

HARDY OIL & GAS LIMITED



REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2004

Independent Auditors' Report to the Shareholders of Hardy Oil and Gas Limited

We have audited the financial statements of Hardy Oil and Gas Limited for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, Consolidated and Company Balance Sheets, Consolidated Cash Flow Statement and the related notes numbered 1 to 24. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the 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 auditors' 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.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Isle of Man Companies Act 1931 to 2004. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, 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 transactions with the company is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and statement of oil and gas reserves. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Independent Auditors' Report to the
Shareholders of Hardy Oil and Gas Limited (continued)**

Unqualified Opinion

In our opinion the financial statements give a true and fair view of the state of the group and company's affairs as at 31 December 2004 and the group's profit for the year then ended and have been properly prepared in accordance with the Isle of Man Companies Act 1931 to 2004.

Horwath Clark Whitehill LLP
Chartered accountants and
Registered auditors

31 May 2005
London

HARDY OIL & GAS LIMITED
Group Profit and Loss Account
For the year ended 31 December 2004

	Notes	2004 US\$	2003 Restated US\$
Turnover	2	13,719,650	8,930,390
Cost of sales			
Production costs		(3,002,584)	(3,114,369)
Increase / (decrease) in stock		250,915	(407,920)
Depletion		(1,464,637)	(875,659)
Decommissioning charge		(7,770)	(19,646)
Gross Profit		9,495,574	4,512,796
Administrative expenses		(2,419,096)	(1,929,823)
Operating Profit	3	7,076,478	2,582,973
Income from other fixed asset investments		108,502	87,505
Interest receivable and similar income	6	122,931	29,968
Interest payable and similar charges	7	(275,374)	(621,200)
Profit on ordinary activities before taxation		7,032,537	2,079,246
Tax on profit on ordinary activities			
-current	8	(275,706)	(27,963)
-deferred	8	(3,298,000)	4,071,000
		(3,573,706)	4,043,037
Profit for the financial year		3,458,831	6,122,283

The notes on pages 11 to 27 form an integral part of these financial statements.

Reconciliation of Movements in Shareholders' Funds
For the year ended 31 December 2004

	Group 2004 US\$	Group 2003 Restated US\$	Company 2004 US\$	Company 2003 US\$
Profit for the financial year	3,458,831	6,122,283	(616,293)	(485,488)
<hr/>				
New share capital subscribed	1,788,410	3,000,000	1,788,410	3,000,000
<hr/>				
Net addition to shareholders' funds	5,247,241	9,122,283	1,172,117	2,514,512
<hr/>				
Opening shareholders' funds (originally US\$17,961,706 before adding prior year adjustment of US\$269,072)	18,230,778	9,108,495	5,979,674	3,465,162
<hr/>				
Closing shareholders' funds	23,478,019	18,230,778	7,151,791	5,979,674
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Statement of total recognised gains and losses

	2004 US\$	2003 Restated US\$
Profit for the financial year	3,458,831	<u>6,122,283,</u>
Prior year adjustment as explained in note 1(k)	269,072	
Total gains recognised since last annual report	<u>3,727,903</u>	

HARDY OIL & GAS LIMITED
Balance Sheets
As at 31 December 2004

	Notes	Group 2004 US\$	Group 2003 Restated US\$	Company 2004 US\$	Company 2003 Restated US\$
Fixed assets					
Intangible assets	10	8,719,525	8,509,048	-	-
Tangible assets	11	6,179,126	4,587,778	14,353	33,887
Investments	12	2,218,122	2,218,122	6,011,960	6,642,020
		17,116,773	15,314,948	6,026,313	6,675,907
Current assets					
Stocks		646,269	323,005	-	-
Deferred tax asset	8(a)	773,000	4,071,000	-	-
Debtors	13	2,740,896	1,027,741	655,496	410,327
Cash at bank and in hand		9,082,162	5,470,161	1,288,096	57,466
		13,242,327	10,891,907	1,943,592	467,793
Creditors: amounts falling due within one year	14	(5,585,081)	(3,931,326)	(818,114)	(164,026)
Net current assets		7,657,246	6,960,581	1,125,478	303,767
Total assets less current liabilities		24,774,019	22,275,529	7,151,791	6,979,674
Creditors: amounts falling due after more than one year	15	-	(2,748,751)	-	(1,000,000)
Provisions for liabilities and charges	16	(1,296,000)	(1,296,000)	-	-
Net assets		23,478,019	18,230,778	7,151,791	5,979,674
Capital and reserves					
Called-up share capital	17	4,111	3,431	4,111	3,431
Share premium	18	8,251,619	6,463,889	8,251,619	6,463,889
Profit and loss account		15,222,289	11,763,458	(1,103,939)	(487,646)
Equity shareholders' funds		23,478,019	18,230,778	7,151,791	5,979,674

The accounts were approved by the board of directors on 31 May 2005 and signed on its behalf by :

Yogeshwar Sharma

The notes on pages 11 to 27 form an integral part of these financial statements.

HARDY OIL & GAS LIMITED
Group Statement of Cash Flows
For the year ended 31 December 2004

	Notes	2004 US\$	2003 US\$
Net cash inflow from operating activities	19	6,723,755	5,290,146
Returns on investments and servicing of finance			
Income from other investments		108,502	87,505
Interest received		122,931	29,968
Interest paid		(348,478)	(587,856)
Net cash outflow from return on investments and servicing of finance		(117,045)	(470,383)
Taxation		(1,706)	(27,963)
Capital expenditure and financial investment			
Expenditure on exploration assets		(1,401,134)	(546,283)
Expenditure on development/producing assets		(2,930,605)	(54,391)
Purchase of other fixed assets		(55,787)	(9,609)
Proceeds from disposal of interests in development assets		280,000	-
Proceeds from disposal of subsidiary undertakings		767,597	-
Net cash outflow from capital expenditure and financial investment		(3,339,929)	(610,283)
Net cash inflow before financing		3,265,075	4,181,517
Financing			
Issue of shares		1,788,410	-
Repayment of bank loan		(441,484)	(341,285)
Repayment of unsecured loan		(1,000,000)	(500,000)
		346,926	(841,285)
Increase in cash for the year		3,612,001	3,340,232

HARDY OIL AND GAS LIMITED
Notes to the Accounts
For the year ended 31 December 2004

1. Accounting Policies

The following accounting policies have been applied in preparation of consolidated financial statement of Hardy Oil & Gas Limited.

a) Accounting convention

The accounts are prepared under the historical cost convention.

b) Accounting standards

Hardy prepares its accounts in accordance with the accounting standards of United Kingdom and in accordance with the Statement of Recommended Practice ("SORP") issued by the Oil Industry Accounting Committee, United Kingdom; Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities.

c) Basis of Consolidation

The consolidated accounts include the results of Hardy Oil & Gas Ltd., and its subsidiary undertakings. The consolidated profit and loss account and cashflow statement include the results and cashflows of subsidiary undertakings up to the date of disposal. No separate company profit and loss account is presented.

The group conducts the majority of its exploration, development and production through unincorporated joint arrangements with other companies. The accounts reflect the group's share of production and costs attributable to its participating interests under the proportional consolidation method.

d) Turnover

Turnover represents the sale value of the group's share of oil sold in the year, tariff, and the income from technical services to third parties if any.

e) Fixed assets

Hardy follows the full cost method of accounting for oil and gas assets. Under this method, all expenditure incurred in connection with and directly attributable to the acquisition, exploration, appraisal and development of oil and gas assets, interest payable and exchange differences incurred on borrowings directly attributable to development projects if any is capitalized in two geographical cost pools: India and Nigeria.

Exploration assets comprise the pre-license, license acquisition, exploration and appraisal costs relating either to unevaluated properties or properties awaiting further evaluation. When a decision to develop these properties has been taken or there is evidence of impairment, the costs are transferred as development cost to the cost pools within 'Development/producing assets' when the commercial reserves attributable to the underlying asset have been established.

Further expenditure on fixed assets in the production phase is capitalized where future economic benefit is enhanced.

In case of any disposal of oil and gas assets, net proceeds from any such disposal are credited against the previously capitalized costs. In the case of disposal of subsidiary undertaking, net proceeds represent the net book value of the assets sold together with the gain or loss arising on disposal of that subsidiary.

f) Depletion, impairment and depreciation

Depletion

Hardy depletes expenditure on oil and gas production and development on a unit of production basis, based on proved and probable reserves.

Impairment

Exploration assets are reviewed regularly for indications of impairment if any, 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 are written off on a unit of production basis through the depletion charge. In cases, where no such development/producing cost pool exists, the impairment of exploration costs is charged to the profit and loss account. Impairment reviews on development / producing oil and gas assets are carried out for each cost pool on each year by comparing the net book value of the pool with the associated discounted future cash flows. If the net book value is higher, then the difference is written off to the profit and loss account as impairment.

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

Depreciation

Fixed assets, other than oil and gas assets, are 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
IT and Computers	33%	straight line
Other Equipments	20%	straight line

g) Decommissioning

At the end of the producing life of a field, costs are to be incurred in removing, decommissioning facilities, plugging and abandoning the wells. Decommissioning costs are estimated and stated at an amount representing the costs, which would be incurred should decommissioning occur at the balance sheet date and the estimates are reassessed on each year. The decommissioning asset is included within fixed assets with the cost of the related assets installed and are adjusted for any revision to the decommissioning costs and the provision therefor. The amortization of the asset, calculated on a unit of production basis based on proved and probable reserves, is shown as "Decommissioning charge" in the profit and loss account.

h) Foreign currencies

Hardy maintains the accounts of the company and all subsidiary undertakings in US dollars. Foreign currency transactions are accounted for at the exchange rate ruling on the date of the transaction. At the year end all foreign currency assets are restated at the average of the buying and the selling exchange rates prevailing at the balance sheet date. Exchange difference arising out of actual payments / realizations and from the year end restatement referred to above are dealt with in the profit and loss account.

Rate of exchange were as follows:

	31 December 2004	31 December 2003
£ to US \$	1.9485	1.7157
US \$ to Indian Rupees	43.6800	45.5600

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

i) Deferred taxation

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax.

Deferred tax assets are recognized only the extent that the directors consider that it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

j) Leasing commitments

Rental charges or charter hire charges payable under operating leases are charged to the profit & loss account as part of production expenses over the lease term.

k) Disclosures

Although incorporated in the Isle of Man, the accounts are prepared in order to meet the disclosure requirements under the Companies Act 1985 of the United Kingdom, wherever applicable. Certain comparative amounts have been reanalysed in the 2004 accounts to facilitate these disclosure requirements. Additionally, in the 2003 accounts, the company provided US\$ 269,072 against the impending disposal of one of its subsidiary companies. The company has amended the 2003 comparatives as the proceeds from the disposal of subsidiary in 2004 have been credited to capitalized development expenditure as required by the full cost method of accounting and, consequently, no profit or loss on disposal is reflected in the profit and loss account. There is a corresponding increase to exploration costs in 2003 of US\$ 269,072. The previous year figures were restated and regrouped wherever necessary. Additionally, the deferred tax asset of \$4,713,000 was introduced in the 2003 accounts originally as a reserve movement. The 2003 profit and loss account has been restated to include this amount as a deferred tax credit to the profit and loss account in that year. The effect of both these adjustments on the comparative amounts is to increase the profit for the financial year to US\$ 6,122,283 compared to US\$ 1,140,211 as originally reported.

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

2 Turnover

	2004 US\$		2003 US\$	
	India	London	India	London
Continuing Operations				
- Oil sales	13,447,529	-	9,396,985	-
- Profit oil to Govt.	(790,518)	-	(659,398)	-
- Other income	17,955	1,044,684	5,685	187,118
	12,674,966	1,044,684	8,743,272	187,118

Other income relates to technical services to third parties, overhead recovery from joint venture operations and miscellaneous receipts if any.

3 Operating Profit

Operating profit is stated after charging:

	2004 US\$	2003 US\$
Depreciation	65,697	79,083
Depletion	1,464,637	875,659
Decommissioning	7,770	19,646
Operating lease costs - plant & machinery	1,733,202	1,892,600
- land & buildings	193,741	206,987
Auditors' remuneration - company	22,786	19,199
- subsidiaries	20,469	21,828

The Group has a policy in place for the award of non-auditor work to the auditors, which in certain circumstances, requires approval. The auditors' received no remuneration for non-audit services in the year.

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

4 Staff Costs

	2004 US\$	2003 US\$
Wages and salaries	1,563,188	1,445,454
Social security costs	60,757	44,605
Other pension costs	12,099	15,963
	<hr/> 1,636,044	<hr/> 1,506,022

Staff costs are shown gross before amounts recharged to joint ventures

The weighted average monthly number of employees, including directors and individuals employed by the group working on joint venture operations are as follows:

	2004	2003
Management and administration	17	18
Operations	23	23
	<hr/> 40	<hr/> 41

5 Director's Emoluments

Details of remunerations are set out in as follows:

	2004 US\$	2003 US\$
Director's Emoluments	485,376	452,044
Highest Paid	272,927	277,847
	No.	No.
Directors exercising share options in the year	2	-

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

6 Interest Receivable and Similar Income

	2004 US\$	2003 US\$
Bank interest	59,279	29,968
Other interest	63,652	-
	122,931	29,968

7 Interest Payable and Similar Charges

	2004 US\$	2003 US\$
Bank loan and overdraft interest	254,224	488,262
Other finance charges	21,150	132,938
	275,374	621,200

8 Taxation

a) Analysis of taxation charge in year

	2004 US\$	2003 US\$
Current tax charge		
UK Corporation Tax	-	-
Foreign Tax		
India		
Minimum Alternate Tax on profits for the year	179,000	-
Dividend Tax	1,706	27,963
	180,706	27,963
Foreign tax		
USA		
Alternate Minimum Tax on profits for the year	95,000	-
	95,000	-
Total current tax charge	275,706	27,963
Total deferred tax charge	3,298,000	(4,071,000)
Tax on profit on ordinary activities	3,573,706	(4,043,037)

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

	2004 US\$	2003 US\$
Deferred tax charge:		
Deferred Tax Asset at the beginning of the year	4,071,000	-
Reversal of timing differences charged	(3,298,000)	4,071,000
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Deferred Tax Asset	773,000	4,071,000
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Deferred tax charges	3,298,000	(4,071,000)
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Deferred tax analysis - Group only

	2004 US\$	2003 US\$
Differences between accumulated depletion and depreciation and capital allowances	(2,492,000)	(1,477,000)
Other timing differences	546,000	532,000
Tax losses	2,719,000	5,016,000
<hr/>		
Deferred Tax Asset	773,000	4,071,000
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b) Factors affecting tax charge for year

	2004 US\$	2003 US\$
Profit on ordinary activities before tax	7,032,537	2,079,246
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Profit on ordinary activities before tax multiplied by the rate of tax in UK of 30%	2,109,761	623,774
Capital allowances in excess of depreciation and Utilisation of tax losses	(2,109,761)	(623,774)
Effects of non taxable income	-	-
Foreign tax on overseas income	275,706	27,963
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Total current tax charge	275,706	27,963
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HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

9. Intangible assets

Oil and Gas Exploration Assets

Group	India US\$	Nigeria US\$	Total US\$
Costs and net book value			
At 1 January 2004	8,509,048	–	8,509,048
Additions	1,186,294	214,840	1,401,134
Transfer to Tangibles	(1,190,657)	-	(1,190,657)
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At 31 December 2004	8,504,685	214,840	8,719,525
<hr/>			
At 31 December 2003	8,497,976	-	8,497,976
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The exploration expenditure of Heramec Limited a wholly owned subsidiary was disposed during the financial year and the entire intangible assets- exploration expenditure of Heramec Limited was transferred to tangibles assets.

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

10. Tangible Assets

Oil and gas assets represent interest in producing oil and gas assets falling under the Indian cost pool. There are no oil and gas assets currently in the Nigerian cost pool. Other tangible assets consisting of office furniture, computers, workstations and office equipment.

Oil and Gas Development / Producing Assets

Group	Oil and gas assets US\$	Other assets US\$	Total US\$
Cost			
At 1 January 2004	21,296,142	2,615,932	23,912,074
Additions	2,930,605	55,787	2,986,392
Transfer from intangibles	1,190,657	-	1,190,657
Disposals	(1,047,597)	(141,580)	(1,189,177)
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At 31 December 2004	24,369,807	2,530,139	26,899,946
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Depletion, depreciation and amortisation			
At 1 January 2004	16,788,735	2,535,561	19,324,296
Charge for the year	1,472,407	65,697	1,538,104
Disposals	-	(141,580)	(141,580)
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At 31 December 2004	18,261,142	2,459,678	20,720,820
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Net book value at 31 December 2004	6,108,665	70,461	6,179,126
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Net book value at 31 December 2003	4,507,407	80,371	4,587,778

Proceeds from the disposal of the Sangapur interest were deducted from development assets and there by the resulting loss on sale of Sangapur US\$ 282,682 was capitalized. Likewise, the disposal of Heramec Limited was credited to the tangible assets and the resulting loss of US\$ 423,060 was capitalized.

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

Company

	Other assets US\$
Cost	
At 1 January 2004	159,552
Additions	8,953
Disposals	-
At 31 December 2004	168,505
Depreciation	
At 1 January 2004	125,665
Charge for the year	28,487
Disposals	-
At 31 December 2004	154,152
Net book value at 31 December 2004	14,353
Net book value at 31 December 2003	33,887

11. Investments

Summary of investments

	Group 2004 US\$	Group 2003 US\$	Company 2004 US\$	Company 2003 US\$
Subsidiary companies	-	-	3,793,838	4,423,898
Other investments	2,218,122	2,218,122	2,218,122	2,218,122
	2,218,122	2,218,122	6,011,960	6,642,020

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

12. Subsidiary companies

- a. Hardy Exploration & Production (India) Inc, a wholly owned subsidiary incorporated under the Laws of State of Delaware, United States of America
- b. Heramec Limited, a wholly owned subsidiary registered under the Laws of Bahamas, which was disposed during the current year.
- c. Hardy Oil (Africa) Limited, a wholly owned subsidiary registered under the laws of Isle of Man.

The above subsidiaries are included in the Group consolidation.

13. Debtors

	Group 2004 US\$	Group 2003 US\$	Company 2004 US\$	Company 2003 US\$
Trade debtors	1,514,155	536,737	-	-
Owed by subsidiary undertakings	-	-	-	250,000
Other debtors	1,181,162	472,143	637,526	147,880
Prepayments and accrued Income	45,579	18,861	17,970	12,447
	<hr/> 2,740,896	1,027,741	655,496	410,327 <hr/>

Transactions with directors:

Included within other debtors are the following amounts due from directors:

	Group 2004 US\$	Group 2003 US\$	Company 2004 US\$	Company 2003 US\$
Sastry Karra	375,000	-	375,000	-
Yogeshwar Sharma	150,000	-	150,000	-
	<hr/> 525,000	-	525,000	- <hr/>

The balance due at the year end represented the maximum amount outstanding during the year and arose on the exercise of share options.

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

14. Creditors - amounts falling due within one year

	Group 2004 US\$	Group 2003 US\$	Company 2004 US\$	Company 2003 US\$
Secured bank loan	1,805,001	441,484	-	-
Trade creditors	1,230,994	1,204,401	4,172	24,836
Other creditors	724,835	952,512	-	-
Due to subsidiaries	-	-	781,745	70,939
Taxation	274,000	-	-	-
Accruals	1,550,251	1,332,929	32,197	68,251
	<hr/> 5,585,081	<hr/> 3,931,326	<hr/> 818,114	<hr/> 64,026

The bank loan is secured against the cashflow from the PY-3 oil field located in south east India.

15. Creditors - amounts failing due after more than one year

	Group 2004 US\$	Group 2003 US\$	Company 2004 US\$	Company 2003 US\$
Secured Bank Loan	-	1,748,751	-	-
Unsecured Term Loan	-	1,000,000	-	1,000,000
	<hr/> -	<hr/> 2,748,751	<hr/> -	<hr/> 1,000,000

16. Provisions

Provisions for liabilities and charges

	Group US\$	Company US\$
Decommissioning		
At 1 January 2004	1,296,000	-
Exchange difference arising	-	-
Change in decommissioning estimate	-	-
At 31 December 2004	<hr/> 1,296,000	<hr/> -

The provision has been made by estimating the decommissioning cost at the current prices with the existing technology. Decommissioning costs are expected to be incurred between 2012 to 2013.

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

17. Share Capital

	Number \$0.01 Ordinary Shares "000"
Authorised ordinary shares At 1 January and 31 December 2004	2,000
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	\$0.01 Ordinary Shares
Allotted, issued and fully paid ordinary shares	
At 1 January 2004	343,114
Issued in year	67,982
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At 31 December 2004	411,096
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Share options

Share options had been granted to subscribe for ordinary shares, which are exercisable between 2005 to 2012 at prices between US\$12 to US\$35. At 31 December 2004, there were 54,000 options are outstanding which have all been exercised subsequent to the year end. During the year, 67,982 options were exercised at prices varying from US\$ 12 to 35 for a total of US\$ 788,400.

HARDY OIL AND GAS LIMITED
Notes to the Accounts continued
For the year ended 31 December 2004

18. Reserves

a) Group	Share Premium US\$	Profit & Loss A/c US\$
At beginning of year as previously stated	6,463,889	11,494,386
Prior Year adjustment	-	269,072
At beginning of year as restated	6,463,889	11,763,458
Issue of Shares	1,787,730	-
Retained Profit for the year	-	3,458,831
At 31 December 2004	8,251,619	15,222,289
b) Company	Share Premium US\$	Profit & Loss A/c US\$
At beginning of year as previously stated	6,463,889	(756,718)
Prior Year adjustment	-	269,072
At 1 January 2004 as restated	6,463,889	(487,646)
Issue of Shares	1,787,730	-
Retained Loss for the period	-	(616,293)
At 31 December 2004	8,251,619	(1,103,939)

19. Reconciliation of operating profit to operating cash flows

	2004 US\$	2003 US\$
Operating Profit	7,076,478	2,582,973
Depletion and depreciation	1,530,334	954,742
Decommissioning charge	7,770	19,646
(Increase)/ decrease in debtors	(1,713,155)	1,459,745
Increase / (decrease) in creditors	145,592	(134,880)
(Increase)/ decrease in stocks	(323,264)	407,920
Net cash inflow from operating activities	6,723,755	5,290,146

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20. Net Funds / (Debt)

a) Analysis of net funds / (debt)

	At 1, January 2004 US\$	Cashflows US\$	Non cashflows US\$	At 31 December 2004 US\$
Cash at bank	5,470,161	3,612,001	-	9,082,162
Debts due within one year	(441,484)	441,484	(1,805,001)	(1,805,001)
Loans due more than one year	(2,748,751)	1,000,000	1,861,251	-
	2,279,926	5,053,485	(56,250)	7,277,161

b) Reconciliation of net cash flow to movement in net funds

	2004 US\$	2003 US\$
(Decrease) / increase in cash in the year	3,612,001	3,340,282
Cash inflow from drawdown of debt financing	1,441,484	3,841,285
Change in net funds resulting from non-cashflows	(56,250)	(56,250)
Net Funds as at 1 st January 2004	2,279,926	(4,845,341)
Net funds at 31 December 2004	7,277,161	2,279,926

21. Financial Instruments

The credit facility balance of US\$ 1,805,001 shown in note 14 represents US dollar borrowings. Borrowing under the credit facility are at floating interest rates of quarterly US LIBOR rates plus 2%. The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals as at 31st December 2004 was as follows:

In one year or less	US\$ 1,805,001
In more than one year but not more than two years	-
In more than two years but not more than five years	-
In more than five years	-

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22. Capital commitments

As 31 December 2004 the group had no outstanding capital commitments (2003 - US\$ Nil).

23. Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	Group 2004 US\$	Group 2003 US\$	Company 2004 US\$	Company 2003 US\$
Land and buildings, expiring within:				
One year	159,025	193,741	30,627	57,418
Two to five years	159,025	159,025	-	-
After five years	-	-	-	-
Other operating leases, expiring within:				
One year	1,767,330	923,345	-	-
Two to five years	1,767,330	-	-	-
After five years	-	-	-	-

Other operating lease commitments represent Hardy's share of operating lease for floating production system entered into by unincorporated joint venture for its participating interest.

At 31 December 2004 the Company has provided performance guarantees amounting to \$2,138,430. Cash collateral has been provided of \$817,000. This amount is included within cash at bank but is not available for the company's working capital requirements.

24. Contingent Liabilities

Members of CY-OS-90/1 unincorporated joint venture partners are currently in dispute with Frontier Aban Drilling (India) Limited for US\$ 3.74 million on account of charter hire charges of drillship hire for drilling a development well in CY-OS-90/1, which was damaged. Hardy's share of the above is US\$ 673,000 for its 18% Participating Interest in the block. Members of the Joint Venture have submitted a counter claim against Frontier. The matter is before the arbitration tribunal for adjudication.