

**COMPANY NO. 1020949**



**HARDY PETROLEUM LIMITED**

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**REPORT AND FINANCIAL STATEMENTS**

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**31ST DECEMBER 1997**

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## **HARDY PETROLEUM LIMITED**

### **DIRECTORS' REPORT**

The directors present their report and the audited financial statements for the year ended 31<sup>st</sup> December 1997. The comparative figures are for the nine month period to 31<sup>st</sup> December 1996.

#### **Principal activity and future development**

The principal activity of the Company is the exploration for and the production of oil and gas reserves. The Company operates a branch in Australia. The company will continue to develop its portfolio during the forthcoming year.

#### **Results**

The results for the year ended 31<sup>st</sup> December 1997 are set out in the profit and loss account on page 6 of the accounts. The Company's profit for the year after taxation amounts to £1,342,000 compared with a loss of £2,379,000 for the period to 31<sup>st</sup> December 1996. The directors recommend that no dividend should be declared (1996 - £Nil). Reserves have accordingly been increased by £1,342,000.

#### **Directors**

The following persons served as directors of the Company during the year:

J A Walmsley

Dr R J R Cairns - resigned 31<sup>st</sup> March 1997

C S Greenway

J A van der Welle

J M Woolf

S C Huddle

Dr P J Hill – appointed 20<sup>th</sup> April 1998

# HARDY PETROLEUM LIMITED

## DIRECTORS' REPORT

### Directors' share interests

Given below are details of the interests in the shares of Hardy Oil & Gas plc (the ultimate parent company) at 31<sup>st</sup> December 1997 of directors of the Company at that date. Details of their interests at 31<sup>st</sup> December 1996 (or at date of appointment) are shown in brackets. No director held shares in any other Group company.

	Hardy Oil & Gas plc ordinary shares of 50p each		
	Ordinary shares conditionally awarded	Ordinary shares options	Ordinary shares fully paid
J A Walmsley	171,280 (102,874)	403,869 (403,869)	77,691 (74,919)
S C Huddle	81,916 (49,200)	4,239 (-)	2,772 (-)
J A van der Welle	107,981 (64,855)	239,247 (235,008)	15,772 (10,000)
C S Greenway	71,371 (36,733)	- (-)	2,772 (-)
J M Woolf	87,501 (52,555)	192,326 (192,326)	2,772 (-)

Share options are those granted under the Hardy Oil & Gas plc 1989 Executive Share Option Scheme and the Hardy Oil & Gas plc Savings Related Share Option Scheme. Ordinary shares conditionally awarded are those granted under the Hardy Oil & Gas 1996 Restricted Share Scheme. The directors' interests in shares shown above include shares allocated under the Hardy Oil & Gas 1996 Profit Sharing Share Scheme. Details of these schemes are set out in the accounts of Hardy Oil & Gas plc.

## **HARDY PETROLEUM LIMITED DIRECTORS' REPORT**

### **Directors' material interests**

None of the directors had any interests either during, or at the end of, the financial year in any material contract or arrangement with the Company.

### **Payment of suppliers**

The company's policy is to agree payment terms with individual suppliers and to abide by such terms.

### **Auditors**

A resolution for the reappointment of Deloitte & Touche as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

*Approved by the Board of Directors  
and signed on behalf of the Board*

*Stephen Huddle*

**S C Huddle**  
**Company Secretary**

*10 Great George Street  
London  
SW1P 3AE*

*30<sup>th</sup> April 1998*

# **HARDY PETROLEUM LIMITED**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS**

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Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

# **HARDY PETROLEUM LIMITED**

## **REPORT OF THE AUDITORS**

### **To the Members of Hardy Petroleum Limited**

We have audited the financial statements on pages 6 to 16 which have been prepared under the accounting policies set out on pages 8 to 10.

### **Respective responsibilities of directors and auditors**

As described on page 4 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with 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 circumstances of the Company, 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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31<sup>st</sup> December 1997 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche.*

**Deloitte & Touche**

*Chartered Accountants and Registered Auditors  
Hill House, 1 Little New Street, London EC4A 3TR*

*30<sup>th</sup> April 1998*

# HARDY PETROLEUM LIMITED

## PROFIT AND LOSS ACCOUNT

		Year ended 31 <sup>st</sup> December 1997 £000	9 months ended 31 <sup>st</sup> December 1996 £000
<b>Turnover - Continuing operations</b>	3	7,444	4,172
Cost of sales		(4,356)	(3,660)
<b>Gross profit</b>		3,088	512
Administrative expenses		(636)	(470)
<b>Operating profit - Continuing operations</b>	3,4	2,452	42
Interest receivable and similar income	5	407	54
Interest payable and similar charges	6	(1,517)	(2,475)
<b>Profit/(loss) on ordinary activities before and after taxation transferred from reserves</b>	7,15	1,342	(2,379)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year ended 31 <sup>st</sup> December 1997 £000	9 months ended 31 <sup>st</sup> December 1996 £000
Profit/(loss) on ordinary activities after taxation	1,342	(2,379)
Currency translation differences on foreign currency net investments	257	(774)
<b>Total recognised profit/(loss) relating to the year</b>	1,599	(3,153)

# HARDY PETROLEUM LIMITED

## BALANCE SHEET

	Notes	At 31 <sup>st</sup> December 1997 £000	At 31 <sup>st</sup> December 1996 £000
<b>Fixed assets</b>			
Intangible assets	8	8,475	5,764
Tangible assets	9	<u>24,047</u>	<u>19,805</u>
		<u>32,522</u>	<u>25,569</u>
<b>Current assets</b>			
Stocks		489	399
Debtors	10	3,911	3,430
Investments	11	1,377	1,004
Cash at bank and in hand		<u>541</u>	<u>618</u>
		<u>6,318</u>	<u>5,451</u>
<b>Creditors:</b>			
Amounts falling due within one year	12	<u>(30,122)</u>	<u>(24,034)</u>
<b>Net current liabilities</b>		<u>(23,804)</u>	<u>(18,583)</u>
<b>Total assets less current liabilities</b>		8,718	6,986
<b>Creditors:</b> amounts falling due after more than one year	12	(2,331)	(2,331)
<b>Provisions for liabilities and charges</b>	13	<u>(1,212)</u>	<u>(1,079)</u>
<b>Net assets</b>		<u>5,175</u>	<u>3,576</u>
<b>Capital and reserves</b>			
Called up share capital	14	8,000	8,000
Profit and loss account	15	<u>(2,825)</u>	<u>(4,424)</u>
<b>Equity Shareholders' funds</b>		<u>5,175</u>	<u>3,576</u>

The accounts were approved by the Board of Directors at a meeting held on 30<sup>th</sup> April 1998.

Signed on behalf of the Board of Directors by:



John van der Welle



# **HARDY PETROLEUM LIMITED**

## **NOTES TO THE ACCOUNTS**

### **1. Ultimate parent company**

The Company is a wholly owned subsidiary of Hardy Oil & Gas plc, its ultimate controlling party, which is incorporated in Great Britain and registered in England and Wales. A copy of the financial statements of Hardy Oil & Gas plc can be obtained from 10 Great George Street, London SW1P 3AE.

### **2. Accounting policies**

The accounts have been prepared in accordance with applicable accounting standards. The accounting policies adopted are described below:-

#### **A) *Accounting convention***

The accounts are prepared under the historical cost convention.

#### **B) *Turnover***

Turnover represents the sales value of the Company's share of production during the year, on an entitlement basis. Turnover under gas sales contracts are accounted for in accordance with the specific terms and requirements of each contract.

#### **C) *Royalties***

Royalties are charged to the profit and loss account in the period in respect of which they arise.

#### **D) *Foreign currencies***

Transactions in foreign currencies are translated into sterling at rates prevailing at the date of each transaction. Monetary assets and liabilities in foreign currencies are retranslated at the rates of exchange prevailing at the balance sheet date. Assets and liabilities of the overseas branch are translated into sterling at the rates of exchange ruling at the balance sheet date.

Exchange gains or losses resulting from the translation to year end rates of the opening net assets of the overseas branch and any related loans are treated as movements in reserves. The trading results of the overseas branch are translated into sterling at the year end rate of exchange. All other exchange differences are dealt with through the profit and loss account.

## HARDY PETROLEUM LIMITED

### NOTES TO THE ACCOUNTS

E) *Deferred tax*

Deferred corporation tax is provided at the anticipated rate on accelerated capital allowances and other timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

F) *Operating leases*

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the period of the lease.

G) *Intangible fixed assets*

Intangible fixed assets comprise the pre-licence, licence 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 tangible fixed assets and depreciated in accordance with accounting policy H.

H) *Tangible fixed assets*

- (a) Field development expenditure - The group follows the full cost method of accounting for oil and gas properties under which all field development costs are capitalised in appropriate geographical cost pools as tangible fixed assets. Such costs comprise expenditure on the acquisition and installation of production facilities, development drilling costs, applicable exploration and appraisal costs and an appropriate portion of overheads and relevant financing costs. Proceeds from the disposal of interests are deducted from the relevant geographical cost pool.
- (b) Depreciation - All capitalised costs within the cost pools together with estimated future development costs are depreciated using the unit of production method based on proven and probable reserves. The cost of other fixed assets, less any estimated residual value, are depreciated on a straight line basis over their useful economic lives.
- (c) Ceiling tests - An estimate of the future net revenues arising from oil and gas properties is made at each balance sheet date and compared with the net capitalised tangible costs for each pool. Provision is made to the extent that any permanent impairment in value has arisen.
- (d) Redeterminations - In the event of the Company's equity interest in a field changing as a result of a redetermination of a unitised field (being a field straddling more than one licence area), additional capital expenditure payable or disposal proceeds receivable are treated as increases or reductions in tangible fixed asset costs.

## **HARDY PETROLEUM LIMITED**

### **NOTES TO THE ACCOUNTS**

**I) *Stocks***

Stocks of drilling and other equipment are stated at the lower of cost and net realisable value.

**J) *Provision for site restoration costs***

Provision is made for site restoration costs calculated on a unit of production basis, representing the Company's share of the estimated liability at current prices for costs which may be incurred in the removal and abandonment of facilities at the end of the producing life of each property.

**K) *Cash flow statement***

A cash flow statement is not presented as the Company is an indirectly wholly owned subsidiary of Hardy Oil & Gas plc which prepares a consolidated cash flow statement.

# HARDY PETROLEUM LIMITED

## NOTES TO THE ACCOUNTS

### 3. Segmental Information

The company's activities constitute one class of business - the exploration for and production of oil and gas reserves.

Analysis of results of continuing operations.

	United Kingdom		Australia		Total	
	Year ended 31 <sup>st</sup> Dec	9 months ended 31 <sup>st</sup> Dec	Year ended 31 <sup>st</sup> Dec	9 months ended 31 <sup>st</sup> Dec	Year ended 31 <sup>st</sup> Dec	9 months ended 31 <sup>st</sup> Dec
	1997	1996	1997	1996	1997	1996
	£000	£000	£000	£000	£000	£000
Turnover	-	-	7,444	4,172	7,444	4,172
Cost of sales						
Production costs	-	-	(1,906)	(1,563)	(1,906)	(1,563)
Depreciation of development costs	-	-	(2,360)	(1,963)	(2,360)	(1,963)
Site restoration costs	-	-	(90)	(134)	(90)	(134)
	-	-	(4,356)	(3,660)	(4,356)	(3,660)
Administrative expenses	(90)	(18)	(546)	(452)	(636)	(470)
Operating (loss)/profit	(90)	(18)	2,542	60	2,452	42

### 4. Operating profit

	Year ended 31 <sup>st</sup> December 1997 £000	9 months ended 31 <sup>st</sup> December 1996 £000
Operating profit has been arrived at after taking into account:		
Auditors' remuneration - audit services	15	16
Depreciation of other fixed assets	166	70
Operating lease charges	63	32
Staff Costs:		
Wages and salaries	999	747
Other pension costs	133	80
	1,132	827

# HARDY PETROLEUM LIMITED

## NOTES TO THE ACCOUNTS

	Number	Number
The average monthly number of employees, during the year was:	<u>19</u>	<u>14</u>

In respect of the year ended 31<sup>st</sup> December 1997 and the period ended 31<sup>st</sup> December 1996 no remuneration was paid by the Company to any of the directors.

5. Interest receivable and similar income	Year ended 31 <sup>st</sup> December 1997 £000	9 months ended 31 <sup>st</sup> December 1996 £000
Bank interest receivable	59	54
Exchange gains	<u>348</u>	<u>-</u>
	<u>407</u>	<u>54</u>

6. Interest payable and similar charges	Year ended 31 <sup>st</sup> December 1997 £000	9 months ended 31 <sup>st</sup> December 1996 £000
Bank loans and overdrafts	-	80
Other loans	1,517	995
Exchange losses	<u>-</u>	<u>1,400</u>
	<u>1,517</u>	<u>2,475</u>

### 7. Taxation

No provision for current corporation tax is required primarily due to the availability of losses for tax purposes. No provision for deferred corporation tax has been provided on the basis that none of the potential deferred tax disclosed in Note 13 will crystallise in the foreseeable future.

8. Intangible fixed assets - Exploration and appraisal expenditure	£000
At 31 <sup>st</sup> December 1996	5,764
Exchange rate adjustments	231
Additions	6,143
Transfer to tangible fixed assets	<u>(3,663)</u>
At 31 <sup>st</sup> December 1997	<u>8,475</u>

# HARDY PETROLEUM LIMITED

## NOTES TO THE ACCOUNTS

9. Tangible fixed assets	Development costs	Other fixed assets	Total
Cost	£000	£000	£000
At 31 <sup>st</sup> December 1996	36,042	577	36,619
Exchange rate adjustments	1,341	22	1,363
Additions	1,749	565	2,314
Disposals	-	(29)	(29)
Transfer from intangible fixed assets	3,663	-	3,663
At 31 <sup>st</sup> December 1997	<u>42,795</u>	<u>1,135</u>	<u>43,930</u>
<b>Depreciation</b>			
At 31 <sup>st</sup> December 1996	16,508	306	16,814
Exchange rate adjustments	560	12	572
Charge for year	2,360	166	2,526
Disposals	-	(29)	(29)
At 31 <sup>st</sup> December 1997	<u>19,428</u>	<u>455</u>	<u>19,883</u>
<b>Net book value</b>			
At 31 <sup>st</sup> December 1997	<u>23,367</u>	<u>680</u>	<u>24,047</u>
At 31 <sup>st</sup> December 1996	<u>19,534</u>	<u>271</u>	<u>19,805</u>

Included in development costs is accumulated interest capitalised of £150,000 (31<sup>st</sup> December 1996: £144,000).

### Ceiling test

Estimates of the future net revenues arising from oil and gas properties were calculated at 31<sup>st</sup> December 1997 based on the oil and gas prices, cost levels and exchange rates ruling on that date. At 31<sup>st</sup> December 1997 the results of the ceiling test showed that there was a surplus of future net revenues over the book value of tangible fixed assets.

# HARDY PETROLEUM LIMITED

## NOTES TO THE ACCOUNTS

10. Debtors	At 31 <sup>st</sup> December 1997 £000	At 31 <sup>st</sup> December 1996 £000
Trade debtors	1,480	889
Prepayments and accrued income	82	142
Amounts owed by parent company and fellow subsidiary undertakings	2,349	2,399
	3,911	3,430

### 11. Current asset investments

Current asset investments comprise time deposits with an original maturity of less than 12 months.

12. Creditors	At 31 <sup>st</sup> December 1997		At 31 <sup>st</sup> December 1996	
	Due within one year £000	Due after more than one year £000	Due within one year £000	Due after more than one year £000
a) Trade creditors	2,559	-	742	-
Amounts owed to ultimate parent company and fellow subsidiary undertakings	27,280	-	23,292	-
Accruals and deferred income	283	-	-	-
	30,122	-	24,034	-
b) Unsecured debentures: Amounts owed to parent company				
12% debentures 2017	-	1,821	-	1,821
Interest payable	-	510	-	510
	-	2,331	-	2,331
<b>TOTALS</b>	30,122	2,331	24,034	2,331

### c) Unsecured debentures

The parties have agreed that interest due on the debentures since 1st April 1983 shall be waived. Furthermore it has been agreed that payment of the interest accrued to 31st March 1983, shown above, will be deferred.

# HARDY PETROLEUM LIMITED

## NOTES TO THE ACCOUNTS

13.	<b>Provision for liabilities and charges</b>	<b>£000</b>
	<b>Provision for site restoration costs</b>	
	At 31 <sup>st</sup> December 1996	1,079
	Exchange adjustment	43
	Charge for year	<u>90</u>
	<b>At 31<sup>st</sup> December 1997</b>	<u><u>1,212</u></u>

The provision represents the liability in respect of future abandonment costs in accordance with note 2(J) on page 10 to the accounts.

### Deferred corporation tax

At 31<sup>st</sup> December 1997 and 31<sup>st</sup> December 1996 no provision for deferred corporation tax is required.

The potential amount of deferred corporation tax calculated on the liability method at 31% (1996 - 33%) is:

	At 31 <sup>st</sup> December 1997	At 31 <sup>st</sup> December 1996
	£000	£000
Capital allowances in excess of depreciation	5,234	4,677
Site restoration	(376)	(356)
Losses	<u>(2,533)</u>	<u>(2,557)</u>
	<u><u>2,325</u></u>	<u><u>1,764</u></u>

14.	<b>Called up share capital</b>			
	<b>Authorised No of shares</b>	<b>£000</b>	<b>Allotted and fully paid No of shares</b>	<b>£000</b>
	Ordinary shares of £1 each:			
	As at 31 <sup>st</sup> December 1997	8,000,100	8,000	8,000,100
	and 31 <sup>st</sup> December 1996	<u>8,000,100</u>	<u>8,000</u>	<u>8,000,100</u>
15.	<b>Profit and loss account</b>			<b>£000</b>
	At 31 <sup>st</sup> December 1996			(4,424)
	Exchange rate adjustment			257
	Profit for the year			<u>1,342</u>
	<b>At 31<sup>st</sup> December 1997</b>			<u><u>(2,825)</u></u>



# HARDY PETROLEUM LIMITED

## NOTES TO THE ACCOUNTS

16. Reconciliation of movements in shareholders' Funds	Year ended 31 <sup>st</sup> December 1997 £000	9 months ended 31 <sup>st</sup> December 1996 £000
Profit/(loss) on ordinary activities after taxation	1,342	(2,379)
Other recognised gains/(losses)	257	(774)
	<hr/> 1,599	<hr/> (3,153)
Opening shareholders' funds	3,576	6,729
Closing shareholders' funds	<hr/> <hr/> 5,175	<hr/> <hr/> 3,576

17. Capital commitments	At 31 <sup>st</sup> December 1997 £000	At 31 <sup>st</sup> December 1996 £000
Authorised and contracted	<hr/> 1,348	<hr/> 1,159

In addition the Company is committed to participate in the drilling of two offshore wells. Expenditure on these wells is not included above.

### 18. Operating lease commitments

The Company was committed to making the following payments in the next year in respect of operating leases:

	At 31 <sup>st</sup> December 1997 Land and Buildings £000	At 31 <sup>st</sup> December 1996 Land and Buildings £000
Leases which expire:		
Within one year	8	-
Within two to five years	<hr/> 55	<hr/> 78

## **HARDY PETROLEUM LIMITED**

### **NOTES TO THE ACCOUNTS**

#### **19. Guarantees**

The Company, together with Hardy Oil & Gas plc and its other subsidiaries, cross guarantees the total obligations under the Group's revolving credit facility. As at 31<sup>st</sup> December 1997 the amount drawn down under this facility for the Group was £Nil million (At 31<sup>st</sup> December 1996: £9.0 million).

In addition, the Company, also together with Hardy Oil & Gas plc and its subsidiaries, cross guarantees the total obligations under the Group's US\$136 million unsecured seven and ten year fixed interest loan notes issued by Hardy Oil & Gas plc.

#### **20. Related party transactions**

The Company has taken advantage of the exemption provisions in FRS 8 "Related Party Disclosures" applying to subsidiary undertakings and not disclosed transactions with other group companies or investee related parties.

#### **21. Post balance sheet event**

Under an agreement dated 9th December 1997, the company acquired a 10 percent interest in the East Spar gas condensate field in the Carnarvon basin offshore north-west Australia with an economic effective date of 1st November 1997. The acquisition was completed on 29th January 1998 which is the effective date of acquisition for accounting purposes. The consideration was US\$ 62.5 million before adjustment for working capital.