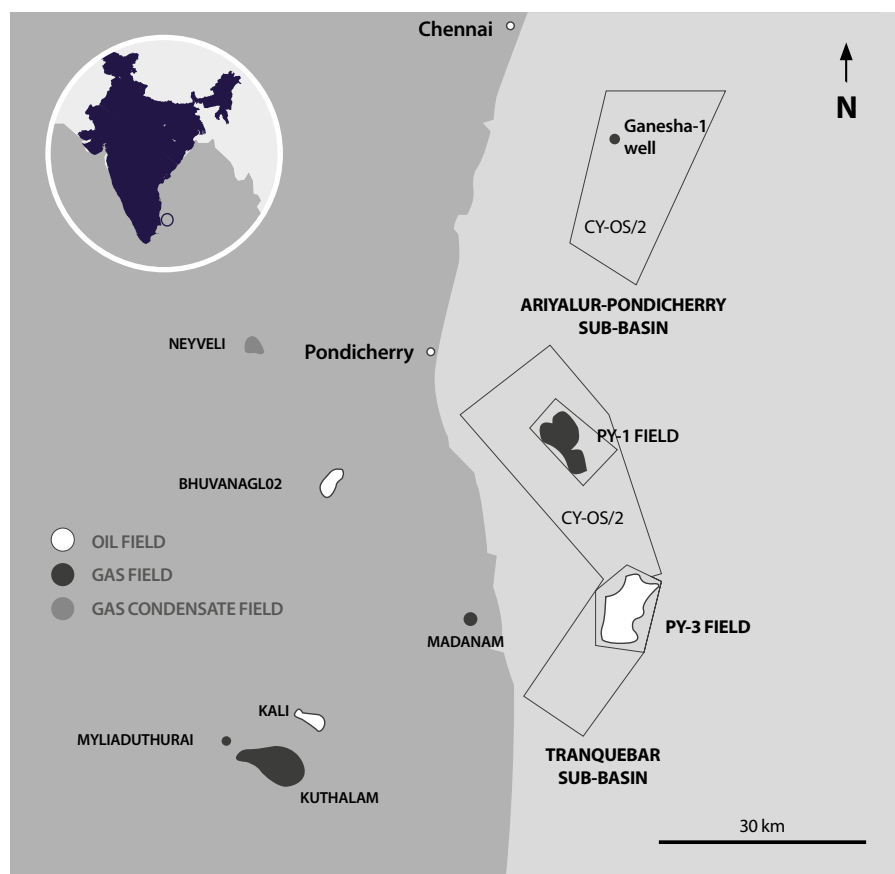
1 IMF, World Economic Outlook, April 2017.

2 BP.com – Energy Outlook 2017.

3 PNGRB – Vision 2030 Natural Gas Infrastructure.

Operations

The Group's exploration and production assets are based in India and are held through its wholly owned subsidiary, Hardy Exploration & Production (India) Inc. (HEPI)



Hardy Operator of Blocks CY-OS/2 and PY-3

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) Litigation – On 27 July 2016 the GOI's second appeal to the Delhi HC Division Bench was dismissed based on jurisdiction. The GOI has subsequently filed a Special Leave Petition with the Supreme Court of India challenging the Delhi HC Division Bench ruling. Hardy has previously filed an execution petition with the Delhi HC and this has run in parallel with the GOI's appeal. The matter has been continually adjourned due to the ongoing GOI appeal. It is expected that the execution hearings will progress should GOI's appeal, in the Supreme Court, be dismissal.

The Group has initiated Confirmation proceedings in the Federal Court of Washington DC, United States of America. This action has been initiated to maintain the option to enforce the Award in the US. Our primary objective remains to conclude the appeal and enforcement process within the Indian judicial system. The timely conclusion of the dispute resolution process within Indian institutions will validate our long-standing commitment to India and facilitate our future participation in meeting the country's growing energy requirements.

Contingent Asset – As at 31 March 2017, Hardy's 75 per cent share of the compensation awarded by the Hon'ble Arbitration Tribunal amounted to approximately \$64.5 million.

Objective – We will continue to seek the restoration of the block to the CY-OS/2 joint venture in a timely manner. The appeal and enforcement process in India is likely to continue into 2018. The Group believes that it has a strong position as the unanimous international award, passed by three former Chief Justices of India and is well reasoned. Hardy intends to recommence work on the appraisal of the Ganesha-1 natural gas discovery once the block has been restored to the CY-OS/2 joint venture.

Background – Hardy is the operator of the CY-OS/2 exploration block and holds a 75 per cent participating interest. The block is in the northern part of the Cauvery Basin immediately offshore from Pondicherry, India and covers approximately 859 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 mmscf/d.

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

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

Oil Field (Hardy 18 per cent interest – Operator)

Operations – A PY-3 Management Committee (MC) meeting was convened in FY16 to consider the Operating Committee's (OC) recommended Full Field Development Plan (FFDP) and budgets. Several agenda items were agreed but finalisation of the minutes of meeting that represent the matters agreed have not been forthcoming from the regulator.

In FY17 the Group made multiple representations to the Hon'ble Minister of State, Sri Pradhan, senior members of the Administration of MOPNG, the Directorate General of Hydrocarbons (DGH) and the heads of the PY-3 uJV. Matters which have prolonged the deliberation of the proposed FFDP and possible resolutions were discussed. It was stressed that the proposed FFDP is projected to generate considerable value directly to the GOI via financial levies, profit petroleum and taxes. A consensus among uJV partners remains wanting. Hardy has initiated planning for well monitoring activity which may provide the PY-3 JV and MOPNG more time to reach a consensus and allow Hardy sufficient time to implement an agreed development plan.

Following a lengthy arbitration process and the rejection of Hardy's subsequent appeal to the Madras HC, Samson Maritime Limited has secured an award, amounting to \$4.9 million, against Hardy for offshore services provided 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 HC which is scheduled to be argued in June 2017.

As Operator Hardy is obliged to enter contracts directly with service providers on behalf of the uJV, such as the Samson Maritime Limited arrangement

noted above. The Operator collects amounts due from each partner in accordance with their respective participating interest. To date the uJV partners have not been forthcoming with payment of cash calls against this award and other joint costs incurred since the shut-in of PY-3. In March 2017, Hardy initiated arbitration with the uJV partners to collect outstanding amounts associated with expenditures incurred by the Group in fulfilling its responsibilities as operator of PY-3. The dispute resolution process is expected to conclude in the second half of 2018.

Objective – Generate a consensus among uJV partners on a viable development plan for the commencement of production. It is expected that offshore activity could commence within 9 to 12 months of the sanctioning of the development plan by the Management Committee. The development plans under consideration may require funding in excess of the Group's current cash resources.

Background – The PY-3 field is located off the east coast of India, 80 km south of Pondicherry in water depths between 40 m and 450 m. The licence covers 81 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 budgetary 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 NELP1 to VII licenses starting in 2005 to 2016 including the Group's D9 licence relinquished in 2012. Hardy and other operators have been working with industry associations to develop a policy to facilitate a resolution. The GS-01 uJV has conveyed to the GOI that this matter needs to be closed out prior to the progression of further activity on the block. The Group has previously provided for \$0.3 million of liquidated damages which is Hardy's share of the operators estimate.

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

Background – In 2011, the GS-01 joint venture secured the GOI's agreement for the declaration of commerciality (DOC) proposal for the Dhirubhai 33 discovery GS01-B1 (drilled in 2007) which flow-tested at a rate of 18.6 mmscf gas with 415 bbl 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 km².

We will continue to seek the restoration of the block to the CY-OS/2 joint venture in a timely manner

Financial Review

In the year ended 31 March 2017, the Group recorded a total comprehensive loss of \$9.2 million and at year end had total cash and short-term investments of \$14.5 million with no debt

Summary statement

Comprehensive income

Production costs

FY17	0.5m
FY16	(0.2)

Unsuccessful exploration write-down

FY17	0.0
FY16	(5.0)

Impairment of PY-3

FY17	(3.0)
FY16	(2.8)

Administrative expense

FY17	(2.6)
FY16	(4.0)

Taxation

FY17	(4.5)
FY16	(5.2)

Total comprehensive loss

FY17	(9.2)
FY16	(16.8)

Financial position

Non-current assets

FY17	55.9
FY16	63.0

Current assets

FY17	19.3
FY16	21.8

Non-current liabilities

FY17	4.5
FY16	5.2

Current liabilities

FY17	8.1
FY16	7.8

Statement of cash flows

Cash flow (used in) operating activities

FY17	(3.1)
FY16	(3.7)

Capital expenditure

FY17	0.0
FY16	0.0

Financing activity

FY17	0.4
FY16	0.3

Cash and short-term investments

FY17	14.5
FY16	17.6

Summary statement of comprehensive income

Production Costs – The Group has considered the continuing fall in offshore services and therefore made an adjustment to the underlying cost assumptions associated with decommissioning of PY-3. As a result, a write-back to the Decommissioning Provision of \$0.8 million was credited.

The Group incurred \$0.3 million of operating costs associated with the Group's share of direct costs incurred fulfilling its obligations as operator of joint undertakings PY-3 and CY-OS/2.

Unsuccessful exploration write-down – In FY16 the Group had expensed \$5.0 million of exploration costs incurred in association with the drilling of a gas discovery on the GS-01 block. These expenses had previously been capitalised and recorded under intangible asset – exploration.

Impairment of PY-3 – The PY-3 asset has been fully impaired resulting in a write-down of property, plant and equipment of \$3.0 million. Management has considered the prevailing oil price, GOI policies, absence of consensus on a development plan and the requirement of the grant of a licence extension, by the GOI, beyond December 2019 when the primary term of the PSC expires. It was concluded that under the current circumstances there is insufficient certainty of development.

The Group believe that there are several economically viable development solutions and will continue to facilitate discussion amongst all stakeholders to attempt to reach a consensus for the field to be brought back into production.

Administrative expense – Administrative expense decreased by \$1.4 million. The net decrease was primarily due to various provisions and non-recurring costs amounting to \$1.6 million in FY16. Due to a projected increase in legal cost, administrative expense are likely to be over \$3.0 million in FY18.

Investment income and finance cost – The Group realised interest income of \$0.4 million (FY16: \$0.3 million) and no finance costs.

Taxation – No current tax is payable for the year ended 31 March 2017. Having consideration for the impairment of the PY-3 asset the Group has no certainty of projected tax payable that may be offset by the Group's carried forward losses within the legislated timeframe. As a result, a full write-down of the Group's deferred tax asset of \$4.5 million was provided.

Total comprehensive loss – The Group's total comprehensive loss is largely attributable to the write-downs associated with PY-3 and deferred tax assets.

Non-current assets – Non-current assets represent successful or work-in-progress exploration expenditure. The \$7.1 million decrease is the result of the \$3.0 million write-down of PY-3 and deferred tax asset of \$4.5 million. The write down of PY-3 is due to the absence of a consensus amongst stakeholders on the way forward for the PY-3 field and uncertainty regarding the extension of the PY-3 PSC. The deferred tax asset has been written down due to the absence of certainty that the Group will generate taxable income in the near-term.

Current assets – The Group's cash and short-term investments reduced by \$3.1 million to \$14.5 million. This is essentially due to the payment of general and administrative expenses. Trade and other receivables of \$3.9 million largely represents some of the amounts due to be recovered from uJV partners of assets operated by Hardy.

Non-current liabilities – The Group's non-current liabilities represent a provision for the decommissioning of the PY-3 field and deferred tax liability.

The decommissioning provision has been estimated based on observed long-term industry cost trends. Management also considered the current depressed cost environment and uncertainty regarding the timing of decommissioning. As a result, the provision was reduced by \$0.8 to \$4.5 million. Management will continue to evaluate its underlying assumptions.

Current liabilities – Trade and other accounts payable comprises of amounts due to vendors and other provisions associated with various joint arrangements, including an award of \$4.9 million due to Samson Maritime as outlined in the operations review.

Summary statement of cash flows

Net cash used in operating activities – Cash used in operating activities comprised of \$1.9 million for administrative costs and net debtor and creditor movement of \$1.2 million. The net debtor movement of \$0.7 million is attributed to an increase in accrued receivables from various joint arrangements operated by the Group.

Capital expenditure – The Group did not incur any material capital expenditures in the year.

Financing activity – Interest and investment income, realised predominantly from an Indian rupee deposit, amounted to \$0.4 million.

Cash and short-term investments – Sufficient resources are available to meet ongoing capital, operating and administrative expenditure. The Group has no debt.

Liquidity risk management and going concern and long-term viability

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios, including changes in timing of developments, cost overruns of our planned activity and working capital inflows and outflows. At 31 March 2017, the Group had liquid resources of approximately \$14.5 million, in the form of cash and short-term investments, which is available to meet ongoing capital, operating and administrative expenditure. The Group's forecasts, considering possible changes as described above, show that the Group has sufficient financial resources for the 12 months from the date of approval of the Annual Report for the year ended 31 March 2017. The Group does not have any debt.

The Group's viability statement can be found in the Principal Risks and uncertainties section of this report.

Key Performance Indicators

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

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

Financial				
Enforcement of the Award				
<p>Definition – Enforcement of the CY-OS/2 Award which provides for the reinstatement of the exploration licence and payment of compensation.</p>	<p>Relevance – Reinstatement of the exploration block will permit the appraisal of the Ganesha discovery.</p> <p>Compensation of approximately \$64.5 million to significantly improve the Group's financial position.</p>	<p>Progress – Initial GOI appeal dismissed in Delhi HC. GOI appealed to Supreme Court of India.</p> <p>Initiation of confirmation of award in Washington DC USA.</p>	<p>FY2018 outlook/target – Conclusion of the GOI Supreme Court appeal and progress enforcement proceedings in India.</p> <p>Confirmation of award in the US.</p>	<p>Key activity – Preparation and delivery of robust representations in Indian and US courts.</p>
Control of overhead cash flow				
<p>Definition – Cash administrative expense in India and UK less partner recharges.</p>	<p>Relevance – 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.</p>	<p>Progress – Reduced underlying cost base of business. Further reductions may be counterproductive.</p>	<p>FY2018 outlook/target – Maintain current levels.</p>	<p>Key activity – Close monitoring of all expenditures.</p>

Operational

Resolution of litigation

<p>Definition – The Group is involved in several litigation proceedings initiated by third parties and the Group.</p>	<p>Relevance – Litigation proceedings heavily detract management from focusing on value creation activities.</p> <p>Mitigation of costs and liabilities.</p>	<p>Progress – Several disputed matters have been progressed or resolved.</p>	<p>FY2018 outlook/target – The timely resolution or avoidance of further legal matters largely dependent on actions of PY-3 stakeholders.</p>	<p>Key activity – Where practical, approach counterparts to reach mutually equitable conclusion to proceedings.</p>
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Approval of PY-3 FFDP

<p>Definition – Management Committee (MC) approval of a FFDP including all technical aspects of the implementation plan and required capital and operating budgets.</p>	<p>Relevance – Approval of an FFDP will provide a tangible milestone for creating value and possibly mitigate disputes between stakeholders.</p>	<p>Progress – A consensus amongst uJV partners remained outstanding. Management conveyed to the regulator (DGH) required action to achieve recommencement of production.</p>	<p>FY2018 outlook/target – Reach consensus on scope, timing and budget amongst uJV partners. Seek GOI sanctioning of agreed plan.</p>	<p>Key activity – Facilitate further discussion among stakeholders to establish an equitable distribution of cash flow post-tax and other financial levies.</p>
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Total recordable injuries (TRIs)

<p>Definition – TRIs include fatalities, lost time injuries, cases restricted for work, cases of substitute work due to injury and medical treatment cases by medical professionals. It does not include any first aid injury.</p>	<p>Relevance – This metric is used to provide guidance as to the Group's HSE performance.</p>	<p>Progress – Absence of field activity and diligent onshore procedures have maintained no recordable injuries.</p>	<p>FY2018 outlook/target – No TRIs.</p>	<p>Key activity – Prior to recommencement of field operations, management will undertake a comprehensive review and roll-out of HSE policy and practice to staff and contractors.</p>
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Principal Risks and Uncertainties

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

Key of Change

- ▲ Increased risk
- Remained stable
- ▼ Decreased risk

Board

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

Principal risks and uncertainties

The underlying risks and uncertainties inherent in Hardy's current business model have been grouped into four categories: strategic, financial, operational and compliance. The Board has identified principal risks and uncertainties for FY18 and established clear policies and responsibilities to mitigate their possible negative impact on the business, a summary of which is provided below:

Viability Statement

In accordance with the provision of section C.2.2 of the 2014 revision of the UK Code, the Directors have assessed the viability of the Group over a three-year period to March 2020, considering the Group's current position and the potential impact of the principal risks documented in this report. Based on this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020.

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. This assessment highlighted that in certain extreme circumstances a funding deficit could arise toward the end of the three-year period.

These circumstances could include:

- cash outflow in respect of current liabilities without commensurate recovery of debts due from uJV partners; and

- the materialisation of contingent liabilities, unprovided for claims by third parties and Government authorities.

To a certain extent, the materialisation of the instances listed above can be mitigated by the reduction of overhead and pursuing legal avenues to protect the Group's assets.

The Directors have determined that the three-year period to March 2020 is an appropriate period over which to provide its Viability Statement. This covers the period when the Group hopes to have established any feasible development plans for PY-3, CY-OS/2 and GS-01. The PY-3 development is the only asset that could possibly require additional funding during this period. In making their assessment, the Directors have considered the Group's current cash position and that no capital is committed and they have not considered the receipt of the CY-OS/2 Contingent Asset of \$64.5 million.

The Group has considered that additional funding needs may be met, as appropriate, by access to the debt and capital markets, although there are no immediate plans to do so, along with the possible divestment of assets in which the Group holds a significant working interest.

Risk or uncertainty

Mitigation

Change

Strategic

In the short term the Group's strategy is predominantly influenced by ongoing arbitration and litigation and the outcome of such. The Group seeks to mitigate risks inherent with such litigious matters, however duration is out of the control of the Group and the risk of an adverse outcome cannot be fully mitigated. It is the Group's intention to rebuild a portfolio of upstream oil and gas assets upon conclusion of the CY- OS/2 dispute.

Asset portfolio exclusively in one geopolitical region

Convey business constraints to accomplishing our objective via direct and open dialogue with government officials, active participation in industry lobby groups including the Association of Oil and Gas Operators. Further additions to the India portfolio will not be considered until tangible progress in our existing portfolio.



Risk or uncertainty	Mitigation	Change
Financial Volatility in international crude oil prices and India's natural gas administered pricing policy may adversely affect some of the Group's prospects and projected results from future operations. Other major financial risks facing the Group could be: financing constraints for further appraisal and development; cost overruns; and adverse results from ongoing or pending litigation.		
Prolonged delay in enforcement of CY-OS/2 Award	Secure high quality and reputable legal counsel. Management of stakeholder expectation. Preserve right to enforce in other jurisdictions.	▼
Arbitration and Litigation – the Group is involved in a number of 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. Proactive and constructive engagement with uJV partners. Sanctioning of a PY-3 FFDP may mitigate several outstanding or pending disputes.	▲
Cost of litigation	Budget for litigation remains high. Effective management and monitoring of advisory costs. Explore timely resolution of disputes not strategic in nature.	▲
Liquidated damages started (LD), unfinished Minimum Work Programme (MWP)	Monitor through media and dialogue with operator, prepare for possible dispute. Engagement with industry lobby groups to facilitate formulation of industry wide resolution. A provision has been made based on management's assessment of a reasonable outcome.	●
Operational Offshore exploration and production activities by their nature involve significant risks. Risks such as delays in executing work programmes, construction and commissioning of production facilities or other technical difficulties, lack of access to key infrastructure, adverse weather conditions, environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected geological formations, explosions and other acts of God are inherent to the business.		
Securing approval for further development of PY-3	Communication with partners to address individual interests and agendas. Clearly formulate and articulate mutually beneficial proposals. Mitigate expenditures prior to budget approvals.	▲
PY-3 HSE – status of PY-3 wells	Three subsea wells were securely shut-in in March 2012. The shut-in of wells has been longer than expected and, in the absence of timely sanctioning of the FFDP, monitoring of wells or full abandonment of the PY-3 field may need to be initiated.	●
Contractual dispute with uJV partners	Maintain communication with senior members of uJV partners. In April 2017, Hardy initiated the dispute resolution procedures provided for under the PY-3 joint operating agreement by instigating binding arbitration proceedings.	▲
Enforcement of arbitration award	Samson Maritime Limited has secured an award against HEPI on PY-3 which is enforceable in India. Samson are currently seeking to secure against various assets of the wholly owned subsidiary. This could result in business disruption until the matter is resolved. Processes and procedures have been tested and 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. Actively collaborate with industry groups to formulate and communicate interests to government authorities.	▼
Taxation and 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.	▼

Corporate Responsibility Summary

We conduct our business safely and in a fair, honest and ethical manner

Hardy is committed to applying high ethical standards to maintain and enhance its reputation as an employer and operator of choice

Corporate social responsibility is a fundamental part of implementing the Group's corporate strategy and has both practical and ethical dimensions. It includes managing business concerns, such as risk, enhancing reputation in conjunction with investing in the community, and creating a place where people feel good about working.

Governance – managing our business ethically and with integrity **Code of Business Conduct**

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

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

Hardy Oil and Gas plc's total GHG emissions for the period 1 April 2016 to 31 March 2017 have been calculated as 190 tCO₂e which equates to 12.7 tCO₂e/FTE. Calculations have been carried out in accordance with the Defra Environmental Reporting Guidelines (2013) and emissions factors have been sourced from the Defra 2013 UK Government Conversion Factors for Company Reporting. The figure presented includes all material Scope 1 and Scope 2 emissions from all assets under Hardy Oil and Gas plc's operational control.

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

Local content

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

Development

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

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

Our CSR Dashboard

Our HSE Policy

1

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

2

Prevent damages to property and loss of assets due to accidents

3

Minimise adverse effects of its operations on the environment

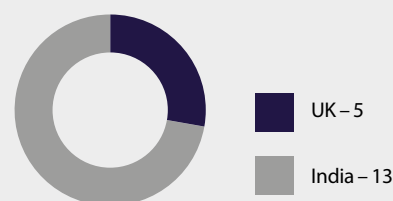
4

Respect the interests of neighbours and the surroundings

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

Diversity

Employees*



Employees*



Board



* Including Non-Executive Directors.

Our Greenhouse gas emissions

Reporting period	Scope 1 emissions tCO ₂ e	Scope 2 emissions tCO ₂ e	Total carbon footprint tCO ₂ e	Intensity metric tCO ₂ e/FTE
FY17	65	125	190	12.7
FY16	25	128	153	10.2
FY15	77	138	216	10.3
FY14	76	160	236	11.2

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

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Governance

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

Board of Directors



N S R

Alasdair Locke (aged 63)
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 Committee, a member of the Risk Sub-Committee and Remuneration Committee.



S

Ian MacKenzie (aged 60)
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.



A R N S

Peter Milne (aged 63)
Senior Non-Executive Director

Terms of appointment

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

Background and experience

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

External appointments

Member of the audit committee of the University of Aberdeen.

Committee membership

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



R A N

Pradip Shah (aged 64)
Non-Executive Director

Terms of appointment

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

Background and experience

Mr Shah is the founder and chairman of IndAsia Fund Advisors Private Limited. He co-founded Indocean Fund in October 1994 with affiliates of Soros Fund Management and Chemical Venture Partners and founded and managed CRISIL, India's first and largest credit agency in 1988. Mr Shah also assisted in setting up Housing Development Finance Company in 1977 and acted as consultant to USAID, the World Bank and the Asian Development Bank. Mr Shah holds an MBA from Harvard Business School and is a chartered accountant and cost accountant.

External appointments

Mr Shah is founder and chairman of IndAsia Fund Advisors, chairman of Kansai Nerolac, Grindwell Norton Ltd, Sonata Software and a director of BASF (India), Godrej & Boyce, Pfizer and Tata Investment Corporation amongst other companies.

Committee membership

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

Management Committee



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

Terms of appointment

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

Background and experience

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



Richard Galvin
Treasurer and Corporate Affairs Executive

Terms of appointment

Mr Galvin joined Hardy in 2005 and was appointed 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.

Committee key

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

Governance Report

The UK Corporate Governance Code

The Company maintains a listing on the London Stock Exchange and under the UK Listing Rules, is required to comply with the UK Corporate Governance Code published in April 2014 (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. The Board remains focused on effective risk management and strong corporate governance. This Corporate Governance Report describes the way the Group has applied the main principles of governance set out in the UK Code throughout the year.

The Company strives to maintain a balance between conservation of limited resources and maintaining robust corporate governance practices. As the Company evolves the Board is committed to enhancing the Company's corporate governance policies and practices deemed appropriate for the size and maturity of the organisation. Set out below are Hardy's corporate governance practices for the year ended 31 March 2017. Disclosures below include matters where Hardy has not fully complied with the provision of the UK Code during the reporting period.

Leadership

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

The role of the Board

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

Board meetings

The core activities of the Board are carried out in scheduled meetings of the Board and its Committees. These meetings are timed to link to key events in the Group's corporate calendar and regular reviews of the business are conducted. Additional meetings and conference calls are arranged, when necessary, to consider matters which require decisions outside the scheduled meetings. During the year ended 31 March 2017, the Board met on five 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 2017, the Board considered all relevant matters within its remit with particular 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 at meetings

Member	Meetings attended
Alasdair Locke (Chairman)	5 of 5
Ian MacKenzie	5 of 5
Peter Milne	5 of 5
Pradip Shah	5 of 5

Division of responsibility

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

The Chairman

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

Non-Executive Directors

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

Delegations of authority Board Committees

The Board has delegated matters to three Committees namely the Audit, Remuneration and Nomination Committees. The memberships, roles and activities of these Committees are detailed in separate reports: the Audit Committee on pages 32 to 34, the Remuneration Committee on pages 35 to 43, and the Nomination Committee on page 44. 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 two Non-Executive Directors. Biographical details of the Board members are set out on page 26 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 8 September 2016, shareholders re-elected Pradip Shah and Peter Milne as Non-Executive Directors.

Independence

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

Appointments

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

Commitments

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

Induction

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

Training

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

Conflict of interest

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

Board performance and evaluation

Hardy undertakes an internal appraisal of the Board's performance on an annual basis. This process comprises 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. Overall, it was felt that the Board was functioning well.

Governance Report

continued

Re-election

Ian MacKenzie and Pradip Shah will stand for re-election at the Company's 2017 Annual General Meeting. A Director's position is subject to satisfactory performance of their responsibilities and is subject to reappointment by shareholders at the Annual General Meeting. The Board of Directors is pleased with the attendance of all Directors at Board and Committee meetings, despite significant travel and time requirements. The Board of Directors is also satisfied with the participation by all the Directors in formulating corporate strategies and for their engagement in meaningful dialogue and discussions at Board and Committee meetings.

Accountability

The Board is committed to providing shareholders with a clear assessment of the Group's position and prospects. This is achieved through this report and, as required, other periodic financial and trading statements. The arrangements established by the Board for the application of risk management and internal control principles are detailed on pages 20 to 21. 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 32 to 34.

Going concern

The Group's business activities, together with factors likely to affect its future operations, financial position, and liquidity position are set out in the Strategic Report section of the Annual Report. In addition, note 23 to the consolidated financial statements discloses the Group's financial risk management practices with respect to its capital structure, foreign currency risk, liquidity risk, interest rate risk, commodity price risk, credit risk and other related matters. The Directors, having made due and careful enquiry, believe the Group and the Company have adequate working capital to execute their operations and have the ability to access additional financing, if required, over the next 12 months. The Directors, therefore, have made an informed judgement, at the time of approving these financial statements, that there is a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the 12 months from the date of approval of these financial statements. As a result, the Directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements in accordance with Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (2014).

Viability Statement

The Financial Reporting Council (FRC) has revised the UK Code to include a Viability Statement and the Company's full statement can be found on page 20 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 Group's system of internal controls and for reviewing its effectiveness. The Board confirms the need for an ongoing process for identification, evaluation and management of significant risks faced by the Group and has formed a Risk Committee which reports to the Audit Committee. A risk assessment for each project is carried out by a team consisting of the Executive Director and senior management, and report to the Risk Committee before making any material commitments. This team meets as and when required to consider internal and external risks, including operational, compliance, financial and strategic risks are continuously assessed. The Audit Committee regularly reviews and reports to the Board on the effectiveness of the internal control systems. Given the size of the Group, the relative simplicity of the systems and the close involvement of senior management, the Board considers that there is no current requirement for an internal audit function. The procedures that have been established to provide internal financial control are considered appropriate for a company of its size and include controls over expenditure, regular reconciliations and management accounts. The Directors are responsible for taking such steps as are reasonably available to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Business model

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

Remuneration

The Board has delegated to the Remuneration Committee responsibility for agreeing the remuneration policy for the Chairman, Chief Executive Officer and senior executives. The Directors' Remuneration Report on pages 35 to 43 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 institutional shareholders to assist them in gaining an understanding of the Group's business, its strategies and governance. Peter Milne currently serves as the Senior Independent Non-Executive Director of the Company and is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman or Executive Director. Meetings are also held with the corporate governance representatives of institutional investors when requested.

Annual General Meeting

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

At the Company's 2016 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 2016	Ordinary	54,862,154	8,000	–	54,870,154	99.99
2a	To receive and consider the Directors' Remuneration Report	Ordinary	53,044,055	1,816,799	9,300	54,870,154	96.67
3	To re-elect Pradip Shah as a Director of the Company	Ordinary	50,866,017	4,004,137	–	54,870,154	92.70
4	To re-elect Peter Milne as a Director of the Company	Ordinary	54,869,714	440	–	54,870,154	100.00
5	Reappointment of Crowe Clark Whitehill LLP as auditor	Ordinary	54,862,154	8,000	–	54,870,154	99.99
6	Disapplication 5% of issued share capital	Special	54,866,722	1,882	1,550	54,870,154	99.99
7*	Authority to make market purchases of Ordinary Shares	Special	54,860,672	9,232	250	54,870,154	99.98
	Total shares issued		73,764,035				
	Total instructed		54,870,154				

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 2017:

Code provision	Subject matter	Discussion
B.1.1	Non-Executive Directors meeting independence requirements	Pradip Shah has served on the Board for more than nine years. Notwithstanding the Board considers Mr Shah to be independent of management as the Chief Executive Officer was appointed in 2012 with whom Mr Shah has had no previous professional interaction. Mr Shah contributes relevant skills, expertise and insight towards the Company's stated strategic objectives and provides valuable advice as to the business and political environment in India.

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

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

Alasdair Locke
Chairman

8 June 2017

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. Pradip Shah is also a chartered accountant. The Committee is satisfied that Mr Milne and Mr Shah's membership of the Committee satisfy the UK Code requirements regarding recent and relevant financial experience.

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

Summary of responsibilities

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. The Audit Committee met three times in the 12 months ended 31 March 2017 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
Pradip Shah	3 of 3

Main responsibilities

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

- Monitoring the integrity of the financial statements and formal announcements relating to the Company's financial performance
- Reviewing accounting policies, significant financial reporting issues and relevant disclosures in financial reports
- Overseeing that an effective system of internal control and risk management systems are maintained
- Ensuring that effective whistle-blowing, anti-fraud and bribery procedures are in place
- Considering the Company's internal audit requirements and 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 statements and results for the 12 months ended 31 March 2017

- The Audit Committee monitored the current business and geopolitical environment in India and in particular the continuing commodity price volatility in the oil and gas markets 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 statements 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 new 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
- The Audit Committee mandated several internal control enhancements following observations made by the external auditor. The Audit Committee also oversaw the implementation of other improvements including the successful upgrading of accounting software leading to better functionality and reporting capabilities.

Review of the effectiveness of the Audit Committee

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

Review of the requirement for an internal audit function

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

Financial reporting

The Committee monitored the integrity of the financial statements and the Group's other financial reports and reviewed the significant financial reporting issues and accounting policies and disclosures in the financial reports. 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 FY2017 accounts.

Significant issues considered in relation to the financial statements

The primary areas of judgement considered by the Audit Committee in relation to the FY2017 accounts and how these were addressed are detailed below:

Issue	Action taken by the Committee
<p>Intangible assets – exploration CY-OS/2</p> <p>There is continuing uncertainty over the status of the block due to the ongoing legal dispute with the GOI. The value of the intangible asset in relation to CY-OS/2 is material to the Group balance sheet. Details of the dispute and arbitration award are provided for on note 15 on page 68.</p>	<p>The Audit Committee reviewed and considered the external legal advice obtained by Management concerning the enforcement of the CY-OS/2 Award in favour of Hardy and the Delhi High Court's ruling against the GOI appeal. The Committee concurred with Management assessment that the CY-OS/2 intangible asset of US\$51.1 million continued to be recognised and that the disclosures concerning the dispute are fair and balanced.</p>
<p>Legal matters</p> <p>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.</p> <p>Management has provided assessments of the merits of such claims and counter claims and made appropriate provisions for likely outcomes.</p>	<p>The Committee reviewed, with management and its professional advisors, the status of various disputed matters and their likely outcomes. 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. Committee is satisfied that sufficient provisions or contingent liabilities have been recognised in the financial statements where necessary.</p>
<p>PY-3 field and deferred tax asset</p> <p>The PY-3 field has been shut-in since July 2011 and had a carrying value of US\$3.0 million. Impairment indicators were that in the continuing absence of a consensus among uJV partners on the way forward and that development scenarios being considered are dependent on the GOI sanctioning the extension of the production licences beyond December 2019. Management had considered the prevailing circumstances and provided for the full write-down of the asset.</p> <p>The deferred tax asset carrying value of US\$4.5 million is recoverable only if sufficient the Group generates profits from its existing portfolio of assets and in particular from the restart of PY-3 production. Having considered the circumstance provided above Management provided for the full write-down of the asset.</p>	<p>The Committee reviewed the progress made by management in seeking to achieve a consensus amongst the uJV partners on a viable development plan. The Committee considered the absence of a consensus, GOI policies (tax, levies, and other policies) and to a lesser extent the prevailing commodity price and cost environment.</p> <p>The Committee is satisfied that management's conclusion that impairment has occurred and that full write-down of the assets is appropriate.</p>
<p>Provisions for decommissioning costs</p> <p>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 provided for the write-back of the Decommissioning provision by US\$0.8 million.</p>	<p>The Committee discussed with management the estimation process and the basis for the principal assumptions underlying the cost estimates, noting the reasons for any major changes in estimates as compared with the previous year. The Committee was satisfied that the approach applied was fair and reasonable. Further information on decommissioning provisions is provided in note 21 on page 70.</p>

Audit Committee Report

continued

Viability Statement

A principal requirement of UK Code is to include a Viability Statement requiring the Board to state whether it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities. In making this statement the Directors are expected to look forward significantly longer than 12 months. The Company's Viability Statement can be found on page 20 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 extreme conditions and the mitigating actions disclosed in the statement.

External auditor

The Company's external auditor is Crowe Clark Whitehill LLP. Authorisation of non-audit services provided to the Group is a matter reserved for the Audit Committee. In the year ended 31 March 2017 Crowe Clark Whitehill LLP did not provide any non-audit related services to the Company. Crowe Clark Whitehill LLP undertook a review of the Group's Interim Statement and Accounts for the six months ended 30 September 2016.

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

The Committee is satisfied that Crowe Clark Whitehill LLP has adequate policies and safeguards in place to ensure that auditor objectivity and independence are maintained. The external auditor confirmed to the Audit Committee during the year their independence from the Company. In accordance with professional standards, the partner responsible for the audit is changed every five years, and last changed in December 2012. The current auditor, Crowe Clark Whitehill LLP, was first appointed by the Company in 1999 and the current partner is due to rotate off the engagement after completing the March 2017 audit. Taking into consideration the transitional rules issued by the Competition Commission as an indication of best practice, the Company would intend to put the audit out to tender after the end of the 2019 audit at the latest.

The UK Code states that the Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment or removal of the external auditor. Based on the Audit Committee's review of the external auditor's performance, effectiveness and independence, the Committee recommends to the Board that it recommends to shareholders the reappointment of the auditor at the Company's 2017 Annual General Meeting.

Peter Milne
Chairman of the Audit Committee
8 June 2017

Directors' Remuneration Report



The Remuneration Committee's Report for the 12 months ended 31 March 2017 comprises of two sections:

- The proposed Directors' Remuneration Policy which will be put to an advisory shareholder resolution at the forthcoming AGM
- An annual statement providing a summary of the Committee's activities in the 12 months ended 31 March 2017 and its intention going forward.

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

Pradip Shah
Chairman of the Remuneration Committee
 8 June 2017

Directors' Remuneration Policy

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

Policy overview

The principles of the remuneration policy are to ensure that remuneration promotes the attraction, motivation and retention of the highest-quality executives who are key to executing our strategy and delivering substantial returns to shareholders. A meaningful proportion of executive remuneration is structured to link rewards to corporate and individual performance, conservation of limited capital resources, and an alignment of interests with those of shareholders and to incentivise them to perform at the highest levels. The remuneration package for the executive and senior management will comprise 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 Report

continued

Director fees

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

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

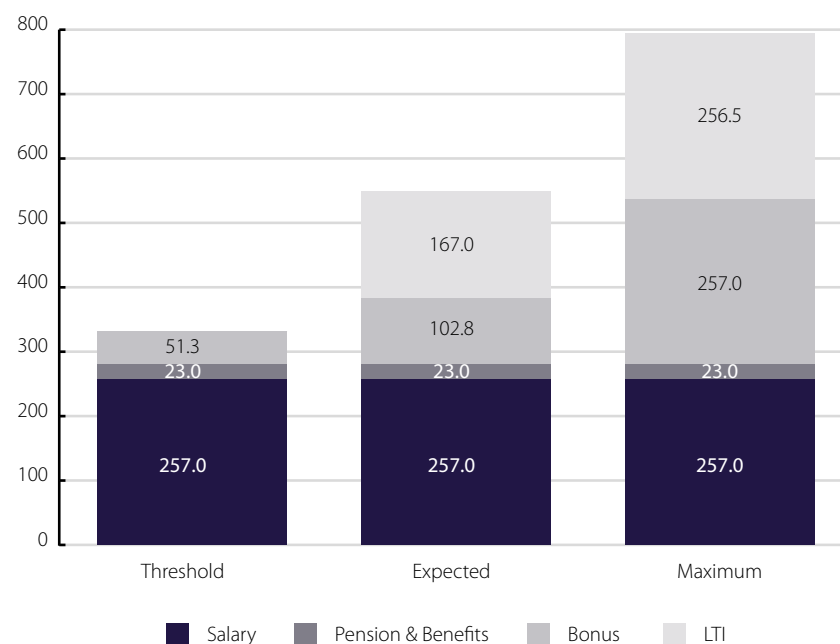
Chairman's additional remuneration

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

Remuneration scenarios for the Executive Director

The chart above 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.

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: <ul style="list-style-type: none"> • Scale, scope and responsibility of the role • Skills, experience and performance of the individual • Retention risk; and • Base salary of other individual undertaking similar roles in companies of comparable size and complexity.
Opportunity	Increases to the current Executive Director salary, presented in the "Application of policy in FY2018" row below, will not normally exceed the average increase awarded to other UK-based employees. Increases may be above this level in certain circumstances, for instance if there is an increase in the scale, scope or responsibility of the role or to allow the base salary of newly appointed executives to move towards market norms as their experience and contribution increase.
Framework for recovery	None.
Application of policy in FY2018 ¹	Executive Director Base salary £262,500 (may be reviewed annually by the Committee effective 1 January).

Pension and benefits

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

¹ Not part of the policy report.

Directors' Remuneration Report

continued

Incentives

Purpose and link to strategy	To provide a simple, competitive, incentive plan that: will attract, retain and motivate individuals with the required personal attributes, skills and experience; provide a real incentive to achieve our strategic objectives; and align the interests of management to shareholders.												
Operation	<p>Annual bonus plan – personal performance targets are set for the executive which the Committee deem appropriate and effective in aligning and motivating the executive toward the achievement of the Company's short-term objective:</p> <ul style="list-style-type: none"> 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. <p>Annual long-term equity-based award will be made in line with the Committee's assessment of the strategic targets:</p> <ul style="list-style-type: none"> Unapproved Share Option Plan, ExSOP (a structured option plan) or restricted shares Annual long-term equity-based award based on performance of the Company and personal performance; and Option and restricted share awards will normally vest after three years, subject to certain performance conditions and continued service. 												
Opportunity	<p>Annual bonus plan – the maximum annual level of award is 100 per cent of salary for the Executive Director.</p> <p>Annual long-term share or option award – the maximum face value for an annual award of option or share-based Long-term Incentives (LTIs) is equivalent to 100 per cent of the executive's base salary. Face value is the product of market value at time of award and number of options/shares awarded.</p>												
Framework for recovery	Claw back: unvested restricted shares and options can be terminated by the Board in instances of material misstatement or serious misconduct.												
Application of policy in FY2018 ¹	<p>Award will be based on the Boards assessment of performance in meeting strategic targets.</p> <table border="1"> <thead> <tr> <th></th> <th>Bonus</th> <th>LTI (option-based award)</th> </tr> </thead> <tbody> <tr> <td>Threshold</td> <td>20%</td> <td>nil%</td> </tr> <tr> <td>Target</td> <td>40%</td> <td>65%</td> </tr> <tr> <td>Cap</td> <td>100%</td> <td>100%</td> </tr> </tbody> </table> <p>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.</p> <p>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.</p>		Bonus	LTI (option-based award)	Threshold	20%	nil%	Target	40%	65%	Cap	100%	100%
	Bonus	LTI (option-based award)											
Threshold	20%	nil%											
Target	40%	65%											
Cap	100%	100%											

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 FY2018 ¹	<p>Current Non-Executive Director fees:</p> <table border="1"> <tbody> <tr> <td>Basic annual non-executive</td> <td>£50,000</td> </tr> <tr> <td>Additional fees</td> <td></td> </tr> <tr> <td>Chairman of the Board</td> <td>£40,000</td> </tr> <tr> <td>Chairman Audit Committee</td> <td>£10,000</td> </tr> <tr> <td>Other fees to remain at the same level as FY2017.</td> <td></td> </tr> </tbody> </table>	Basic annual non-executive	£50,000	Additional fees		Chairman of the Board	£40,000	Chairman Audit Committee	£10,000	Other fees to remain at the same level as FY2017.	
Basic annual non-executive	£50,000										
Additional fees											
Chairman of the Board	£40,000										
Chairman Audit Committee	£10,000										
Other fees to remain at the same level as FY2017.											

¹ Not part of the policy report.

Non-Executive Director terms of appointment

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

Non-Executive Director	Year of appointment	Number of years completed	Date of current engagement letter
Alasdair Locke	2012	5	12 January 2012
Peter Milne	2012	5	29 February 2012
Pradip Shah	1999	18	2 June 2005

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 2017 (including payment and awards in respect of incentive arrangements) and how shareholders voted at the 2016 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 43.

The Remuneration Committee – governance

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

Hardy's Remuneration Committee operates within the terms of reference approved by the Board. A copy of the Remuneration Committee's terms of reference can be found on the Company's website www.hardyoil.com.

Committee's main responsibilities

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

The Remuneration Committee met three times in the 12 months ended 31 March 2017 and all Committee members served in office throughout the year.

The attendance of members at the Remuneration Committee meetings was as follows:

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

Committee evaluation

The performance of the Remuneration Committee was evaluated as part of the Board evaluation which was completed in April 2017. The review was coordinated by the Senior Non-Executive Director and the Treasurer. As a result, the Remuneration Committee was operating effectively.

Committee advisors

No remuneration advisors were retained by the Remuneration Committee during the year ended 31 March 2017.

The Company also consults with the Company's major investors and investor representative groups as appropriate. No Director takes part in any decision directly affecting their own remuneration. The Company Chairman also absents himself during discussion relating to his own fees.

Directors' Remuneration Report

continued

Remuneration review

Executive

The Chief Executive Officer's base salary increased by 5 per cent to £262,500. The base salary is below industry average.

Non-Executive

The Non-Executive Director fees remained unchanged.

Single total figure of remuneration for each Director (audited)

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

Executive		Fixed			Long term			Total
Name of Director		Salaries/fees	Benefits	Bonuses	LTI vesting	Pension contribution	Other	
		(a)	(b)	(c)	(d)	(e)	(f)	
Ian MacKenzie ¹	FY2017	365,227	3,262	–	–	–	–	368,489
	FY2016	376,968	2,911	–	–	32,103	–	411,982
	FY2015	403,703	2,915	–	–	34,341	–	440,959

Non-Executive		Fixed			Long term			Total
Name of Director		Salaries/fees	Benefits	Bonuses	Share awards	Pension contribution	Other	
		(a)	(b)	(c)	(d)	(e)	(f)	
Alasdair Locke	FY2017	117,394	–	–	–	–	–	117,394
	FY2016	176,354	–	–	40,959	–	–	217,313
	FY2015	183,540	–	–	43,102	–	–	226,642
Peter Milne	FY2017	78,263	–	–	–	–	–	78,263
	FY2016	91,652	–	–	21,370	–	–	113,022
	FY2015	95,760	–	–	22,488	–	–	118,248
Pradip Shah	FY2017	65,219	–	–	–	–	–	65,219
	FY2016	75,189	–	–	17,808	–	–	92,997
	FY2015	79,800	–	–	18,740	–	–	98,540

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

Long-term incentive plans

Unapproved Share options

The Committee did not recommend an award under this scheme FY2017. 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).

ExSOP scheme

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

Directors' share options

Set out below is certain information pertaining to share options granted to Directors who held office at 31 March 2017:

Director	As at 31 March 2016	Granted during FY2017	Forfeited during FY2017	As at 31 March 2017	Date of grant	Vested at end of 2014	Expiry date	Exercise price per share (£)
Ian MacKenzie ¹	750,000	–	750,000	–	14-Mar-12	–	13-Mar-22	1.55
	250,000	–		250,000	11-Apr-14	–	10-Apr-24	0.65
Total	1,000,000	–		250,000				

¹ Mr MacKenzie's options awarded in 2012 and 2014 are subject to the conditions outlined above.

The options awarded on 14 March 2012 lapsed due to none-performance of an annual compounded growth rate of the Company's share price by 5 per cent from the date of grant. The options were to lapse if the target was not achieved within the third and fifth anniversary date. No price was paid for any grant of options by the Directors to the Company. There were no variations made during the year in the terms and conditions with respect to any outstanding share options granted by the Company.

Material contract

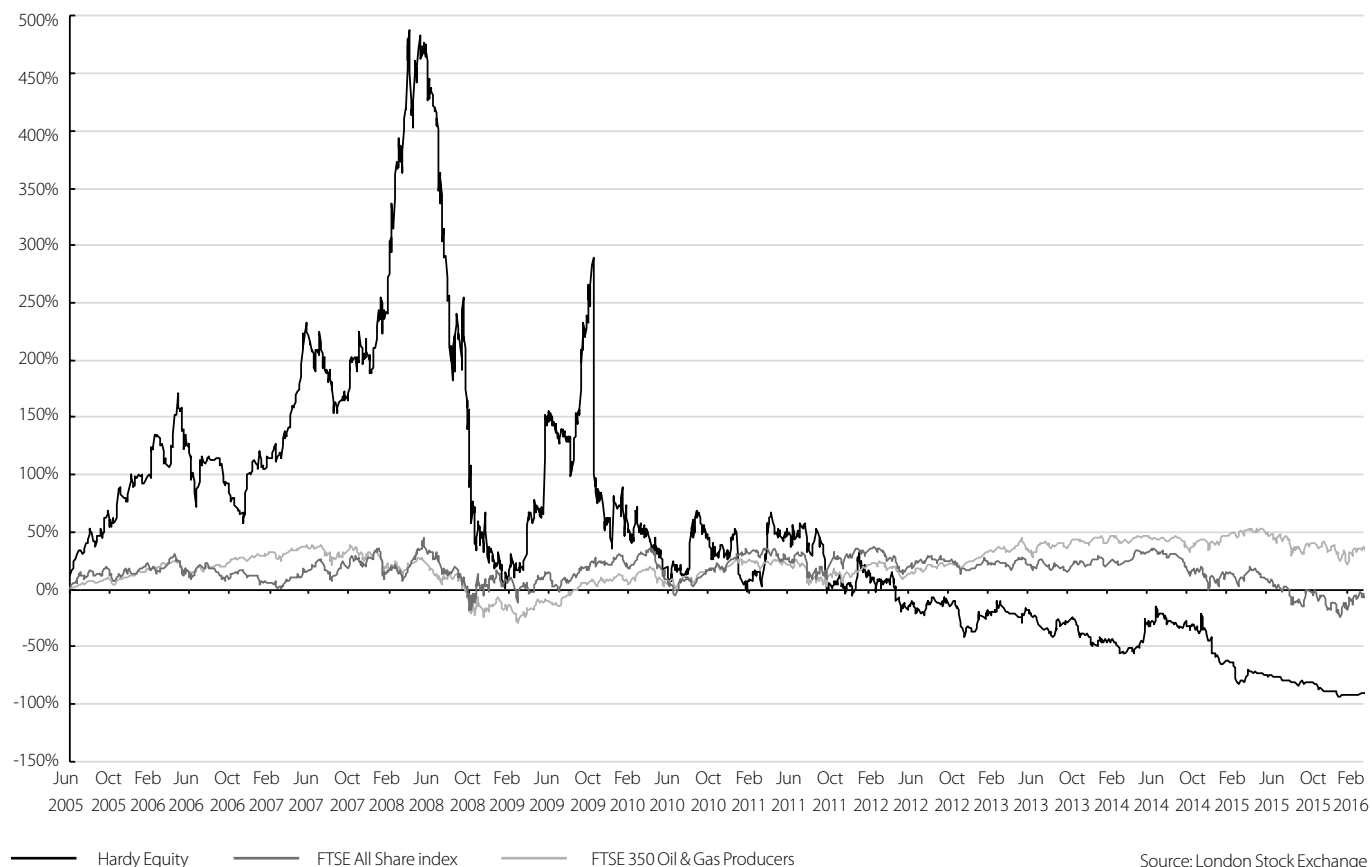
There have been no other contracts or arrangements during the financial year in which a Director of the Company was materially interested and/or which were significant in relation to the Group's business.

Performance graph

Ordinary Shares of the Company were listed on the Official List of the London Stock Exchange's market for listed securities (Main Market) from 20 February 2008. In the circumstances, and since the Company's principal business is upstream oil and gas exploration, development and production, the Company has chosen to compare its performance with the FTSE All-Share Index and FTSE 350 Oil and Producers Index.

Shareholders return and index performance

5 June 2005–31 March 2017



Directors' Remuneration Report

continued

Chief Executive Officer's remuneration

	2012 ¹	FY2014	FY2015	FY2016	FY2017
Total remuneration (US\$)	359,077	508,954	440,959	411,982	368,489
Months of service	11	15	12	12	12
Total remuneration (US\$/mth)	32,646	33,930	36,720	34,332	30,707
Annual bonus (%) ²	Nil	Nil	Nil	Nil	Nil
Option vesting	Nil	Nil	Nil	Nil	Nil

1 Chief Executive Officer's remuneration figure includes Mr MacKenzie's total remuneration in 2012, he was appointed Chief Executive Officer designate effective 1 February 2012.

2 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 31 March 2017, the market price of an Ordinary Share of Hardy was £0.28 per share. The highest and lowest market price of an Ordinary Share of Hardy during the year ended 31 March 2017 was £0.30 and £0.13 respectively.

Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's total remuneration between the financial period ended 31 March 2016 and financial year 31 March 2017 compared to that of the average for all employees of the Group.

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

	FY2016	FY2017	% ¹
Total employee remuneration (US\$ million)	1.4	1.1	(18)
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 8 September 2016, 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	53,044,055	1,816,799	9,300	54,870,154
	% of votes cast	96.67	3.33		

Directors' interests in the share capital of the Company

The Directors who held office at 31 March 2017 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 2017	As at 31 March 2016
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	352,969	352,969
Pradip Shah	Non-Executive Director	835,690	835,690

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.

Pradip Shah

Chairman of the Remuneration Committee

8 June 2017

Nomination Committee Report



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

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

Committee's role

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

Main responsibilities

The main duties of the Nomination Committee are summarised below:

- 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 three times in the 12 months ended 31 March 2017. The membership and attendance of members at Committee meetings held are provided below:

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

Committee activities

The principal activities of the Committee during the year ended 31 March 2017 and after year end were:

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

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

Board Committee membership – The Committee recommended membership of Board Committees remains unchanged. A copy of the Committee's terms of reference can be found on the Company's website www.hardyoil.com.

Committee evaluation – The performance of the Nomination Committee was evaluated as part of the Board evaluation which was completed in April 2017. The review was coordinated by the Senior Non-Executive Director with the assistance of management. The review showed that the Nomination Committee adjudged to be operating effectively.

UK Code compliance – The Committee has noted shareholder feedback regarding independence of non-executives.

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

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

Alasdair Locke

Chairman of the Nomination Committee

8 June 2017

Directors' Report

The Directors of Hardy Oil and Gas plc present their Annual Report together with the audited financial statements for the year ended 31 March 2017. These will be presented before the shareholders at the Annual General Meeting scheduled to be held on 13 September 2017.

Business review and future developments

Hardy is an international upstream oil and gas company holding exploration and production rights in India. The Company is incorporated in the Isle of Man and its registered office is Fort Anne, Douglas, Isle of Man, IM1 5PD. Hardy's objective is to be a leading independent exploration and production company in India and deliver consistent step change growth in shareholder value through the exploration of potential commercial hydrocarbon accumulations. A full review of the Group's activities during the year ended 31 March 2017 and plans for the year ended 31 March 2018 can be found in the Strategic Report section on pages 04 to 05 of the Annual Report, which are incorporated herein by reference.

Directors

The Directors that served in office throughout the year ended 31 March 2017 were:

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

Indemnity provision for Directors

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

Results and dividends

The Group is reporting a total comprehensive loss of US\$9,182,354 for the year ended 31 March 2017 compared to a comprehensive loss of US\$16,757,159 for the year ended 31 March 2016. 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 13 September 2017, Ian MacKenzie and Pradip Shah will offer themselves for re-election as Non-Executive Directors. Biographical details for Mr MacKenzie and Mr Shah are set out on page 26.

Messrs Locke, Milne and Shah have entered into engagement letters with the Company in respect of their appointments as Non-Executive Directors of the Company. The appointments are subject to termination upon at least three months' notice by either party.

Ian MacKenzie is the Chief Executive Officer and the Executive Director of the Board. He chairs the Company's Risk Committee. Mr MacKenzie has been a member of Hardy's Board and served as Executive Director for more than five years.

Pradip Shah chairs the Company's Remuneration Committee and is a member of the Audit and Nomination Committees. Mr Shah has served as a Non-Executive Director for more than 18 years.

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

Directors' Report

continued

Capital structure and significant shareholders

The Company's authorised and issued share capital and changes thereto are disclosed in note 19 to the consolidated financial statements. Disclosures with respect to share options are provided in note 9 to the consolidated financial statements and in the Directors' Remuneration Report.

At 31 March 2017 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 cent¹, as of the date of this report are as follows:

Richard Griffiths and controlled undertaking	21,931,218	29.73%
Aberforth Partners LLP	9,784,830	13.27%
Universities Superannuation Scheme Limited	9,243,931	12.53%
Robert Quested	5,279,354	7.16%
Henderson Global Investors	3,277,403	4.44%
NFU Mutual Insurance Society Limited	2,713,479	3.68%
Yogeshwar Sharma	2,662,438	3.61%
John Grahame Whateley	2,438,169	3.31%
Legal & General Group Plc (L&G)	2,245,667	3.04%
Total	59,576,489	80.77%

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 22.

Diversity

The disclosures concerning Director, management and employee gender diversity as required by law are included in the Strategic Report on page 23.

Annual General Meeting

The Company's next Annual General Meeting will be held at Hardy Oil and Gas plc, 16 North Silver Street, Aberdeen AB10 1RL, Scotland on 13 September 2017 at 11.00 BST. The notice of meeting and the explanatory circular to shareholders setting out business to be conducted at the Annual General Meeting accompanies this Annual Report. The notice includes an item of special business which is explained by the Chairman in his letter contained in the circular. The item of special business concerns the disapplication of the pre-emption rights set out in article 5.1 of the Company's Articles of Association.

Statement of Directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and IFRS as adopted by the European Union. Under such requirements, the Directors are required to prepare Consolidated and Parent Company financial statements of Hardy Oil and Gas plc for the year ended 31 March 2017, which comprise Consolidated Statement of Comprehensive Income, Consolidated and Parent Company Statements of Financial Position, Consolidated and Parent Company Statements of Cash Flows, Consolidated and Parent Company Statements of Changes in Equity, and related notes. In preparing these financial statements, the Directors are required to:

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

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

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

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom 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 Clark Whitehill LLP have expressed their willingness to continue as auditor. In accordance with the Isle of Man Companies Acts 1931 to 2004, a resolution reappointing Crowe Clark Whitehill LLP as auditor of the Company will be proposed at the next Annual General Meeting.

Going concern

The Group's business activities, together with factors likely to affect its future operations, financial position and liquidity position are set out in the Strategic Report section of the Annual Report. In addition, note 23 to the financial statements disclosed the Group's financial risk management practices with respect to its capital structure, foreign currency risk, liquidity risk, interest rate risk, commodity price risk, credit risk and other related matters.

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

Events after 31 March 2017

There have not been any material events that have occurred since 31 March 2017 to the date of this report.

Approved by the Board of Directors.

Alasdair Locke
Chairman

8 June 2017

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56	Consolidated Statement of Cash Flows
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76	Parent Company Statement of Financial Position
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Financial Statements

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

Independent Auditor's Report

to the Shareholders of Hardy Oil and Gas plc

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the Group's and of the parent company's state of affairs as at 31 March 2017 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('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 and 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

The financial statements of Hardy Oil and Gas plc 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 Statements of Changes in Equity, and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Isle of Man Companies Acts 1931 to 2004.

Going concern

As required by the Listing Rules we have reviewed the directors' statement on page 30 regarding the appropriateness of the going concern basis and the Directors' statement of viability of the group contained within the Strategic Report on page 20. We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 20 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity and the disclosures on pages 20 to 21 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 1 of the accounting policies about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation within the Strategic Report on page 20 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have concluded that the Directors' use of the going concern basis of accounting for the preparation of the financial statements to be appropriate and have not identified any material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none"> • Status of the legal dispute in respect of CY-OS2; • Status of on-going legal disputes; • Carrying value of the PY-3 field included within property, plant and equipment and recoverability of the associated deferred tax asset; and • Estimation of the future liability in respect of the decommissioning liability.
Changes in our risk assessment – areas where our assessment of the risk has increased since the prior year	The status of on-going legal disputes is an area of increased risk since the prior year due to developments in the underlying matters increasing the risk of a material cash outflow.
Audit scope	The parent company and its subsidiary are accounted for from one central operating location in Chennai, India. Our audit was conducted from the central operating location which the Responsible Individual visited during the course of the audit work.
Materiality	Overall group materiality of \$700,000 which represents 1% of the Group's total assets.

Our assessment of risks significant to the audit

We identified the following risks 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:

Risk	How the scope addressed the assessed risk
<p>Status of the legal dispute in respect of CY-OS/2</p> <p>The carrying value of the field at 31 March 2017 is \$51.1m. As outlined within the 'Critical Accounting Estimates and Judgments section' whilst the Group has been awarded costs and interest after arbitration the dispute with the Government of India remains on-going.</p> <p>If the block is relinquished it would be an indication of impairment as per the criteria of IFRS6: Exploration for and Evaluation of Mineral Resources and a test would subsequently be required which could have a material impact on the Group. We considered the risk that an impairment test should have been performed and the asset written down as relinquished.</p>	<p>We have reviewed the arbitration award, made in Hardy's favour, in February 2013 and considered the legal advice received by the Group in respect of the enforcement of the award, both within and outside India.</p> <p>We obtained, from a source independent of the Group, the judgement received at the Delhi High Court in July 2016 dismissing the Government of India's appeal.</p> <p>We have discussed the matter directly with the Group's legal advisors.</p> <p>We reviewed the disclosure made concerning this matter to ensure that it is consistent with our understanding of the current legal position.</p> <p>Further details of this matter are disclosed in notes 2 and 15 to the financial statements to which we draw the reader's attention.</p>
<p>Status of on-going legal disputes</p> <p>The Group is involved in a number of legal disputes with taxation authorities and third parties. In the event of adverse findings there could be a material cash outflow from the Group. We considered the risk that liabilities arising from such disputes are not recognised in accordance with accounting standards and the potential impact of any cash outflows on the future viability of the Group.</p>	<p>We obtained management's assessment of the likely outcome of on-going disputes. This included:</p> <ul style="list-style-type: none"> • Assessment of the progress of the outstanding cases; • Reviewed board minutes and legal invoices for evidence of additional legal disputes which we were not previously made aware; and • Reviewing the legal advice received and discussing matters directly with Hardy's legal and professional advisors. <p>We have considered the adequacy of liabilities recognised and disclosures made within the financial statements.</p> <p>In addition we stress tested management's cash flow projections for the viability period and considered the adequacy of the directors' statement on viability.</p>
<p>Carrying value of the PY-3 field included within property, plant and equipment and the associated deferred tax asset</p> <p>During the year the PY-3 field was fully written down with an impairment charge of \$3m being recognised. In addition the deferred tax asset of \$4.5m was derecognised as the availability of future profits to realise the asset before the expiry of the underlying losses was no longer considered probable.</p> <p>We considered the evidence supporting the impairment and the nature of the changed circumstances from the prior year that gave rise to the additional write down.</p>	<p>We discussed the plans for the recommencement of production from the field with Management and reviewed supporting minutes from the PY-3 Operating Committee and Management Committee together with other correspondence received from the other partners involved in the block. Our work was designed to establish whether there was consensus amongst the partners on plans for developing the field and whether agreement had been reached on the fiscal terms which are key to securing consensus.</p> <p>Furthermore we obtained and reviewed the underlying economic models and considered various scenarios for the net present values at different fiscal terms.</p> <p>As part of this work we considered the impact on the ability of the group to realise value from the tax losses prior to their expiry. This including whether there were other likely sources of revenue against which the losses could be relieved.</p>
<p>Estimation of the future liability in respect of decommissioning</p> <p>The carrying value of the decommissioning provision, relating to the PY-3 field, is \$4.5m which has been revised downward from the previous year by \$0.8m to reflect reductions in the cost estimates. We considered the risk that the assumptions were not appropriate in current market conditions and that the liability was materially misstated.</p>	<p>We reviewed the underlying economic models challenging the key assumptions made by management. This included:</p> <ul style="list-style-type: none"> • Comparison of rig day rate assumptions to available market data; • Considering the appropriateness of the assumptions concerning the timing and discounting of the cash flows; and • Performing of scenario analysis of the various underlying assumptions.

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

The Audit Committee's consideration of these matters is set out on page 33.

Independent Auditor's Report continued to the Shareholders of Hardy Oil and Gas plc

Our assessment of 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.

We determined materiality of the group to be \$700,000 (2016: \$800,000) which is 1% of the Group's total assets and 1% of the Group's net assets. The reduction in materiality reflects the decrease in the group's assets following the impairments during the year.

We conducted our audit of particular groups of balances or transactions at a level of materiality less than overall materiality ("performance materiality"). We agreed with the Audit Committee to report all errors identified to the Committee in excess of \$20,000. Errors below that threshold would be reported to the Committee if, in our opinion as auditors, disclosure was required on qualitative grounds.

Basis for opinions

We have audited the consolidated financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described below under Respective Responsibilities of Directors and Auditor. In performing our audit, as required by those standards, we complied with the Financial Reporting Council's Ethical Standards for Auditors including those requiring us to be independent and objective.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Chairman's Statement, Strategic Report, Directors' Report, Governance Report, Audit Committee Report, Nomination Committee Report and the unaudited sections of the Directors' Remuneration Report to identify material inconsistencies with the audited financial statements or with knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Isle of Man Companies Acts 1931 to 2004 we are required to report to you if, in our opinion:

- the parent company and the Group have not kept proper accounting records;
- the financial statements are not in agreement with the accounting records and returns;
- if we have not received all the information and explanations we require for our audit; or
- if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 30, in relation to going concern and longer term viability; and
- the part of the corporate governance report on page 31 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

Respective responsibilities of directors and auditors

Responsibility of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibility

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

This report is made solely to the parent company's members, as a body, in accordance with section 15 of the Isle of Man Companies Act 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.

Matthew Stallabross

Responsible Individual
For and on behalf of
Crowe Clark Whitehill LLP
Statutory Auditor
London
8 June 2017

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2017

	Notes	Year ending 31 March 2017 US\$	Year ending 31 March 2016 US\$
Continuing operations			
Revenue	3	–	–
Cost of sales			
Production costs	4	514,525	(179,386)
Unsuccessful exploration costs	5	–	(4,935,149)
Impairment of Block CY-OS-90/1 (PY-3)	14	(3,026,688)	(2,754,273)
Gross profit/(loss)		(2,512,163)	(7,868,808)
Administrative expenses		(2,614,386)	(4,037,221)
Operating loss	6	(5,126,549)	(11,906,029)
Interest and investment income	11	429,857	336,197
Loss before taxation		(4,696,692)	(11,569,832)
Taxation	12	(4,485,662)	(5,187,327)
Loss after taxation		(9,182,354)	(16,757,159)
Total other comprehensive income		–	–
Total comprehensive loss for the year attributable to owners of the parent		(9,182,354)	(16,757,159)
Loss per share			
Basic & diluted	13	(0.12)	(0.23)

Consolidated Statement of Changes in Equity

For the year ended 31 March 2017

	Share capital US\$	Share premium US\$	Shares option reserve US\$	Retained earnings/(loss) US\$	Total US\$
At 31 March 2015	733,314	120,860,631	3,669,066	(36,970,336)	88,292,675
Total comprehensive loss for the year	–	–	–	(16,757,159)	(16,757,159)
Share based payment	–	–	84,814	–	84,814
Adjustment of lapsed vested options	–	–	(1,899,531)	1,899,531	–
Restricted shares issued	4,327	75,810	–	–	80,137
At 31 March 2016	737,641	120,936,441	1,854,349	(51,827,964)	71,700,467
Total comprehensive loss for the year	–	–	–	(9,182,354)	(9,182,354)
Share based payment	–	–	78,163	–	78,163
Adjustment of lapsed vested options	–	–	(1,168,024)	1,168,024	–
At 31 March 2017	737,641	120,936,441	764,488	(59,842,294)	62,596,276

Consolidated Statement of Financial Position

As at 31 March 2017

	Notes	31 March 2017 US\$	31 March 2016 US\$
Assets			
Non-current assets			
Property, plant and equipment	14	24,885	3,062,290
Intangible assets	15	51,130,501	51,132,228
Site restoration deposits	21	4,723,237	4,311,198
Deferred tax asset	12	–	4,485,662
Total non-current assets		55,878,623	62,991,378
Current assets			
Inventories	16	942,365	942,365
Trade and other receivables	17	3,862,656	3,250,236
Short-term investments	18	14,179,026	16,767,941
Cash and cash equivalents	23	286,881	828,379
Total current assets		19,270,928	21,788,921
Total assets		75,149,551	84,780,299
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	19	737,641	737,641
Share premium	20	120,936,441	120,936,441
Shares option reserve	20	764,488	1,854,349
Retained loss		(59,842,294)	(51,827,964)
Total equity		62,596,276	71,700,467
Non-current liabilities			
Provision for decommissioning	21	4,452,916	5,256,097
Total non-current liabilities		4,452,916	5,256,097
Current liabilities			
Trade and other payables	22	8,100,359	7,823,735
Total current liabilities		8,100,359	7,823,735
Total liabilities		12,553,275	13,079,832
Total equity and liabilities		75,149,551	84,780,299

Approved and authorised for issue by the Board of Directors on 8 June 2017.

Consolidated Statement of Cash Flows

For the year ended 31 March 2017

	Notes	Year ending 31 March 2017 US\$	Year ending 31 March 2016 US\$
Operating activities			
Cash flow (used in) operating activities	7	(3,240,252)	(3,738,079)
Taxation refund		98,347	21,023
Net cash (used in) operating activities		(3,141,905)	(3,717,056)
Investing activities			
Expenditure on intangible assets – others		–	(5,182)
Expenditure on other fixed assets		(6,328)	(22,294)
Site restoration deposit		(412,039)	(25,683)
Realised from short-term investments		2,588,917	995,304
Net cash from investing activities		2,170,550	942,145
Financing activities			
Interest and investment income		429,857	336,197
Net cash from financing activities		429,857	336,197
Net (decrease) in cash and cash equivalents		(541,498)	(2,438,714)
Cash and cash equivalents at the beginning of the year		828,379	3,267,093
Cash and cash equivalents at the end of the year	23	286,881	828,379

Notes to the Consolidated Financial Statements

For the year ended 31 March 2017

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").

These financial statements are for the year ending 31 March 2017.

a) Basis of measurement

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

b) Going concern

The Group has in the past generated working capital from its production activities and successfully raised finance to provide additional funding for its ongoing exploration and development programmes. The Directors have reviewed the Group's ongoing activities and having regard to the Group's existing working capital position and its ability to potentially raise finance, if required, the Directors are of the opinion that the Group has adequate resources to enable it to undertake its planned activities over the next 12 months from the date of these financial statements (in coming to this opinion the Directors have not included the receipt of any funds from the CY-OS/2 arbitration award).

c) Basis of preparation

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

As at the date of approval of these financial statements, there are several standards and interpretations that are in issue but not yet effective. The Directors do not anticipate that the adoption of these standards and interpretations in future reporting periods will have a material impact on the Group's results.

d) Presentational currency

These financial statements are presented in US dollars. All financial information presented is rounded to the nearest US dollar.

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. 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 (UJV) 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

1. Accounting policies continued

g) Oil and gas assets continued

ii) Oil and gas development and producing assets

Development and production assets are accumulated on a field-by-field basis. These comprise the cost of developing commercial reserves discovered to put them into production and the exploration and evaluation costs transferred from intangible exploration and evaluation assets, as stated in the policy above. In addition, interest payable incurred on borrowings directly attributable to development projects, if any, and assets acquired for the production phase, as well as cost of recognising provision for future restoration and decommissioning, are capitalised.

iii) Decommissioning

At the end of the producing life of a field, costs are incurred in removing and decommissioning facilities, plugging and abandoning wells. The full discounted cost of decommissioning is estimated and considered as an asset and liability. The decommissioning cost is included within the cost of property, plant and equipment development assets. Any revision in the estimated cost of decommissioning which alters the provisions required 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.

iv) Disposal of assets

Proceeds from any disposal of assets are credited against the specific capitalised costs included in the relevant cost pool and any loss or gain on disposal is recognised in the Statement of Comprehensive Income.

h) Depletion and impairment

i) Depletion

The net book values of the producing assets are depreciated on a field by field basis using the unit of production method, based on proved and probable reserves. Hardy periodically obtains an independent third-party assessment of reserves which is used as a basis for computing depletion.

ii) Impairment

Exploration assets are reviewed regularly for indications of impairment following the guidance in IFRS 6 Exploration and Evaluation of Mineral Resources, where circumstances indicate that the carrying value might not be recoverable. In such circumstances, if the exploration asset has a corresponding development/producing cost pool, then the exploration costs are transferred to the cost pool and depleted on unit of production. In cases where no such development/producing cost pool exists, the impairment of exploration costs is recognised in the Statement of Comprehensive Income.

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

i) Property, plant and equipment

Property, plant and equipment, other than oil and gas assets, are measured at cost and depreciated over their expected useful economic lives as follows:

	Annual rate (%)	Depreciation method
Leasehold improvements	over lease period	Straight line
Furniture and fixtures	20	Straight line
Information technology and computers	33	Straight line
Other equipment	20	Straight line

Depreciation charges are included within administrative expenses.

j) Intangible assets

Intangible assets, other than oil and gas assets, are measured at cost and depreciated over their expected useful economic lives as follows:

	Annual rate (%)	Depreciation method
Computer software	33	Straight line

Amortisation charges are included within administrative expenses.

k) Investments

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

1. Accounting policies continued**l) 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.

m) 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.

n) 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.

o) Equity

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

p) 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.

q) 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 2017	31 March 2016
£ to US\$	1.23	1.42
US\$ to Indian Rupees	64.85	66.35

r) Leasing commitments

Rental charges payable under operating leases are charged to the Statement of Comprehensive Income as part of general and administration costs over the lease term.

s) 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.

t) 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.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

2. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) 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 Hardy 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 Hardy and ordered the reinstatement of the licence. The GOI has subsequently appealed the award at several levels of the India judicial system. Full details are disclosed in note 15 to these financial statements. This is regarded as a significant area of judgment and Management have considered that the arbitration tribunal has confirmed that the relinquishment was illegal, the appeal by the GOI was dismissed by the District Bench of the High Court of Delhi, and legal advice maintains a legal right to the licence. As a result, it has been adjudged that there is no indication of impairment.

ii) 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 21.

iii) Carrying value of Oil & Gas and exploration assets and deferred tax assets

Management has fully impaired the Group's oil and gas assets due to ongoing uncertainty of likelihood of development and the availability of extension at the end of the current Production Sharing Agreement in 2019. If a development was sanctioned the calculation of the recoverable amount would require the estimation of future cash flows. Previously Management's key assumptions and estimates in the impairment models related to: commodity prices that are based on forward commodity price estimates, fiscal structuring specific to individual assets, commercial reserves and the related cost profiles. Should a development plan be approved by all the partners in the PY-3 field and the Government of India we will review the economic model to determine the appropriate asset value. If circumstances change the total impairment recognised in FY2016 and FY2017 of US\$5.8 million could be written back. Further details are contained in note 14 and 15.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the value of the deferred tax asset, based upon timing and level of future taxable profits. In the absence of an agreed development plan for PY-3 the Group is not expected to generate profits within a reasonable timeframe to be offset by unused tax losses. Should a development plan for PY-3 be approved and prevailing key assumptions remain valid then a portion of the Deferred tax asset may be written back. Further details are contained in note 12.

iv) Recoverability of receivables from Joint Venture Partners

Where the Group is the operator of, or is the largest owner in, a field it recovers a percentage of the costs incurred from its joint arrangement partners in accordance with the levels of participating interests. Partners may either be Indian state-owned companies or private enterprises. Cash calls on partners are usually made in advance of incurring field expenditure however a number of these have not been paid and the Group has commenced arbitration against its partners seeking US\$8.36 million. The Group has strong legal advice that its claim is valid and it will continue to pursue this amount by all legal means however due to the length of time the amounts have been outstanding prudent provision was made in prior year, the total provision recognised in these financial statements is therefore US\$4.80 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.

3. Segment analysis

The Group is organised into two business units as at end of the year: 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.

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

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

3. Segment analysis continued

	2016 US\$			Total
	India	UK	Inter-segment eliminations	
Revenue				
Other income	–	–	–	–
Operating loss	(9,926,411)	(1,979,618)	–	(11,906,029)
Interest income	308,692	27,505	–	336,197
Interest income on inter-corporate loan	–	1,218,911	(1,218,911)	–
Interest expense on inter-corporate loan	(1,218,911)	–	1,218,911	–
Loss before taxation	(10,836,630)	(733,202)	–	(11,569,832)
Taxation	(5,311,032)	123,705	–	(5,187,327)
Loss for the period	(16,147,662)	(609,497)	–	(16,757,159)
Non-current assets	63,809,786	17,821	(836,229)	62,991,378
Current assets	4,814,291	16,974,630	–	21,788,921
Total segment assets	68,624,077	16,992,451	(836,229)	84,780,299
Inter-corporate loan	–	107,151,962	(107,151,962)	–
Non-current liabilities	(5,256,097)	(836,229)	836,229	(5,256,097)
Current liabilities	(7,666,591)	(157,143)	–	(7,823,734)
Total segment liabilities	(12,922,688)	(157,143)	836,229	(13,079,831)
Inter-corporate borrowings	(107,151,962)	–	107,151,962	–
Capital expenditure	22,523	4,953	–	27,476
Unsuccessful exploration costs	(4,935,149)	–	–	(4,935,149)
Impairment of Block CY-OS-90/1 (PY-3)	(2,754,273)	–	–	(2,754,273)
Depreciation, depletion and amortisation	(4,789)	(22,216)	–	(27,005)

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:

	2017 US\$	2016 US\$
Production costs	288,656	567,767
Change in decommissioning estimate	(803,181)	(388,381)
Cost of sales	(514,525)	179,386

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.

Production costs for FY2016 includes a provision in respect of an arbitration award which is made in favour of a service provider for Block PY-3.

5. Unsuccessful exploration costs

Unsuccessful exploration costs consist of:

	2017 US\$	2016 US\$
Impairment/(reversal) of Block D3	–	(9,492)
Impairment/(reversal) of Block D9	–	(102,537)
Impairment of Block GS-OS1	–	5,047,178
	–	4,935,149

6. Operating loss

Operating loss is stated after charging:

	2017 US\$	2016 US\$
Unsuccessful exploration costs	–	4,935,149
Depreciation and amortisation	18,772	27,004
Operating lease costs – land and buildings	151,228	167,220
External auditors' remuneration		
– Fees payable to the Group's auditors for the audit of the Group's annual accounts	75,385	94,754
– Audit related assurance services	10,610	12,754
Exchange loss/(gain)	(53,347)	372,050

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.

7. Reconciliation of operating loss to operating cash flows

	2017 US\$	2016 US\$
Operating loss	(5,126,549)	(11,906,029)
Unsuccessful exploration costs	–	4,935,149
Impairment of Block PY-3	3,026,688	2,754,273
Depletion, amortisation, and depreciation	18,772	27,005
Share based payment expense	78,163	164,951
	(2,002,926)	(4,024,651)
Decrease in inventory	–	222,623
Increase in trade and other receivables	(710,767)	(2,441,647)
Increase/(decrease) in trade and other payables	(526,559)	2,505,596
Cash (used in) operating activities	(3,240,252)	(3,738,079)

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

8. Staff costs

	2017 US\$	2016 US\$
Wages and salaries	960,332	1,156,633
Social security costs	188,077	206,496
Share based payments charge	78,163	84,814
	1,226,572	1,447,943

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:

	2017	2016
Management and administration	9	11
Operations	6	10
	15	21

The number of permanent employees of the Group as at 31 March 2017 is 15 (2016 – 15).

9. 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 2016 and 2025 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 that the options are granted in proportion to the period of employment after the grant subject to a minimum of one year, or, with respect to options from 2010 onwards, the period is three years, 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:

	2017		2016	
	Number of options	Weighted average price	Number of options	Weighted average price
Outstanding at beginning of the year	1,715,000	£1.78	3,419,933	£1.98
Granted during the year	-	-	-	-
Lapsed during the year	1,040,000	£1.80	1,704,933	£2.18
Outstanding at the end of the year	675,000	£1.70	1,715,000	£1.78
Exercisable at the end of the year	100,000	£7.69	200,000	£5.38

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

FY	1 April 2016		Lapsed FY2017		31 March 2017	
	Number	WAEP	Number	WAEP	Number	WAEP
2007	100,000	3.07	100,000	3.07	-	-
2009	100,000	7.69	-	-	100,000	7.69
2011	190,000	2.12	190,000	2.12	-	-
2012	750,000	1.55	750,000	1.55	-	-
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	1,715,000	1.78	1,040,000	1.80	675,000	1.74

The weighted average contractual life of options outstanding is 5.82 years (2016 – 5.9 years).

10. Directors' emoluments

Details of each Director's remuneration and share options are set out in the Directors' Remuneration Report that forms part of the Group's Annual Report. Directors' emoluments are included within the remuneration of the key management personnel in note 27.

11. Interest and investment income

	2017 US\$	2016 US\$
Bank interest	312,320	298,896
Other interest income	20,110	9,796
Dividend	97,427	27,505
	429,857	336,197

12. Taxation

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

	2017 US\$	2016 US\$
Current tax charge		
UK corporation tax	-	-
Foreign tax – India	-	-
Minimum alternate tax	-	-
Foreign tax – USA	-	-
Total current tax charge/(credit)	-	-
Deferred tax charge/(credit)	4,485,662	5,187,327
Taxation charge/(credit)	4,485,662	5,187,327

	2017 US\$	2016 US\$
Charge in respect of change in tax rates	-	-
Losses incurred during the year	(1,792,196)	(4,124,085)
Origination and reversal of temporary differences	1,641,911	2,555,458
De-recognition due to potential non-reversal of deferred tax asset	4,635,947	6,755,954
Deferred tax charge/(credit)	4,485,662	5,187,327

Deferred tax analysis:

	2017 US\$	2016 US\$
Difference between accumulated depletion, depreciation and amortisation and capital allowances	-	(1,373,481)
Carried forward losses	-	5,859,143
Deferred tax asset/(liability)	-	4,485,662

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

12. Taxation continued

b) Factors affecting tax charge for the year

	2017 US\$	2016 US\$
Loss before taxation from continuing operations	(4,696,692)	(11,569,832)
Loss before taxation multiplied by the appropriate rate of tax in respective countries (2016 – 41.2%)	(1,930,237)	(4,611,931)
Adjustment for expired carried forward losses	2,614,561	2,555,455
Others	(834,609)	487,849
Effect of change in tax rates	–	–
De-recognition due to potential non-reversal of deferred tax asset	4,635,947	6,755,954
Foreign tax on overseas income – current year	–	–
Total tax charge/(credit)	4,485,662	5,187,327

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.

Write-back of Deferred Tax Asset

The Group has written back deferred tax asset of US\$4,485,662 during FY2017. This is in light of the fact that the Joint Venture partners have not agreed on a field development plan for Block PY-3 and as a result the Group is not certain to generate profits within a reasonable timeframe to be offset by unused tax losses. Further a portion of the losses carried forward in the Indian operations of the Group have expired in FY2017, resulting in a write back of deferred tax asset.

13. Loss per share

Loss per share is calculated on a loss of US\$9,182,354 for the year ended 31 March 2017 (2016; US\$16,757,159) on a weighted average of 73,764,035 Ordinary Shares for the year ended 31 March 2017 (2016 – 73,343,164). No diluted loss per share is calculated.

14. 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 2015	35,465,279	1,800,361	37,265,640
Additions	–	22,294	22,294
Disposals	–	(42,485)	(42,485)
At 31 March 2016	35,465,279	1,780,170	37,245,449
Additions	–	6,328	6,328
Disposals	–	–	–
At 31 March 2017	35,465,279	1,786,498	37,251,777
Depletion, depreciation and amortisation			
At 1 April 2015	29,684,318	1,761,274	31,445,592
Charge for the year	–	25,779	25,779
Impairment of Block PY-3 asset	2,754,273	–	2,754,273
Disposals	–	(42,485)	(42,485)
At 31 March 2016	32,438,591	1,744,568	34,183,159
Charge for the year	–	17,045	17,045
Impairment of Block PY-3 asset	3,026,688	–	3,026,688
Disposals	–	–	–
At 31 March 2017	35,465,279	1,761,613	37,226,892
Net book value at 31 March 2017	–	24,885	24,885
Net book value at 31 March 2016	3,026,688	35,602	3,062,290

Impairment

The impairment charge of US\$3,026,688 against the PY-3 oil field was determined considering that, as of the date of this report, there was not a consensus amongst uJV partners as to the preferred development plan for the PY-3 field; all development concepts under consideration require the GOI to sanction the extension of the PSC which is not certain.

Impairment in the previous year was calculated by comparing the future discounted cash flows expected to be delivered from the production of commercial reserves with the carrying value of the asset. Should a development plan be approved by all the partners in the PY-3 field and the Government of India we will review the economic model to determine the appropriate asset value.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

15. Intangible assets

	Exploration US\$	Others US\$	Total US\$
Costs and net book value			
At 1 April 2015	56,175,450	–	56,175,450
Additions	–	5,182	5,182
Unsuccessful exploration cost	(5,047,178)	–	(5,047,178)
Amortisation for the year	–	(1,226)	(1,226)
At 31 March 2016	51,128,272	3,956	51,132,228
Amortisation for the year	–	(1,727)	(1,727)
At 31 March 2017	51,128,272	2,229	51,130,501

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

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

Legal proceedings concerning Block CY-OS/2

In March 2009, Hardy were informed by the Government of India that the Block CY-OS/2, in which Hardy holds a 75 per cent participating interest, was relinquished as Hardy had failed to declare commerciality within the two years from the date of discovery which is applicable to an oil discovery. Hardy disputed this ruling believing that the discovery was a gas discovery and consequently that it was entitled to a period of five years from the date of discovery to declare commerciality. As no agreement was reached the dispute was referred to arbitration under the terms of the PSC.

The arbitrators ruled on 2 February 2013 that the discovery was a gas discovery and consequently that the order for the relinquishment of the block was illegal. The arbitrators have ordered the Government of India to restore the block to Hardy and its partners and to allow them a period of three years from the date of restoration to complete the appraisal programme. In addition, the arbitrators awarded costs of US\$0.2 million and compensation based on the exploration expenditure incurred to date. The compensation awarded is calculated based a 9 per cent per annum charge on expenditure incurred until the date of the award and 18 per cent per annum charge thereafter. As at 31 March 2017, Hardy's 75 per cent share of the compensation awarded is approximately US\$64.5 million.

On 2 August 2013, the Government of India (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 challenging the Delhi HC ruling. The appeal is ongoing and the next hearing at the Supreme Court is scheduled for July 2017. Hardy has previously filed an execution petition with the Delhi HC and this has run in parallel with the GOI's appeal although the matter has been continually adjourned due to the ongoing GOI appeal. It is expected that the execution hearings will progress upon the conclusion of the GOI's appeal to the Supreme Court of India.

The Group believes that the unanimous international tribunal award is well reasoned and, based upon external legal advice that the award may not be subject to appeal in the Indian courts as per the India Arbitration and Conciliation Act 1996.

Hardy Exploration & Production (India) Inc has initiated Confirmation proceedings in the Federal Court of Washington DC, United States of America. This action has been initiated to maintain the option to enforce the Award in the US.

Impairment of Block GS-01 in the previous year

The write-off of US\$5.0 million, in FY2016, against the GS-01 exploration license was calculated by comparing the future discounted cash flows projected to be delivered from the production of resources provided for in an unapproved FDP submitted by the Group (the value-in-use) with the carrying value of the asset. No changes occurred during FY2017 and hence the impairment remains.

16. Inventories

	2017 US\$	2016 US\$
Drilling and production stores and spares	942,365	942,365
	942,365	942,365

An amount of US\$222,623 was recognised as an expense in the previous year relating to an impairment in the carrying value of inventory.

17. Trade and other receivables

	2017 US\$	2016 US\$
Amounts due from joint venture partners	3,582,557	2,954,584
Other receivables and prepayments	280,099	295,652
	3,862,656	3,250,236

18. Short-term investments

	2017 US\$	2016 US\$
HSBC US\$ Liquidity Fund Class-A	14,129,513	16,743,300
HSBC £ Liquidity Fund Class-A	49,513	24,641
	14,179,026	16,767,941

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\$141,790 (2016 – US\$167,680) for every one per cent change in interest rates.

19. Share capital

	Number US\$0.01 Ordinary Shares	US\$
Authorised Ordinary Shares		
At 1 April 2016	200,000,000	2,000,000
At 31 March 2017	200,000,000	2,000,000
Allotted, issued and fully paid Ordinary Shares		
At 1 April 2015	73,331,342	733,314
Restricted shares issued during the period	432,693	4,327
At 1 April 2016	73,764,035	737,641
Restricted shares issued during the period	–	–
At 31 March 2017	73,764,035	737,641

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

No restricted shares were awarded in FY2017. Included within the Ordinary Shares are 690,619 restricted shares in issue. The restricted shares have been issued to certain directors and will unconditionally vest three years from the date of issue provided the individual is still a director of Hardy. During the period of restriction, while Directors are eligible for voting rights and dividends, they are not allowed to dispose these shares.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

20. 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.

21. Provision for decommissioning

	US\$
At 1 April 2015	5,644,478
Change in decommissioning estimate	(388,381)
At 1 April 2016	5,256,097
Change in decommissioning estimate	(803,181)
At 31 March 2017	4,452,916

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\$165,000. The estimate is calculated based on decommissioning occurring after the end of the current Production Sharing Contract in December 2019. These underlying assumptions are reviewed on a regular basis.

Having considered the fall in drillship rates the Group has reduced the projected decommissioning cost by US\$0.8 million. A 5 per cent change in the underlying assumption for the drillship rate would result in an adjustment of approximately US\$0.2 million to the Decommissioning Provision.

An amount of Rs. 306,301,889 (US\$4,723,237) (2016 – Rs. 286,049,748 (US\$4,311,198)) 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.

22. Trade and other payables

	2017 US\$	2016 US\$
Trade payables	6,662,368	6,381,696
Accruals and other payables	1,437,991	1,442,038
	8,100,359	7,823,734

Trade and other payables are unsecured and payable on demand.

23. 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 policy 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:

23. Financial risk management continued

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 surplus 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 18.

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.

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 2017.

Maturity of financial liabilities

The maturity of financial liabilities, which consists of trade and other payables and the decommissioning provision as at 31 March 2017 and 31 March 2016 are as follows:

	2017	2016
	US\$	US\$
Within one year	8,100,359	7,823,734
In more than two years but not more than five years	4,452,916	–
In more than five years	–	5,256,097

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

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23. Financial risk management continued

Interest rate risk profile of financial assets

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

	Fixed rate financial assets US\$	Floating rate financial assets US\$	Financial assets – no interest is earned US\$	Total US\$
2017				
US Dollars	–	34,381	25,053	59,434
Pound Sterling	–	101	145,372	145,473
Indian Rupees	–	–	81,974	81,974
Short-term investments	–	14,179,026	–	14,179,026
Cash and cash equivalents	–	14,213,508	252,399	14,465,907
	Fixed rate financial assets US\$	Floating rate financial assets US\$	Financial assets – no interest is earned US\$	Total US\$
2016				
US Dollars	–	516,935	115,790	632,725
Pound Sterling	–	131	99,534	99,665
Indian Rupees	–	–	95,989	95,989
Short-term investments	–	16,767,941	–	16,767,941
Cash and cash equivalents	–	17,285,007	311,313	17,596,320

An amount of Rs. 306,301,889 (US\$4,723,237) (2016 – Rs. 286,049,748 (US\$4,311,198)) 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\$142,135 (2016 – US\$172,850) for every one per cent 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 2016 are as follows:

	Indian rupees US\$	Pound sterling US\$	Total US\$
2017			
US\$	4,805,211	145,471	4,950,681
	Indian rupees US\$	Pound sterling US\$	Total US\$
2016			
US\$	4,407,187	124,299	4,531,486

An amount of US\$43,141 was recognised as foreign exchange gain (2016: exchange loss of US\$284,392) because of exchange rate fluctuations on bank balances and investments made in currencies other than US dollars.

Exchange gains will increase by US\$50,002 (2016 : US\$45,768) for every one per cent appreciation of Indian rupee and sterling and loss of US\$49,012 (2016: US\$44,862) for one per cent depreciation of Indian rupee and sterling.

24. Financial instruments

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

Financial assets

	Book value 2017 US\$	Fair value 2017 US\$	Book value 2016 US\$	Fair value 2016 US\$
Financial assets at fair value through profit or loss				
Short-term investments	14,179,026	14,179,026	16,767,941	16,767,941
Financial assets – loans and receivables				
Cash and short-term deposits	286,881	286,881	828,379	828,379
Trade and other receivables	3,862,656	3,862,656	3,250,236	3,250,236
Site restoration deposit	4,723,237	4,723,237	4,311,198	4,311,198
	23,051,800	23,051,800	25,157,754	25,157,754

Financial liabilities

	Book value 2017 US\$	Fair value 2017 US\$	Book value 2016 US\$	Fair value 2016 US\$
Financial liabilities measured at amortised cost				
Accounts payable	8,100,359	8,100,359	(7,823,734)	(7,823,734)

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

25. 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:

	2017 US\$	2016 US\$
Land and buildings:		
One year	63,525	155,053
Two to five years	12,766	82,882
After five years	–	–

26. 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 US\$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

In the normal course of business, the Group may be involved in legal 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

In addition, the parent company guarantees the Group's obligations under various PSC's to the Government of India. These guarantees are deemed to have negligible fair value and are therefore accounted for as contingent liabilities.

Notes to the Consolidated Financial Statements continued

For the year ended 31 March 2017

27. Related party transactions

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

	2017	2016
	US\$	US\$
Short-term employee benefits	1,047,133	1,181,975
Share based payments	23,280	103,417
	1,070,413	1,285,392

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 2017 Annual Report.

Parent Company Statement of Changes in Equity

For the year ended 31 March 2017

	Share capital US\$	Share premium US\$	Shares to be issued US\$	Retained earnings US\$	Total US\$
At 1 April 2015	733,314	120,860,631	3,669,066	2,926,310	128,189,321
Total comprehensive loss for the year	-	-	-	(609,497)	(609,497)
Share based payment	-	-	84,814	-	84,814
Adjustment of lapsed vested options	-	-	(1,899,530)	1,899,530	-
Restricted shares issued	4,327	75,810	-	-	80,137
At 31 March 2016	737,641	120,936,441	1,854,350	4,216,343	127,744,775
Total comprehensive loss for the year	-	-	-	(65,060,097)	(65,060,097)
Share based payment	-	-	(88,396)	-	(88,396)
Adjustment of lapsed vested options	-	-	(1,001,465)	1,001,465	-
At 31 March 2017	737,641	120,936,441	764,489	(59,842,289)	62,596,282

Parent Company Statement of Financial Position

As at 31 March 2017

	Notes	31 March 2017 US\$	31 March 2016 US\$
Assets			
Non-current assets			
Property, plant and equipment	9	8,636	17,821
Investments	10	48,323,166	111,745,695
Total non-current assets		48,331,802	111,763,516
Current assets			
Trade and other receivables	11	74,882	73,541
Short-term investments	12	14,179,026	16,767,941
Cash and cash equivalents	16	157,344	133,148
Total current assets		14,411,252	16,974,630
Total assets		62,743,054	128,738,146
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
Shares to be issued		764,489	1,854,350
Retained earnings		(59,842,289)	4,216,343
Total equity		62,596,282	127,744,775
Non-current liabilities			
Provision for deferred tax	14	-	836,229
Current liabilities			
Trade and other payables	15	146,772	157,142
Total current liabilities		146,772	157,142
Total liabilities		146,772	993,371
Total equity and liabilities		62,743,054	128,738,146

Approved and authorised for issue by the Board of Directors on 7 June 2017.

Parent Company Statement of Cash Flows

For the year ended 31 March 2017

	Notes	Year ending 31 March 2017 US\$	Year ending 31 March 2016 US\$
Operating activities			
Cash flow (used in) operating activities	4	(1,580,963)	(1,892,285)
Net cash (used in) operating activities		(1,580,963)	(1,892,285)
Investing activities			
Purchase of other property, plant and equipment		(2,330)	(4,953)
Short-term investments		2,558,915	995,304
Net cash (used in) from investing activities		2,556,585	990,351
Financing activities			
Interest and investment income		1,614,961	1,246,416
Inter corporate loan		(2,596,387)	(469,841)
Net cash (used in) from financing activities		(981,426)	776,575
Net increase/(decrease) increase in cash and cash equivalents		24,196	(125,359)
Cash and cash equivalents at the beginning of the year		133,148	258,507
Cash and cash equivalent at the end of the year	16	157,344	133,148

Notes to the Parent Company Financial Statements

For the year ended 31 March 2017

1. Accounting policies

The Company follows the accounting policies of the Group.

2. Revenue

	2017 US\$	2016 US\$
Overhead recovery	-	-
Management fees from subsidiary	-	-
	-	-

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\$65,060,097 (2016: US\$609,497).

4. Reconciliation of operating loss to operating cash flows

	2017 US\$	2016 US\$
Operating loss	(1,635,260)	(1,979,618)
Depreciation	9,185	22,216
Share based payments	56,823	141,671
	(1,569,252)	(1,815,731)
(Increase)/decrease in trade and other receivables	(1,341)	(62,132)
(Increase)/decrease in trade and other payables	(10,370)	(14,422)
Cash flow (used in) operating activities	(1,580,963)	(1,892,285)

5. Staff costs

	2017 US\$	2016 US\$
Wages and salaries	653,467	698,999
Social security costs	167,859	180,370
Share based payments	56,823	61,534
	878,149	940,903

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

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

	2017	2016
Management and administration	3	3

6. Share based payments

Share based payments are disclosed in note 9 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 2017 is US\$10,000 (2016: US\$10,000).

8. Interest and investment income

	2017 US\$	2016 US\$
Interest on inter corporate loan	1,517,533	1,218,911
Dividend	97,428	27,505
	1,614,961	1,246,416

9. Property, plant and equipment

	Total US\$
Cost	
At 1 April 2015	232,110
Additions	4,952
Deletion	(42,485)
At 31 March 2016	194,577
Additions	2,330
Deletion	-
At 31 March 2017	196,907
Depreciation	
At 1 April 2015	197,025
Charge for the year	22,216
Deletion	(42,485)
At 31 March 2016	176,756
Charge for the year	11,515
Deletion	-
At 31 March 2017	188,271
Net book value at 31 March 2017	8,636
Net book value at 31 March 2016	17,821

10. Investments

	Shares in subsidiary US\$	Loan to subsidiary US\$
Carrying value at 1 April 2015	4,570,453	106,682,121
Additional investment during the year	23,280	469,841
Carrying value at 31 March 2016	4,593,733	107,151,962
Additional investment during the year	-	2,596,387
Adjustment for share based payments (net)	(145,219)	-
Impairment of investment in subsidiary	(3,753,112)	(62,120,585)
Carrying value at 31 March 2017	695,402	47,627,764

Shares in subsidiary represent the investment made as at 31 March 2017 in Hardy Exploration & Production (India) Inc. (HEPI), the wholly owned subsidiary of Hardy Oil and Gas plc. Further details of this subsidiary are given in note 1(e) of the consolidated financial statements. During FY2017, HEPI has fully impaired its investment in Block PY-3. Monetising the other assets of HEPI may entail additional investments and may also take more time. Considering these aspects, Hardy Oil and Gas plc has impaired its investment and the loan collectible from HEPI to the extent of the net asset value of HEPI.

Loan to subsidiary at 31 March 2017 consists of US\$109,748,349 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 per cent.

Notes to the Parent Company Financial Statements continued

For the year ended 31 March 2017

11. Trade and other receivables

	2017 US\$	2016 US\$
Other receivables	6,094	3,127
Prepayments and accrued income	68,788	70,414
	74,882	73,541

12. Short-term investments

	2017 US\$	2016 US\$
HSBC US\$ Liquidity Fund Class-A	14,129,513	16,743,307
HSBC £ Liquidity fund class-A	49,513	24,634
	14,179,026	16,767,941

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 2017 and 31 March 2016.

13. Share capital

	Number US\$0.01 Ordinary Shares '000	US\$
Authorised Ordinary Shares		
At 1 April 2015	200,000	2,000,000
At 31 March 2016	200,000	2,000,000
At 31 March 2017	200,000	2,000,000
Allotted, issued and fully paid Ordinary Shares		
At 1 April 2015	73,331,342	733,314
Restricted shares issued	432,693	4,327
At 31 March 2016	73,764,035	737,641
Restricted shares issued	-	-
At 31 March 2017	73,764,035	737,641

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

14. Deferred taxation

Deferred tax analysis:

	2017 US\$	2016 US\$
Differences between accumulated depreciation and capital allowances	-	63,382
Other temporary differences	-	1,405,511
Group relief availed	-	(2,305,122)
Deferred tax (liability)	-	(836,229)

15. Trade and other payables

	2017 US\$	2016 US\$
Trade payables	52,464	51,066
Accruals	94,308	106,076
	146,772	157,142

16. Financial risk management

The Company follows the risk management policy stipulated in note 24 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 2017 is as follows:

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

The interest rate risk profile of the financial assets of the Company as at 31 March 2016 is as follows:

2016	Fixed rate financial assets US\$	Floating rate financial asset US\$	Financial asset no interest is earned US\$	Total US\$
US dollars	–	–	42,261	42,261
Pound sterling	–	131	90,756	90,887
Cash and cash equivalents	–	131	133,017	133,148

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:

	Sterling in equivalent US\$	
	2017	2016
US\$	189,955	115,521

Foreign exchange loss recognised on account of exchange rate for the year ended 31 March 2017 is US\$25,008 (2016: US\$4,171).

17. Financial instruments

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

Financial assets

	Book value 2017 US\$	Fair value 2017 US\$	Book value 2016 US\$	Fair value 2016 US\$
Primary financial instruments				
Short-term investments	14,179,026	14,179,026	16,767,941	16,767,941
Cash and short-term deposits	157,344	157,344	133,148	133,148
Trade and other receivables	74,882	74,882	73,541	73,541
	14,411,252	14,411,252	16,974,630	16,974,630

All of the above financial assets are current and unimpaired as at 31 March 2017.

Financial liabilities

	Book value 2017 US\$	Fair value 2017 US\$	Book value 2016 US\$	Fair value 2016 US\$
Primary financial instruments				
Accounts payable	(146,774)	(146,774)	(157,142)	(157,142)

All of the above financial liabilities are current as at 31 March 2017.

Notes to the Parent Company Financial Statements continued

For the year ended 31 March 2017

18. 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:

	2017 US\$	2016 US\$
Land and buildings		
One year	33,210	38,466
Two to five years	12,766	53,252

19. 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 companies at year end dates:

	2017 US\$	2016 US\$
Amount owed from subsidiary undertaking	52,080,680	107,151,962

During FY2017, HEPI has fully impaired its investment in Block PY-3. Monetising the other assets of HEPI may entail additional investments and may also take more time. Considering these aspects, Hardy Oil and Gas plc has impaired its investment and the loan collectible from HEPI to the extent of the net asset value of HEPI.

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

	2017 US\$	2016 US\$
Inter-company interest income	1,517,533	1,218,911

Reserves and Resources

Due to limited activity and uncertainty surrounding the recommencement of production in the PY-3 asset, the Company does not intend to commission a competent person's report until further data is acquired. The estimates provided in the Company's 2011 CPR are provided below.

Reserves (Proven plus Probable)

CONSIDERING GENERAL UNCERTAINTIES WHICH MAY OR MAY NOT GET RESOLVED, THE RECOVERABLE VOLUMES CATEGORISED IN THE 2011 CPR AS RESERVES ARE TO BE RECLASSIFIED AS CONTINGENT RESOURCES. THE VOLUMES PROVIDED IN THE TABLE BELOW CAN BE RECLASSIFIED RESERVES ONCE A CONSENSUS IS REACHED, AMONG THE PY-3 UJV PARTNERS, REGARDING A VIABLE FIELD DEVELOPMENT PLAN.

Net PY-3 oil production from 31 December 2010 to 31 December 2012 was 129 mmbbl.

Reserves (Proven plus Probable) ^{1,3}				31 December 2010	
				Gross	Net ⁴
PY-3 ²	Producing	Oil	mmbbl	15.1	2.1
Total Reserves (Proven plus Probable)		Oil	mmbbl	15.1	2.1

- 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.
- On 19 April 2007, the PY-3 joint venture Management Committee had approved gross expected ultimate 2P oil Reserves of 44.4 mmbbl. As of 31 December 2010 the field had produced 24.1 mmbbl giving 2P oil Reserves of 20.3 mmbbl, about 5 mmbbl higher than the 2P estimate by GCA.
- The Company has filed the GCA Competent Persons Report (March 2011) with the Directorate General of Hydrocarbons, of the Ministry of Petroleum and Natural Gas, of the GOI (DGH).
- Net entitlement reserves are reserves based on Hardy's entitlement of cost oil plus a share of profit oil.

Contingent Resources (2C)

Net 2C gas Contingent Resources are bcf.

				31 December 2010	
				Gross	Net
GS-01	B1 (Dhirubhai 33)	Gas	bcf	83.0	8.3
CY-OS/2 ^{3,4}	Ganesh-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	1.9	0.19

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

Prospective Resources

Net Best Estimate Risked Prospective Resources are 494 bcf.

Risked Prospective Resources (Best Estimate) ^{1,2}				31 December 2010	
				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

- Aggregated risked Prospective Resources have been derived by Hardy and are not aggregated or provided as risked volumes by GCA.
- 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.
- With respect to Ganesh-1 (CY-OS/2) non-associated natural gas discovery, in 2010 the Group formally commenced arbitration proceedings pursuant to dispute resolution provisions of the governing PSC regarding a licence extension request.
- 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-OS 90/1 (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 per cent interest)

In 2011, the GS-01 joint venture secured the GOI's approval for a DOC proposal for the Dhirubhai 33 discovery (GS01-B1, drilled in 2007) which flow-tested at a rate of 18.6 mmscfd gas with 415 bbl/d of condensate through a 56/64 inch choke at flowing tubing head pressure of 1,346 psi. The GS-01 licence is located in the Gujarat-Saurashtra offshore basin off the west coast of India, northwest of the prolific Bombay High oil field, with water depths varying between 80 m and 150 m. The retained discovery area covers 600 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 859 km². 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 Hardy 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 per cent.

Definitions and Glossary of Terms

%:	Per cent
US\$:	United States dollars
tCO ₂ e:	Tonnes of carbon dioxide equivalent
tCO ₂ e/FTE:	Tonnes of carbon dioxide equivalent for full time equivalent
2D/3D:	Two dimensional/three dimensional
2P:	Proven plus probable
AGM:	Annual General Meeting
AIM:	Alternative Investment Market of the LSE
AOGO:	Association of oil and gas operators
API°:	American Petroleum Institute gravity
the CY-OS/2 Award:	CY-OS/2 international arbitration award as described on page 84
bbl:	Barrel
bbl/d:	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 84
ExSOP:	A structured option plan
FDP:	Field development plan
FFDP:	Full field development plan
FRC:	Financial Reporting Council
FY:	Financial year ended 31 March
GAIL:	Gas Authority of India Limited
Ganesh:	Gas discovery on Fan-A1 well located in CY-OS/2
GCA:	Gaffney, Cline & Associates Ltd
GDP:	Gross Domestic Product
GOI:	Government of India
the Group:	The Company and its subsidiaries
GS-01:	Offshore Licence GS-OSN-2000/1 awarded under NELP II
Hardy:	Hardy Oil and Gas plc
HC:	High Court
HDY:	LSE trading symbol for the Company
HEPI:	Hardy Exploration & Production (India) Inc.
HSE:	Health, safety and environment
IFRS:	International Financial Reporting Standards
IPO:	Initial public offering
IAS:	International accounting standard
ISA:	International Standards on Auditing
JA:	Joint Arrangement

Definitions and Glossary of Terms

KG Basin:	Krishna Godavari sedimentary basin comprising an area on the south east India continental shelf
km:	Kilometre
km ² :	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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Peter Milne (Senior Non-Executive)
Pradip Shah (Non-Executive)

Executive Officer

Richard Galvin (Treasurer & Corporate Affairs Executive)

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Directors of HEPI

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

Executive Officers

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