Hardy Oil and Gas plc
Annual Report
and Accounts
Year Ended
31 December 2011

Exploration and production

Hardy Oil and Gas plc

Hardy Oil and Gas plc is an upstream international oil and gas company whose operating assets are in India. Its portfolio includes a blend of exploration, appraisal and production assets.

Hardy's goal is to evaluate and exploit its asset base with a view to creating significant value for its shareholders.

Overview
Operational and Financial Highlights

"Our **D3 exploration licence** in the Krishna Godavari Basin remains the core to our **organic growth** potential. Through 2012 we will continue to **collaborate** actively with our partners Reliance and BP to optimise the exploration programme for this **highly prospective** block.

Following the appointment of Ian MacKenzie, as Chief Executive Officer, we have initiated a comprehensive review of our **long-term strategic goals** and objectives in order to **realise value** for shareholders. We look forward to reporting the results of the review in due course."

Corporate

- In January 2012 the Company announced the appointment of Alasdair Locke as Non-Executive Chairman.
- On 1 March 2012 the Company announced the appointment of Ian MacKenzie as Chief Executive Officer (designate) and Peter Milne as a Non-Executive Director. Yogeshwar Sharma, the current Chief Executive, will become a Non-Executive Director at the Company's next Annual General Meeting in May 2012.
- A comprehensive review, to be led by Ian MacKenzie, will now be undertaken of the Group's strategy, assets and objectives with recommendations to be presented to shareholders by the time of the half-year results in September 2012.

2011 Operational Summary

- D3 – a proposal for the declaration of commerciality for the Dhirubhai 39, 41 and 52 natural gas discoveries was submitted.
- GS-01 – a proposal for the declaration of commerciality of the Dhirubhai 33 natural gas discovery was adopted by the Management Committee.
- PY-3 – the PY-3 field has been shut-in from 30 July 2011.
- D9 – in June 2011 the Company announced the first natural gas discovery in the D9 block, with the KG-D9-A2 exploration well (Dhirubhai 54). Three gas bearing sand reservoirs with a gross thickness of approximately 22 m were encountered and evaluated by wireline MDT.
- Assam – upon review, the joint venture elected to relinquish the block.

2011 Financial Summary

- The Company adopted the successful efforts based accounting policy resulting in a restating of the Company's 2010 accounts for exploration expenditures.
- Loss before taxation from continuing operations of $4.6 million (2010: profit $0.1 million).
- Cash used from continuing operations before movements in working capital of $0.9 million* (2010: cash flow $4.0 million*).
- Cash and short-term investments at 31 December 2011 of $36.5 million (2010: $36.5 million) and no debt*.

All financial amounts in US dollars unless otherwise stated.

* Before changes in non cash working capital, tax paid, interest and investment income and finance costs

Overview
Upstream Investment Opportunities

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

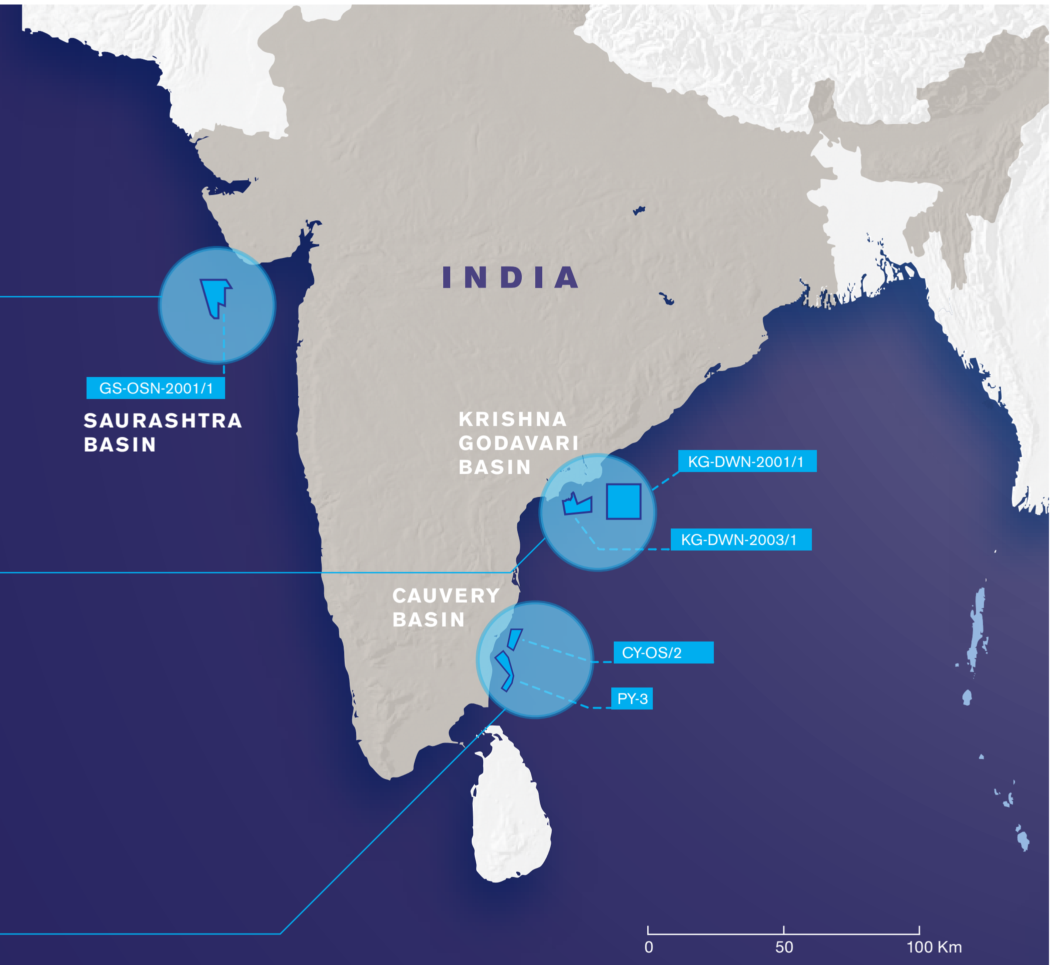
Transparent political environment
With a population of over 1 billion, India represents the world's largest democracy. This political framework provides a good level of transparency and a robust platform for political discussion.

Stable legal framework
The India legal system is based on common law providing a good platform to protect contractual rights and enforcement of obligations.

Domestic upstream technical expertise
As a result of the success of ONGC (majority owned by GOI), there is a strong community of upstream technical, operating and commercial professionals based in India.

Attractive fiscal platform
Production sharing contracts provide for fiscal stability; full cost recovery of investment; seven year tax holiday on mineral oil; and free market pricing provisions in PSCs.

India's sedimentary basins are under explored and significant accumulations of hydrocarbons remain to be found.



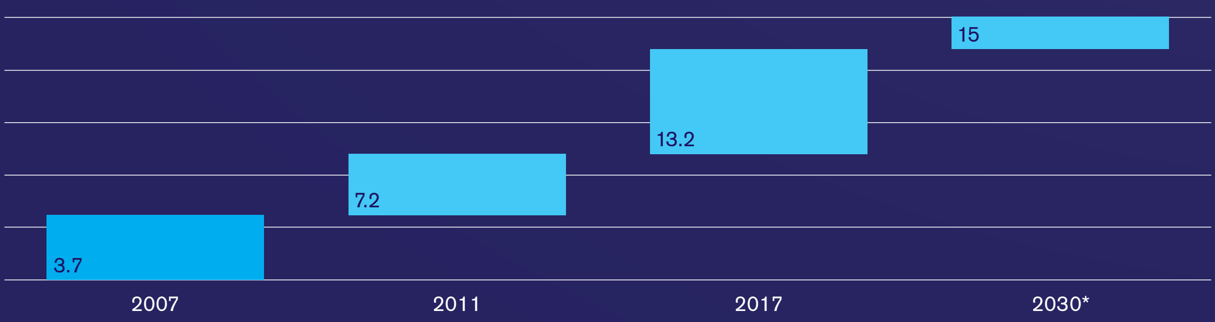
Gujarat-Saurashtra Basin
Located in the relatively shallow waters off the west coast of India the Gujarat-Saurashtra Basin has many significant producing oil and gas fields. The Company's licence is held via the Dhirubhai 31 gas discovery. A Declaration of Commerciality proposal has been submitted to the GOI for their review and adoption.

Krishna Godavari Basin
Located on the east coast of India, the KG basin is regarded as the most prolific gas basin in India. It is a proven oil and gas province with the world class D6 gas development and a number of significant producing oil fields (Ravva, MA). The Company has an interest in two blocks (D3 and D9) within the KG Basin. To date the Company has drilled six wells in the basin resulting in four consecutive natural gas discoveries on the D3 block.

Cauvery Basin
The Cauvery Basin is located in the south east of India. The basin is a proven oil and gas province. Hardy has interests in two licences (PY-3 and CY-OS/2) within this basin. PY-3 field commenced production in 1997 and has produced over 24 mmbbl. The Company believes that it can recover a further 21 mmbbls with the drilling of additional wells.

Natural gas demand growth bcfd

Natural gas demand growth is protected to average five per cent per annum

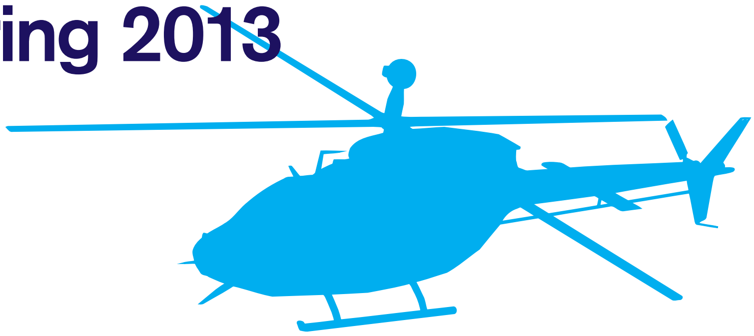


Source: Indian Infrastructure Research
*BP Energy Outlook 2030

Business Review
Chairman's Statement

Alasdair Locke
Chairman

We are pleased with the progress made on our D3 exploration block which will be the catalyst for value creation during 2013



Overview

During 2011, the Company accomplished a number of objectives. The exploration programme on the Company's two blocks in the Krishna Godavari Basin progressed by concluding the drilling of two further exploration wells. As a result of this activity, we announced the first gas discovery in the D9 block. The D3 joint venture submitted a Declaration of Commerciality proposal for the Dhirubhai 39, 41 and 52 discoveries on the D3 block to the Government of India (GOI) for review. The GS-01 joint venture adopted the Declaration of Commerciality proposal for the Dhirubhai 33 discovery. Discussions are continuing with partners and contractors in relation to the PY-3 field development options. We are pleased with the progress made on our D3 exploration block which will be the catalyst for value creation during 2013.

We are initiating a comprehensive review of our long-term strategic goals and objectives. However, the Company remains in a strong working capital position with which to fund its planned work activity.

Key financial results

Revenue was down from $13.2 million in 2010 to $11.3 million in 2011 due to lower production levels (the PY-3 field was shut-in for five months in 2011) but partly offset by the higher average realised oil price. Administrative expenses increased to $6.9 million compared to $3.3 million in 2010. The Company made an operating loss from continuing operations of $4.7 million in 2011.

The Company has made a change to its accounting policy by adopting the successful efforts based accounting policy for its oil and gas assets in 2011. As a result Hardy has restated the Company's consolidated financial statements for 2010. We believe that this change aligns our accounting policy with international peers and provides a better reflection of the results of our activities and financial position.

The Group started 2011 with cash reserves of $36.5 million. Net cash used in continuing operating activities (before changes in non cash working capital, tax paid, interest and investment income and finance costs) was $0.9 million. Proceeds from option exercise were $2.0 million. As a result, the Group's cash reserves at the end of 2011 remained unchanged at $36.5 million. The Group remains in a strong financial position with no debt.

Our business model and strategy

Hardy creates value through the exploration and production of hydrocarbons. In order to explore we must first be granted a licence by the Government 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 underexplored sedimentary basins. 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.

If the appraisal programme confirms that development of a discovery will be commercially and financially viable, we begin work on a development plan. This maps out how we will get the hydrocarbons into production to generate revenue and cash flow. We also create value through the implementation of enhanced production strategies to optimise the value of recoverable hydrocarbons from existing producing fields.

Whilst we believe that the Company has a sustainable platform to continue to participate in the India growth story, we plan to undertake a comprehensive review of our medium- and long-term objectives to optimise shareholder value. This process will be ongoing through the first half of 2012.

Board changes

The Board recently underwent a significant reorganisation which has resulted in the appointment of three new Directors and the planned retirement of three other Non-Executive Directors. The Chairman, Paul Mortimer had expressed his intention to step down from his role in 2011. The Nomination Committee initiated a process which resulted in my appointment in January 2012. Paul has been Chairman for over nine years, from before the Company floated on the London Exchange, and we very much appreciate all his wise support and guidance.

On 31 August 2011 Dinesh Dattani ceased to be the Finance Director of Hardy. We would like to thank Dinesh for his considerable contributions to Hardy over the past four years.

At the time of my appointment the Company announced Yogeshwar Sharma's intention to step aside as Chief Executive Officer and assume a non-executive role with the Company. On 1 March 2012 we were pleased to announce the appointment of Ian MacKenzie. Ian has a proven track record of delivering results in a competitive industry. We are confident that his experience and leadership qualities will ensure we are successful in implementing the recommendations of the review.

We are grateful to Yogeshwar, one of the founders of the Company, for his invaluable contribution over many years and we are particularly grateful that he will provide continuity in this period of transition as a Non-Executive Director.

Prior to my appointment, Ian Bruce and Carol Bell had indicated that they did not intend to put themselves forward for re-election at the Company's next Annual General Meeting and would retire from the Board of Hardy. Ian and Carol have served as Directors for over four and six years respectively. On behalf of the Board I would like to thank them for their contribution over their tenure.

The Company announced the appointment of Peter Milne as a Non-Executive Director on 1 March 2012. Peter has a proven track record in the oil sector having been the head of finance for the largest UK headquartered drilling contractor for over 15 years. His financial expertise and experience will fill a core competency gap. It is intended that Peter will be designated the Senior Independent Non-Executive Director and assume the Chairmanship of the Audit Committee following his re-election at this year's Annual General Meeting.

Business Review
Chairman's Statement continued

Key Performance Indicators

The Board undertook a review of its key performance indicators and has subsequently identified six key measures to assess the performance of the Company which are categorised into four non-financial measures (Total Recordable Injuries, Contingent Resources growth, wells drilled, net production), and two financial measures (cash flow from operations, cash and short-term investments). The Board believes that these six measures provide a reasonable benchmark for the Company's overall performance. We met several of our targets for 2011 but fell short of one financial and two operating targets.

Risk management

The Board has adopted a formal risk and uncertainties review process, involving the generation, identification of key risks and the formulation of mitigation strategies by the Company's senior management team. Through the review process the following principal risks for 2012 were identified:

- Strategic risk – Overdependence on a single partner and lack of control to drive value creating activities; asset portfolio over-weighted to long-cycle exploration licences.
- Financial risk – A prolonged shut-in of the PY-3 field will have an impact on the Company's ability to generate cash flow; relinquishment of assets may result in an impairment provision; liquidated damages for incomplete minimum work programmes; absence of GOI budget approval may hinder recovery of auxiliary costs associated with PY-3 shut-in period; CY-OS/2 arbitration ruling not in our favour may result in an impairment provision.
- Operational risk – Dependence on a single producing asset; limited life of PY-3 field in absence of further development; sustained sub-commercial exploration results; staff retention.
- Compliance – Deteriorating stakeholder sentiment; changing regulatory and political environment in India.

Year-end audit

As in last year's accounts, the auditors have provided an emphasis of matter comment in their Audit Report with reference to the uncertainty concerning the Group's request to the GOI for an extension of its exploration licence in block CY-OS/2 as disclosed in note 2 and 15 to the consolidated financial statements. In the event that Hardy's application for an extension of the CY-OS/2 licence was to be unsuccessful, the capitalised expenditure of $51 million will be subject to impairment testing.

Going concern

Having regard to the Company's existing working capital position and its ability to raise potential financing, the Directors are of the opinion that the Group has adequate resources to enable it to undertake its planned work programme of exploration, appraisal and development activities over the next 12 months.

We have initiated a comprehensive review of our long-term strategic goals and objectives in order to realise value for shareholders

Outlook

The Declaration of Commerciality proposal for the D3 block is being reviewed by the Government of India and this process will continue through 2012. Reprocessing of seismic covering the eastern area of the D3 block is also expected to continue through 2012. As a result drilling on the D3 block is expected to recommence in the first quarter of 2013.

The D3 exploration licence in the Krishna Godavari Basin remains at the core of our organic growth potential. The Krishna Godavari Basin is an emerging world-class petroleum province and, together with rapidly improving Indian gas pipeline infrastructure and high demand for gas, the prospects for the economic development of gas resources in this area are excellent. Through 2012 we will continue to collaborate actively with our partners Reliance and BP to optimise the exploration programme for this highly prospective block.

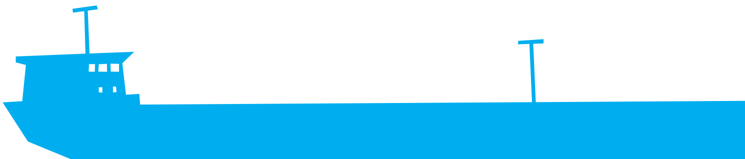
With the recent adoption of the Declaration of Commerciality for the GS-01 block we have until the end of the year to submit a field development plan for the Dhirubhai 33 natural gas discovery. The D9 joint venture has until July 2012 to submit an appraisal programme for the KG-D9-A2 gas discovery.

An early priority for PY-3 will be to determine, with partners and contractors, a suitable way forward to optimise value for all stakeholders.

Following the appointment of Ian MacKenzie, as Chief Executive Officer, we have initiated a comprehensive review of our long-term strategic goals and objectives in order to realise value for shareholders. We look forward to reporting the results of the review in due course but in any event, no later than at the time of our half-year results in September 2012. The Company remains in a strong working capital position from which to fund its planned work activity.

Alasdair Locke
Chairman
6 March 2012

The D3 licence remains at the core of our organic growth potential



Business Review
Chief Executive's Statement

Yogeshwar Sharma
Chief Executive Officer

The farming-in by BP in our KG blocks further underscored the exploration potential of these assets

In 2011 we continued our primary objective of evaluating the hydrocarbon potential of our exploration assets in India and bringing them closer to commerciality. A proposal for commerciality for the D3 discovery was submitted to the Government of India for review, while the GS-01 block's commerciality proposal was adopted by the joint ventures Management Committee. We announced the results of two further exploration wells drilled in our deepwater D9 block, one of which resulted in a discovery. The commerciality of the discovery is under review. The farming-in by BP in our KG blocks further underscored the exploration potential of these assets. We were disappointed in not securing the necessary approvals to extend the facility contract for our producing field PY-3 which ultimately resulted in a field shut down.

In 2012, we will continue to build on the positive momentum in D3 with further evaluation of the deeper prospects in the block while at the same time review longer term field development options with our PY-3 partners.

Corporate strategy

The Company has adopted an India-focused upstream exploration and development strategy. We believe that the India sedimentary basins are underexplored and, as our results in the Krishna Godavari Basin have shown that significant accumulations of hydrocarbons remain to be found. India's economy is expected to continue its impressive growth and as a result, the country's energy consumption, along with its infrastructure, will materially increase, far exceeding current domestic supply of energy. As a net importer of oil and LNG, we expect India's regulatory and investment environment for independent oil and gas explorers and producers to substantially improve during the near term given the sustained upward pressure on oil and gas prices in India.

Over the past five years, the Company has announced seven gas discoveries from 13 exploration wells. The approval of the Declaration of Commerciality submissions are the next step in the monetisation of our exploration efforts. Today we view the D3 exploration block with considerable optimism and continue to believe that our existing exploration portfolio offers significant organic growth potential for the Company.

Execution of strategy

The highlight of 2011 was the continued de-risking of our exploration portfolio as we move closer to establishing commerciality of our discoveries. While D9 still remains a frontier deepwater block, the D3 block with its four discoveries to date continues to show more potential in many of its deeper prospects which are currently under evaluation with our partners BP and Reliance. A proposal of commerciality for the D3 discoveries was submitted to the Government of India in late 2011 for their approval. The proposal called for a stand alone development with sub-sea completions and a pipeline to shore.

A previously submitted proposal for commerciality on the GS-01 block was approved by the Government of India in late 2011 for which the joint venture now have 12 months to submit a full field development plan.

The submission of Declaration of Commerciality on our D3 discovery and the approval of commerciality on our previously submitted Declaration of Commerciality on GS-01 is further endorsement of our India-focused strategy of de-risking our exploration assets. Maintaining and enhancing the Company's technical and commercial competencies is an integral component for the successful execution of our strategy. We will continue to look to enhance our organisation's core technical, financial and commercial competencies to maintain the Company's platform to capture the growth and value creating opportunities unique to India's upstream sector.

India outlook

India's natural gas carrying capacity is expected to increase fourfold by 2015 to 490 mmscmd (length 24,000 km). Natural gas prices in India have progressively increased over the past 10 years by over 250 per cent through the dismantling of the administered pricing mechanism. The combination of prospective underexplored basins located within close proximity to a growing consumer market, presents an attractive upstream investment opportunity. Continuing increase in India's gas supply and demand and rising gas price environment puts Hardy in an attractive position.

June 2005
Listing on AIM

January 2007
CY-OS/2 Fan-A natural gas discovery

March 2007
GS-01 B1 natural gas discovery

February 2008
KGV-D3-A1 natural gas discovery

February 2008
LSE Main Market listing

October 2009
KG-D9-A1 plugged and abandoned

December 2009
KGV-D3-R1 natural gas discovery

May 2010
Declaration of Commerciality proposal for Dhirubhai 33

August 2010
D3-W1 natural gas discovery

April 2008
KGV-D3-B1 natural gas discovery

October 2010
Nigerian disposal

February 2011
Declaration of Commerciality proposal for Dhirubhai 39, 41, 52

June 2011
KG-D9-A2 natural gas discovery

Health, Safety and Environment

As an offshore operator the Company is committed to good health and safety practices which are at the forefront in all of our activities. In 2011 we realised a reduction in total recordable accidents for the PY-3 field. We were delighted to be the recipient of the India Coast Guard's inaugural Environmental Awards 2010 in the oil handling agency category. The award is in recognition of efforts made by the Company for the implementation of oil pollution prevention measures and endeavours for the protection of the marine environment.

Exploration highlights

In 2011 we announced the results of two further exploration wells in the D9 block, one of which resulted in a discovery. The Company also submitted a proposal for the Declaration of Commerciality of the Dhirubhai 39, 41 and 52 natural gas discoveries on the D3 exploration block. The exploration Phase I for the D3 licence is extended into 2013.

Development and production

During 2011, the Company operated PY-3 field's gross production was 0.71 mmbbl of oil compared with 1.15 mmbbl for 2010. The decrease in production is principally attributable to the temporary shut-in of the field on 30 July 2011. Prior to shut-in the field was producing at a rate of 3,100 bbld. At the recommencement of production the PY-3 field will produce at an initial rate of over 3,000 bbld and is planned to go to 8,000 bbld with two additional wells.

Resource potential

Due to limited drilling activity in 2011 and the uncertainty surrounding the recommencement of production in the PY-3 asset, the Company took the decision to postpone the updating of a Competent Person's Report until later in the year. A summary of the 2011 report, providing a block by block breakdown, is provided at the end of this report and the complete report can be downloaded from Hardy's website: www.hardyoil.com.

Key partnerships

Hardy is proactive in its involvement with respect to our non-operated assets, working closely with our strategic partners in India, contributing independent assessments in conjunction with collaborative dialogue. The Company interacts on a regular basis with its partners at multiple levels, to ensure that our goals and objectives are addressed and to facilitate planning of upcoming work programme schedules. Maintaining open and substantive relationships with existing partners and other key stakeholders in the upstream oil and gas sector in India are critical to the execution of the Company's strategy.

In early 2011, it was announced that BP will become a joint venture partner with Hardy and Reliance in both of our Krishna Godavari Basin blocks. At the time of the announcement, Reliance described BP as one of the finest deep water exploration companies in the world. They bring considerable additional skills and resources, backed by a quality research and development group, to our partnership. The combined skills of our companies will be focused on finding and developing more hydrocarbons in the deep water blocks of India and significantly contributing to India's energy security. We welcome BP and look forward to working with them and Reliance on our joint venture projects in the future.

2012 programme

D3 – Further seismic processing on the D3 block is required over the toe-thrust area (north east) prior to drilling in this area. The processing is expected to be ongoing through the first half of 2012 and drilling to recommence in the first quarter of 2013.

As a result of the four consecutive discoveries that have been made on D3, this block now singularly stands out as the premier asset of Hardy. We have identified 26 prospects or leads with an average size of 233 bcf. We remain in the early stages of exploration on this block and with six different play types present, we view this asset with great optimism.

We have submitted Declaration of Commerciality proposals on two blocks – D3 and GS-01. We expect the Government of India's review of the D3 declaration to have concluded by the end of the year.

GS-01 – Following approval of the Declaration of Commerciality the GS-01 joint venture has 12 months to submit a detailed field development plan.

D9 – The joint venture is reviewing the potential of the KG-D9-A2 natural gas discovery for further activity and has until July 2012 to submit an appraisal programme. In the absence of the submission of an appraisal programme the block will stand relinquished.

PY-3 – We will continue to review longer term field development options with our PY-3 partners to optimise value for all stakeholders.

CY-OS/2 – The arbitration process is ongoing and further activity on this block is deferred until the arbitration tribunal has made its ruling. We expect the process to be concluded in 2012.

Staff

In early 2012 the Company announced the restructuring of its Board which we believe has strengthened management as we begin a process of review and reflection of our long-term goals and objectives to creating shareholder value.

I would like to take this opportunity to acknowledge the contribution of our staff both based in India and the United Kingdom. The Group has demonstrated a tremendous level of dedication and commitment, having continued to work professionally and efficiently to meet our objectives in a challenging environment.

Yogeshwar Sharma.

Yogeshwar Sharma
Chief Executive Officer
6 March 2012

Business Review
Review of Operations

The highlights of operations in 2011 were the drilling of the second and third exploration wells on the D9 exploration block, the submission of a Declaration of Commerciality proposal for the D3 block, and the shut-in of the PY-3 field from 30 July 2011 due to lack of approval from the field's Management Committee to award a contract for its current facilities. The Company's operations in India are conducted through its wholly-owned subsidiary Hardy Exploration & Production (India) Inc. (HEPI).

2011 Performance

Health, Safety and Environment

The Company was the recipient of one of the India Coast Guard's inaugural Environmental Awards 2010 in the oil handling agency category. The award is in recognition of efforts made by the Company for the implementation of oil pollution prevention measures and endeavours for the protection of the marine environment.

Production

The PY-3 field (Hardy interest 18 per cent) performed as projected until the field was shut-in at the end of July 2011 pending approvals to award a contract for the lease of the floating production system currently utilised by the field.

Prior to the shut-in the field had produced at an average gross daily rate of over 3,300 bbld. For the year, the average gross daily production was 1,953 barrels per day (bbld) (net: 352 bbld) compared to the Company's forecast of 3,000 bbld. The Company had targeted securing the necessary budgetary approvals in mid-2011 in order to commence the drilling of two further producing wells (Phase III) in the PY-3 field in 2012. Throughout 2011 the Company worked closely with all stakeholders to advance the approval process.

Discussions are continuing with partners and contractors in relation to field development options.

Exploration

At the beginning of 2011 the Company had planned for the drilling of at least two exploration wells in the Krishna Godavari Basin. The Company subsequently concluded the drilling of two exploration wells on the D9 exploration block (Hardy interest 10 per cent) in the Krishna Godavari Basin. The KG-D9-B3 exploration well recorded gas shows with good quality reservoir sands while drilling, however the MDT testing indicated high concentration of mobile water in the sands and the well was plugged and abandoned. The KG-D9-A2 discovery well was drilled to a total depth of 4,881 m MDRT, and three gas bearing sand reservoirs with a gross thickness of approximately 22 m were encountered and evaluated by wireline MDT.

After carefully considering the block's low prospectivity in conjunction with the logistical challenges of the area, the joint venture elected to relinquish the Assam exploration block.

Development

In February 2011, the D3 joint venture (Hardy interest 10 per cent) submitted a proposal for the Declaration of Commerciality for the Dhirubhai 39, 41 and 52 natural gas discoveries to the Government of India. The proposed development plan provides for a dry gas, subsea cluster development with the flexibility to add in additional zones and future area discoveries.

Near the end of 2011, the GS-01 (Hardy interest 10 per cent) Declaration of Commerciality proposal was adopted by the Management Committee and the joint venture has until the end of 2012 to submit a detailed field development plan.

Through 2011 the Company continued to participate in a formal dispute resolution process to extend the expiry date of the CY-OS/2 licence (Hardy interest 75 per cent). A ruling is expected to be issued in the second half of 2012.

The table on page 11 provides a brief comparison of our stated operational objectives for 2011 and our subsequent accomplishments through the year.

Outlook for 2012

D3 – The joint venture will continue to undertake a number of geotechnical studies in 2012. Exploration activity is now focused on assessing the potential of the eastern area and high grading prospects to test deeper play types within the central portion of the block. The D3 operator

indicated that the fifth exploration well is expected to commence drilling in the first quarter of 2013 and the sixth and final commitment well no later than the second quarter of 2013. Prospects in the eastern area and the Phase I areas will be evaluated after the PSDM processing to prioritise and plan the future drilling program.

D3 – Earlier this year the D3 joint venture Operating Committee reviewed and recommended a Commerciality Report for the Dhirubhai 39, 41 and 52 natural gas discoveries subject to a Government of India review. The proposed development is a dry gas, subsea cluster development with the flexibility to add in additional discoveries. The Government of India's review is ongoing and a decision is expected by the end of 2012.

PY-3 – An early priority for PY-3 will be to determine, with partners and contractors a suitable way forward to optimise value for all stakeholders.

D9 – Following the KG-D9-A2 natural gas discovery in July 2011, the joint venture was unable to drill the fourth and final exploration well within the remaining exploration time period. The joint venture is reviewing the potential of the discovery for further activity and has until July 2012 to submit an appraisal programme. In the absence of the submission of an appraisal programme the block will stand relinquished.

GS-01 – Following approval of the Declaration of Commerciality the GS-01 joint venture has 12 months to submit a detailed field development plan. The Company will work closely with the operator to formulate the optimal development plan in a timely manner.

Competent Person's Report update

The Company had previously committed to commission the updating of a Competent Person's Report (CPR) on an annual basis in conjunction with the year-end financial reporting process. Due to limited drilling activity in 2011 and the uncertainty surrounding the recommencement of production in the PY-3 asset, the Company took the decision to postpone the updating of a CPR until later in the year.

A summary of the Company's 2011 CPR is provided below. A detailed summary of the report is provided at the end of this announcement and the complete report can be downloaded from www.hardyoil.com.

		2P
Reserves (net entitlement)	mmbbls	2.1

		2P
Contingent Resources (net)	bcf mmbbls	174 0.2

		2P
Risked Prospective Resources (net)*	bcf mmbbls	964 18

Subsequent to the effective date of the Company's 2011 CPR, the Company has drilled two wells on the D9 block:
– KG-D9-B3 which was targeting Pilocene channel sands and was plugged and abandoned.
– KG-D9-A2 which was targeting several Miocene sands announced a natural gas discovery in the Upper Miocene sands.

* Aggregated risked Prospective Resources have been derived by Hardy and are not aggregated or provided as risked volumes by GCA.

2011 performance

Block	Objective	Execution
D3	Complete PSDM seismic processing and interpretation	The GOI has advised the operator to tender for the processing work
D3	Secure approval of proposed DOC	Discussions with the GOI are ongoing regarding the submitted DOC
D9	Drill one exploration well	Announced the first natural gas discovery on the block KG-D9-A2
GS-01	Secure approval for the proposed DOC	In late 2011 the joint venture secured approval of the proposed DOC
Assam	Take a decision to enter exploration phase II or relinquish the block	Elected to relinquish the block
PY-3	Gross daily production to average 3,100 bbld	Gross daily production average 1,953 bbld
PY-3	Secure MC approval for 2012 drilling programme	Budget approval to extend FPU contract remains pending. Field shut-in on 30 July 2011
CY-OS/2	Ongoing dispute resolution	Arbitration proceedings are continuing
CPR	Publish updated report in Q1 2012	Update of CPR deferred until later in 2012

Business Review
Review of Operations continued

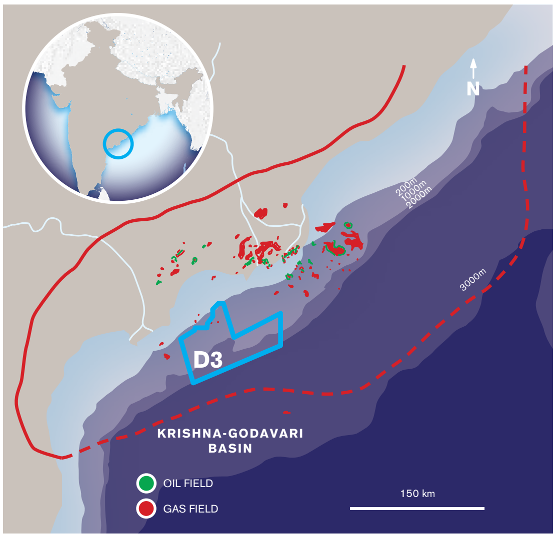
Asset Review
The Company's operations in India are conducted through its wholly-owned subsidiary Hardy Exploration and Production (India) Inc.

Krishna Godavari Basin

D3

Block KG-DWN-2003/1
Exploration (Hardy 75 per cent interest – Operator)

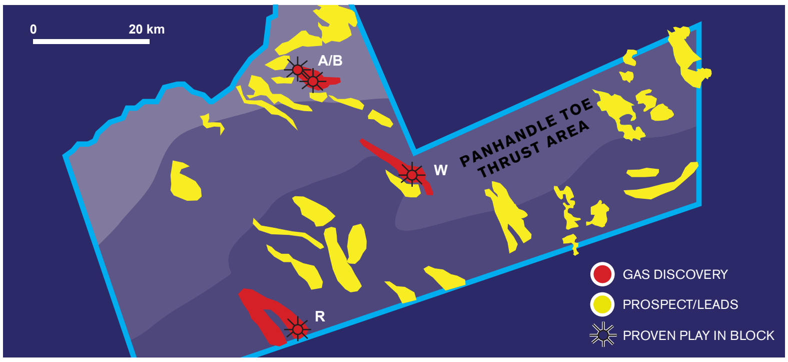
Operations
Declaration of Commerciality – Earlier this year the D3 joint venture Operating Committee reviewed and recommended a Commerciality Report for the Dhirubhai 39, 41 and 52 natural gas discoveries subject to a Government of India review. The proposed development is a dry gas subsea cluster development with the flexibility to add in additional discoveries. The Government of India review is ongoing and a decision is expected by the end of the year.



Exploration
Following the Government of India's approval of Reliance's 30 per cent participating interest farm-out to BP, we have been delighted with BP's contribution to the prospect generation and evaluation process. The ongoing geotechnical evaluation of the block integrated with new regional data has identified a number of additional prospects and leads. The new prospectivity is primarily focused on thermogenic sourced plays. We expect further clarification of the plays and associated prospectivity to coincide with the ongoing interpretation in the central area of the block and the PSDM seismic processing in the east portion of block.

D3

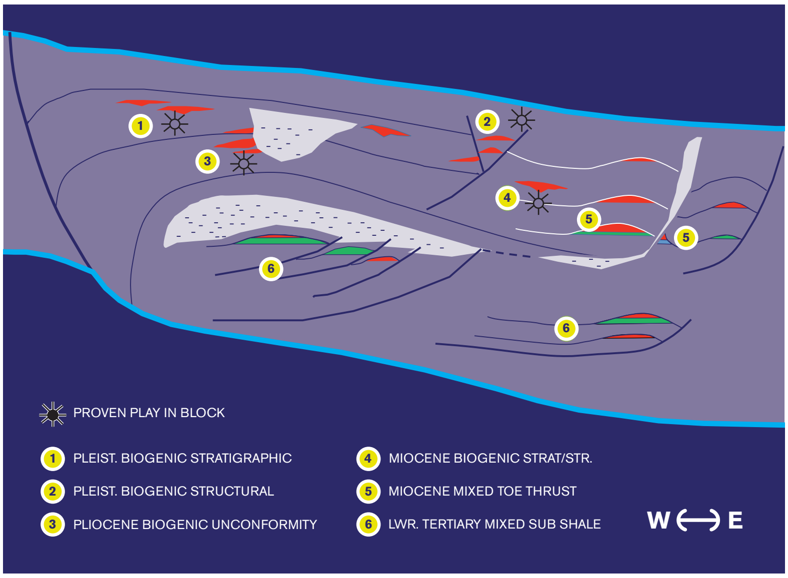
D3 Early stages of exploration
Expanding portfolio of plays and prospects



→Ongoing geotechnical evaluation integrated with new regional data has identified a number of additional prospects and leads

→The new prospectivity is primarily focused in deeper thermogenic sourced plays

D3 Unique exploration block
Six play types present



Hardy Oil and Gas Illustration

2012 outlook
The joint venture will continue to undertake a number of geotechnical studies in 2012. Exploration activity is now focused on assessing the potential of the eastern area of the block and high grading prospects to test deeper play types within the central portion of the block. There have been a number of delays in the awarding of a contract to provide PSDM processing. As a result, the D3 operator indicated that the fifth exploration well is expected to commence drilling in the first quarter of 2013 and the sixth and final commitment well no later than the second quarter of 2013. Prospects in the eastern area and the Phase I areas will be evaluated after the PSDM processing to prioritise and plan the future drilling programme.

Background
Situated in the emerging world-class petroleum system of the Krishna Godavari Basin on the east coast of India, the D3 exploration licence encompasses an area of 3,288 km^2, in water depths of 400 m to 2,200 m, and is located approximately 45 km offshore. The D3 block is operated by Reliance which holds a 60 per cent participating interest with BP holding 30 per cent and Hardy the remaining 10 per cent. The minimum work programme for Phase I of the licence which ends in June 2013 requires the drilling of six exploration wells.
To date, four consecutive gas discoveries have been made via KGV-D3-A1, B1, R1 and W1 exploration wells. The joint venture has acquired approximately 3,250 km^2 of 3D seismic data over the block.

Business Review
Review of Operations continued

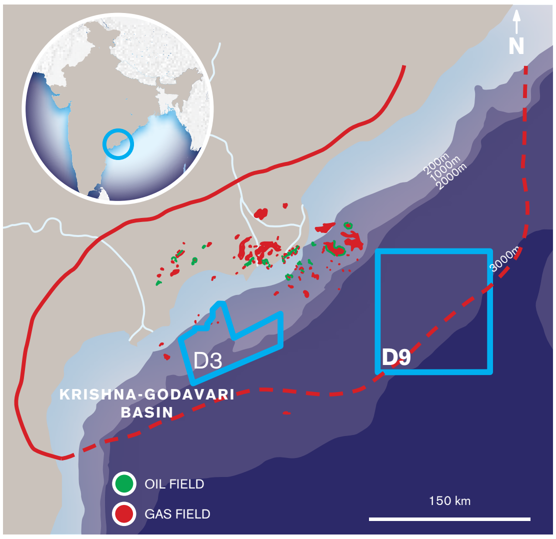
Krishna Godavari Basin

D9

Block KG-DWN-2001/1:
Exploration (Hardy 10 per cent interest)

Operations

In 2011 the Company announced the results of two exploration wells on this block: KG-D9-A2 and KG-D9-B3.



KG-D9-A2 (Dhirubhai 54)

On 22 June 2011, the Company announced the first natural gas discovery on the D9 block from its third well, KG-D9-A2. The well was drilled to a total depth of 4,881 m MDRT with the objective of exploring the play fairway in the Early and Late Miocene channel levee complex in a water depth of approximately 2,703 m. Three gas bearing sand reservoirs with a gross thickness of approximately 22 m were encountered and evaluated by wireline MDT.

KG-D9-B3

On 5 January 2011, the Company announced the plugging and abandonment of the second exploration well on the D9 block. The well, KG-D9-B3, was drilled in a water depth of 2,948 m to a total measured depth of 3,829 m. The nearest well control is 47 km distant. The well encountered two Tertiary aged reservoir quality sand packages with a gross thickness of 70 m and 40 m, with gas shows ranging from 6 per cent to 9 per cent recorded while drilling. Testing was carried out with the MDT tool which indicated a high concentration of mobile water in the sand packages and the well was plugged and abandoned.

2012 outlook

Following the KG-D9-A2 natural gas discovery in July 2011, the joint venture was unable to drill the fourth and final exploration well within the remaining exploration period. The joint venture is reviewing the potential of the discovery for further activity and has until July 2012 to submit an appraisal programme. In the absence of the submission of an appraisal programme the block will stand relinquished.

Background

Situated in the Krishna Godavari Basin in India, the licence encompasses 11,605 km^2 in the Bay of Bengal where water depths vary from 2,300 m to 3,100 m. The block is immediately adjacent to the Reliance operated D6 block, where over 1 bcf per day is being produced from Tertiary aged sediments. The D9 block is operated by Reliance which holds a 60 per cent participating interest with BP holding 30 per cent and Hardy the remaining 10 per cent.

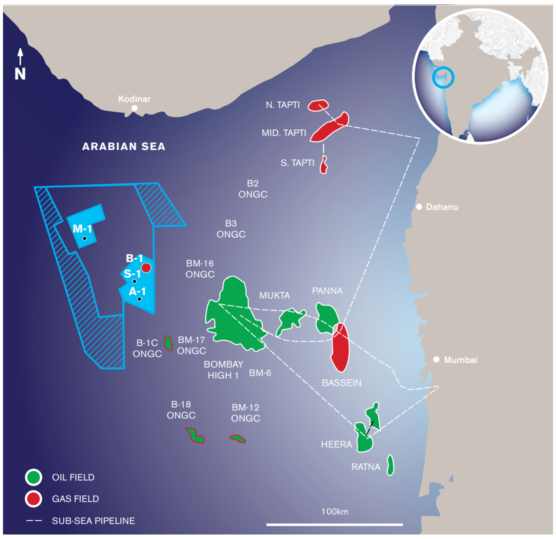
The joint venture has acquired 4,188 km^2 of 3D seismic in the north west quarter of the block and 2,087 km of 2D seismic over the remainder of the block. Subsequent interpretation of the seismic data has identified prospects and leads at the Pliocene, Miocene, Oligocene and Cretaceous levels.

Gujarat-Saurashtra offshore basin

GS-01

Block GS-OSN-2000/1:
Appraisal (Hardy 10 per cent interest)

Operations
The GS-01 joint venture secured the Government of India's approval for a Declaration of Commerciality proposal for the Dhirubhai 33 discovery (GS01-B1) (drilled in 2007) which flow-tested at a rate of 18.6 mmscfd gas with 415 bbld of condensate through a 56/64 inch choke at flowing tubing head pressure of 1,346 psi.



2012 outlook
The joint venture will commence work with the intention of submitting a detailed field development plan for the Dhirubhai 33 natural gas discovery prior to the end of the year.

Background
The GS-01 exploration licence is located in the Gujarat-Saurashtra offshore basin off the west coast of India, north west of the prolific Bombay High oil field. The original licence encompassed 8,841 km^2 (5,890 km^2 post relinquishment) with water depths varying between 80 m and 150 m. The joint venture retained a 600 km^2 area for future development activities by relinquishing the balance area of 5,290 km^2. The joint venture has previously acquired 2,216 km^2 of 3D seismic data. Upon completion of Phase I of the exploration programme the joint venture elected not to proceed to the second phase of exploration.

Business Review
Review of Operations continued

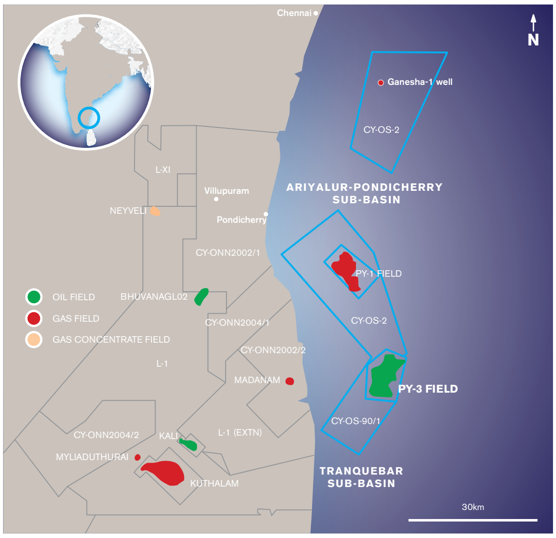
Cauvery Basin

PY-3

Block CY-OS 90/1:
Producing Oil Field (Hardy 18 per cent interest – Operator)

Production

Gross average daily field production for the year ended 31 December 2011 was 1,953 bbld (2010: 3,156 bbld; 2009: 1,535 bbld). Up until the time of shut-in the field had produced at a gross average rate of approximately 3,350 bbld. The production facilities' uptime performance was 58 per cent (2010: 93 per cent). The decrease in production was the result of an extended unplanned shut-in on 30 July 2011 due to the Floating Production System (FPS) falling out of contract and class validity.



The field has remained shut-in for the beginning of 2012. Should production recommence we anticipate that the PY-3 field will be capable of an initial average gross daily rate of approximately 3,000 bbld and approximately 8,000 bbld with the drilling of two additional wells.

Development

In 2011, the PY-3 joint venture had been seeking approval from the Government of India to award a five year contract to the incumbent facilities providers which was not approved at Management Committee level. The terms and conditions of the recommended contract had been derived from industry benchmarking and negotiation with the incumbent facility ownership.

2012 outlook

An early priority for PY-3 will be to determine, with partners and contractors a suitable way forward to optimise value for stakeholders. To date the joint venture has been providing the current offshore facilities with various support vessels and auxiliary services. In the absence of securing the necessary approvals to recommence production in a timely manner an extended shut-in of the field may result.

The field is currently capable of producing at a gross daily rate of over 3,000 bbld and at 8,000 bbld with two additional wells. We project that the current producing well is capable of producing for a further 18 months. Production beyond this period will require the drilling of additional wells and the installation of gas lift facilities.

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 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 km^2, produces high quality light crude oil (49° API).

The field was developed using floating production facilities and subsea wellheads, a first for an offshore field in India. The facility at PY-3 consists of the floating production unit, 'Tahara', and a 65,000 DWT tanker, 'Endeavor', which acts as a floating storage and offloading unit. There are four sub-sea wells tied back to Tahara. Tahara has a three-stage crude oil separation system, with the first two stages being three-phase separators and the third stage a two-phase separator.

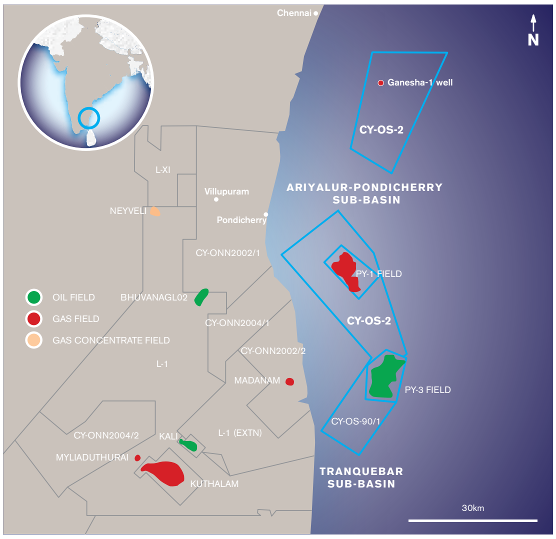
Liquid processing capacity on Tahara is 20,000 bbld with 17 mmscfd of gas handling capacity. The field currently produces associated gas in the range of 3.5 mmscfd. This produced gas is used as fuel gas with excess gas being flared. The stabilised crude oil is pumped from Tahara to Endeavor for storage and offloading to shuttle tankers. Crude oil from the PY-3 field is sold to CPCL at its refinery in Nagapattinam, approximately 70 km south of the PY-3 field.

Cauvery Basin

CY-OS/2

Block CY-OS/2:
Appraisal (Hardy 75 per cent interest – Operator)

Operations
The formal dispute resolution process to extend the expiry date of this licence is progressing.



2012 outlook
Following confirmation of the extension period, through the dispute resolution process, Hardy will undertake the activities necessary to fully appraise the Ganesha discovery. It is unlikely that an appraisal well will be drilled in 2012.

Background
Licence block CY-OS/2 is located in the northern part of the Cauvery Basin immediately offshore from Pondicherry and covers approximately 859 km^2. The CY-OS/2 licence comprises two retained areas. The northern area includes the Fan A-1 discovery and the southern area lies immediately adjacent to the HEPI operated PY-3 field. The PY-1 gas field, a separate ring-fenced licence, lies within the southern part of the acreage and commenced production in the third quarter of 2010.

Ganesha: On 8 January 2007, the Company announced that the Fan A-1 exploration well had discovered hydrocarbons. In August 2007, the Company announced that it would proceed to the appraisal phase of the Ganesha non-associated gas discovery to establish potential commerciality.

Assam Arakan Basin

Assam

Block AS-ONN-2000/1:
Relinquished in 2011 (Hardy 10 per cent interest)

Operations
The Assam block was awarded under India's NELP II bid round in 2000. The block is located on the western, undrilled margin of the Assam Basin. The nearest production is approximately 50 km distant. Hardy held a 10 per cent participating interest with the block operated by Reliance.

Following seismic acquisition, processing and interpretation, the geologic analysis of the area identified two structural prospects. The Company's published CPR listed gross best estimate prospective resources of 20 mmbbl and 5 mmbbl with a geological chance of success (GCOS) of 10 per cent, due to petroleum system uncertainty in this undrilled part of the basin.

After carefully considering the block's low prospectivity in conjunction with the logistical challenges of the area, the joint venture has elected to relinquish the block.

Business Review
Financial Review

The Company's cash and short-term investments remained unchanged at $36.5 million

During 2011, the Company recorded a decrease in revenue due to the PY-3 field being shut-in from 31 July 2011. This has resulted in a decrease in gross profit and an operating loss (compared with a profit in 2010). Hardy completed the year with cash and short-term investments of $36.5 million and has no debt.

Accounting policy change

The Company has changed to the successful efforts method of accounting for its oil and gas assets which allows for the capitalisation of successful exploration costs, whereas the dry hole and its associated geological and geophysical costs are written-off. Accordingly, Hardy has recorded a charge for unsuccessful exploration costs of $55.9 million which had previously been included in intangible assets. The Company has also restated the Company's Consolidated Financial Statements for 2010.

Key Performance Indicators

The Company undertook a review of its disclosed key performance indicators. As a result, the Company identified two financial and four non-financial measures as key performance indicators for Hardy. The measures reflect the Company's exploration focused strategy, the importance of a positive cash position and our underlying commitment to ensuring safe operations. The key performance indicators adopted in 2011 are summarised below:

Key performance

Category	KPI	Aim/target	**2011**	2010	2009
HSE	Total Recordable Injuries	Reduction	**2**	7	1
Operations	Contingent Resource	Increase	**174**	174	160
	Wells drilled	2 wells in 2011	**1**	2	2
	Net production	> 470 bbld for 2011	**234**	475	276
Financial	Cash and short-term investments	> $10 million	**$36.5**	$36.5	$30.5
	Cash flow from operations*	Positive	**($0.9)**	$4.0	$(3.6)

* Before changes in non-cash working capital, tax paid, interest and investment income and finance costs.

The Company has changed to the successful efforts method of accounting for its oil and gas assets

We met several of our targets for 2011 but fell short of one financial and two operating targets.

Operating results

	Year ended 31 December 2011	2010
Production (bbld)		
Gross field	**1,953**	3,156
Participating interest	**352**	568
Net entitlement interest	**234**	475
Sales (bbld)		
Gross field	**2,175**	2,919
Participating interest	**392**	525
Average realised price per barrel $	**110.54**	81.71

Production, sales and revenue

The Company operates the PY-3 field in the Cauvery Basin with an 18 per cent participating interest. Gross average daily field production for the year ended 31 December 2011 amounted to 1,953 bbld compared with 3,156 bbld for 2010. The decrease was due to the shut-in of the PY-3 field on 30 July 2011 due to the Floating Production System (FPS) falling out of contract and class validity.

Revenue from oil sales (after profit oil) decreased to $11.1 million in 2011 compared to $12.9 million in 2010. The average price realised per barrel increased by 35 per cent from $81.71 during 2010 to $110.54 in 2011. Average daily sales amounted to 392 bbld in 2011 compared with 525 bbld in 2010.

Cost of sales

Production costs decreased from $5.3 million in 2010 to $3.7 million in 2011 as a result of reduction of charter hire charges to FPS to seven months instead of 12 months in 2010. Average cost per barrel including depletion is $40.87 per barrel in 2011 compared with $41.63 per barrel in 2010. Production cost per barrel remained relatively unchanged at $28.49 in 2011 compared with $25.66 in 2010.

Unsuccessful exploration costs

As a result of the Company's change in accounting policy to the successful efforts method, the unsuccessful exploration well costs and the associated geological and geophysical costs of $3.4 million for the year 2011, $1.8 million for 2010 and $50.7 million up to 2009 were charged to the Statement of Comprehensive Income. The adjustments primarily relate to nine exploration wells drilled in prior years including two exploration wells on the block CY-OS/2 block (TRL and Fan E), three exploration wells on the GS-OSN-2000/1 block (A1, S1 and M1) and two exploration wells on the D9 block (A1 and B3), and associated geological and geophysical expenses of the block AS-ONN-2000/1.

Gross profit

The Company realised a gross profit of $2.2 million in 2011 compared with a profit of $3.1 million in 2010. The decrease is principally the result of lower production which was partly mitigated by higher average crude oil price realised in 2011.

Administrative expenses

Administrative expenses increased from $3.3 million in 2010 to $6.9 million in 2011. This increase is mainly due to a provision for possibly irrecoverable costs of $2.3 million from the operated blocks and a loss on exchange of $0.9 million.

Operating loss

The Company is reporting an operating loss from continuing operations of $4.7 million in 2011 compared with an operating loss of $0.2 million in 2010.

Interest and investment income

Investment and other income in 2011 remained unchanged from 2010 at $0.4 million.

Finance costs

Finance costs principally include the cost of providing bank guarantees to the Government of India required by the provisions of production sharing contracts and the unwinding of the decommissioning cost.

Loss before taxation

The Company has recorded a loss before taxation from continuing operations of $4.6 million compared to a nominal profit before taxation in 2010. This results principally from lower revenues and higher general and administrative expenses in 2011 and the change in the accounting policy from full cost to successful effort method.

Taxation

The Company has recorded a tax credit of $2.7 million during 2011 compared to a tax charge of $0.3 million in 2010.

Loss from continuing operations

As a result, the Company recorded a loss for the year from continuing operations of $1.9 million compared to a loss of $0.2 million for 2010.

Cash flow from operating activities

During 2011, the Company had a negative cash flow from continuing operations activities, before changes in non-cash working capital, amounting to $0.9 million against a positive cash flow of $4.0 million in 2010.

Business Review
Financial Review continued

Financing activities
During 2011 the Company realised $2.0 million in proceeds from the execution of various stock options. During December 2010, the Company completed a placing of 3,370,000 Ordinary Shares at a price of £2.01 per share for net cash consideration of $9.5 million. In addition, the Company received investment income on its surplus cash resources amounting to $0.4 million.

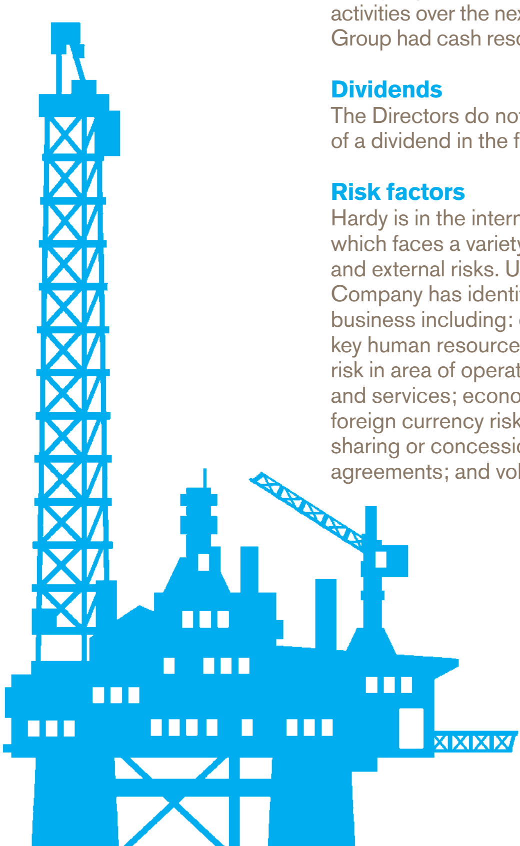
Cash and short-term investments
The Company's cash and short-term investments remained unchanged at $36.5 million at the end of 2011. The Company does not have any debt.

Summary statement of financial position
Hardy's non-current assets decreased from $101.6 million in 2010 to $97.3 million in 2011. Current assets represent the Group's cash and short-term investments, trade and other receivables and inventory and have decreased from $43.6 million to $39.7 million. At the end of 2011, of the $39.7 million of current assets, $36.5 million are represented by cash and short-term investments. Current liabilities are principally trade and other accounts payable which are $6.1 million at the end of 2011 compared to $13.4 million at the end of 2010.

Liquidity and capital resources
The Company has successfully raised financing in the past to provide funding for its ongoing exploration and development programmes and to augment its working capital. Having regard to Hardy's existing working capital position and its ability to raise potential financing, the Directors are of the opinion that the Company has adequate resources to enable it to undertake its planned work programme of exploration, appraisal and development activities over the next 12 months. At the end of 2011, the Group had cash resources of $36.5 million and no debt.

Dividends
The Directors do not recommend the payment of a dividend in the foreseeable future.

Risk factors
Hardy is in the international upstream oil and gas business which faces a variety of strategic, operational, financial and external risks. Under these distinct classes, the Company has identified certain risks pertinent to its business including: exploration and reserves risks; loss of key human resources; drilling and operating risks; security risk in area of operations, costs and availability of materials and services; economic and sovereign risks, market risk, foreign currency risk, loss of or changes to production sharing or concession agreements, joint venture or related agreements; and volatility of future oil and gas prices.



Effective risk management is critical to achieving our strategic objectives and protecting our assets, personnel and reputation. Hardy manages its risks through compliance with the terms of its agreements and application of appropriate policies and procedures, and through the recruitment and retention of skilled individuals throughout the organisation. Further, the Company has focused its activities mainly in known hydrocarbon basins in jurisdictions that have previously established long-term oil and gas ventures with foreign oil and gas companies, existing infrastructure of services and oil and gas transportation facilities, and reasonable proximity to markets.

A summary of the principal risks and uncertainties facing the Company and the way in which these risks are mitigated is provided under the 'Risks and Uncertainties' section of this report.

Key financial risks
In addition to the global financial risks described above, the Company is subject to the following specific financial risks.

Foreign exchange risk
The proceeds of the Group's domestic oil and gas sales in India are received in US dollars. The majority of the Group's expenditure requirements are in US dollars. The Group has general and administrative expenditure in India and United Kingdom and is therefore exposed to foreign exchange risk against Indian rupees and UK sterling.

Liquidity risk
The Group's cash requirements and cash reserves are projected for the Group as a whole and for each country in which operations are conducted. Whereas the Group currently has no debt, in the future the Group expects to meet these requirements through an appropriate mix of available cash, equity funds and debt financing. The Group further mitigates liquidity risk by seeking funds well in advance of requirements and by maintaining an insurance programme to minimise exposure to insurable losses.

Commodity price risk
Historically, oil prices have fluctuated widely and are affected by numerous factors over which the Group has no control, including world production levels, international economic trends, exchange rate fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events. The aggregate effect of these factors is impossible to predict. The production estimates for PY-3 and the oil prices will vary depending upon market conditions, which are not within the control of the Group. The Group's production in India sold to CPCL is based on the 30 day average (commencing 15 days before and ending 15 days after the delivery) of Brent crude less $0.35. The Board has no immediate intention to enter into fixed price contracts. Although oil prices may fluctuate widely, it is the Group's present policy not to hedge crude oil sales.

Status of CY-OS/2 discovery block
The auditors have provided an emphasis of matter comment in their audit report with reference to the uncertainty concerning the Group's request for an extension of its exploration licence in block CY-OS/2 as disclosed in notes 2 and 15 to the consolidated financial statements.

The Company's Chairman's Statement, Chief Executive Officer's Statement, Review of Operations, Financial Review, and Risks and Uncertainties have been prepared to substantially comply with the Accounting Standards Board Operating and Financial Review Reporting Statement issued in January 2006.

Business Review
Risks and Uncertainties

As an oil and gas exploration and production company 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. It protects our reputation, supports our ability to do business and helps to create long-term competitive advantage. 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.

Clear responsibility
The Board is responsible for the overall group strategy, acquisition and divestment policy, approval of major capital expenditure projects, corporate costs, significant financing matters and the management of risk. The Board recognises that risk is inherent across Hardy's operations, and all activities are subject to an appropriate review to ensure that risks are identified monitored and managed to the extent possible.

Identification and monitoring
The Board has adopted a framework for risk assessment and monitoring providing for four distinct categories: strategic; financial; operational; and compliance. The Board's review of the Company's risks and uncertainties involves a detailed description of each risk and an assessment of its perceived relevance and likelihood of materially impacting Hardy's business. Risks that are identified as high and or trending upwards are noted and assigned to the Executive Directors to monitor and if possible proactively mitigated. The Board is provided regular updates of the identified principal risks at scheduled Board meetings.

The underlying risks and uncertainties inherent with Hardy's current business model are summarised below.

Strategy risk
The Group's strategy is predominantly driven by the exploration, appraisal, development and production of its existing assets in India. There are risks inherent in the exploration, appraisal, development and production of oil and gas reserves and resources. The Group's strategy may include the acquiring of additional oil and gas properties. The Group cannot guarantee that it will be able to identify appropriate properties, or negotiate acquisitions on favourable terms, or that it will be able to secure the financing necessary to complete such future acquisitions.

Financial risk
Any volatility and future significant decreases in crude oil prices could materially and adversely affect the Group's business, prospects, financial condition and results of operations. Other major financial risks facing the Company are: failure to receive extensions for expiring exploration and production contracts; inability to access debt and/or equity financing for further exploration and development; cost inflation or overruns activities; and overall deterioration of shareholder sentiment. Additional discussion of financial risks is provided for in the Financial Review section.

Operations risk
Exploration and production activities by their nature involve significant risks. Risks such as delays in executing work programmes as a result of access to drilling rigs, in the construction and commissioning of drilling platforms 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.

Compliance risk
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.

Emphasis of matter
As in previous years, the Board notes that the auditors have provided an emphasis of matter comment in their audit report, which is not qualified, with reference to the uncertainty concerning the Group's request for an extension of its exploration licence in block CY-OS/2. In 2010, the Group formally commenced arbitration proceedings pursuant to dispute resolution provisions of the governing PSC and they continued through 2011.

The Group holds a 75 per cent participating interest in the block CY-OS/2 which is offshore on the south east coast of India. Intangible assets – exploration include an amount capitalised of $51,023,493 in respect of exploration expenditures on the block wherein a gas discovery was announced on 8 January 2007. The exploration period for the block ended on 23 March 2007 and the GOI has been requested to extend the block for appraisal and Declaration of Commerciality for its gas discovery until 7 January 2012.

Provisions of the PSC provide for an appraisal period of 60 months from the date of discovery. For an oil discovery, this period is limited to 24 months. DGH has informed HEPI that in their opinion the discovery is classified as an oil discovery and not a NANG discovery.

The Company has obtained third party legal and technical opinions that support the Company's view that the discovery is NANG and have referred the dispute to arbitration for adjudication. The Group believes that it will be successful in obtaining the extension of its licence in the arbitration.

In the event that the Group is not successful in the arbitration, the exploration expenditure capitalised in respect of this block will be subject to impairment testing. No adjustment has been made to the carrying value of this capitalised expenditure.

Business Review
Principal Risks for 2012

Throughout the year, Hardy's senior management and Board have critically reviewed and evaluated the risks facing the Group. As a result of this process, the Board has synthesised these risks in this year's report by defining the principle risks and uncertainties for 2012 and establishing clear policies and responsibilities to mitigate their possible negative impact to the business, a summary of which is provided below.

Risk	Mitigation
Strategic	**Ineffective or poorly executed strategy fails to create stakeholder value or fails to meet stakeholder expectations.**
Asset portfolio over-weighted to long-cycle exploration licences	Preferential allocation of resources to advance current discoveries to the development stage. Continually assessing acquisition opportunities, consistent with stated objectives, offering near term production increases.
Overdependence on a single partner and lack of control to drive value creating activities	Proactive communication with partner to drive corporate interests and mandates. Each licence is governed by joint operating agreements, which provide for processes and procedures designed to ensure that the input and interests of non-operating partners are considered. The addition of BP as a partner to our key exploration licences should further facilitate progress.

Financial	**Asset performance and excessive leverage results in the Group being unable to meet its financial obligations as and when they are due.**
A prolonged shut-in of the PY-3 field will have an impact on the Company's ability to generate cash flow	Continue to advance Phase III development programme with a view to increasing production from one to up to four wells. Maintain sufficient working capital to account for an extended shut-in of the field. Maintain tight controls on overhead inflation.
Relinquishment of assets may result in impairment provision	Continue to work closely with partners to ensure minimum work programmes are complete within permitted time.
Liquidated damages for incomplete minimum work programmes	The Company has minimum work commitments on its exploration assets in India. The D9 and GS-01 blocks have reached the end of their exploration phase without completion of the MWP. Potential liabilities may be pending however there is uncertainty on the final demand. The Company makes provisions when the amount is ascertained by the operator of the licence.
Absence of GOI budget approval may hinder recovery of auxiliary costs associated with PY-3 shut-in period	Commencement of production and securing approvals to extend the life of the field via drilling will mitigate the likelihood of the noted expenditures not securing GOI approval.
CY-OS/2 arbitration ruling may result in an impairment provision	Arbitration process is ongoing. The Company has obtained strong legal and technical opinions in support of its position, retained legal counsel in India and assigned the CFO of HEPI to manage the process.

Risk	Mitigation
Operational	**Operational event impacting staff, contractors, communities or the environment leading to loss of reputation and/or revenue.**
Sustained sub-commercial exploration results	Effective portfolio management (low interest, many assets) combined with rigorous review and implementation of best practice exploration processes and techniques. Internal expertise review process and, when necessary third party consultation prior to Board approval.
Dependence on a single producing asset – limited life of field in absence of further development	The approval of the GS-01 commerciality proposal will enable Hardy to advance plans for development. The Company is also indicating that it plans to evaluate acquisitions that have the potential to contribute short- to medium-term production.
An accident or blowout could occur during offshore drilling operations	The Company's work programme for 2013 involves the drilling of at least two deepwater wells. These wells are on non-operated blocks and as such the Company relies on the HSE procedures mandated by the operator and the contractors. Liabilities associated with an accident are insured to the extent reasonably possible.
Loss of acreage	The Company's exploration licences are at or approaching the end of their initial exploration phases. The Company will be subject to relinquishment requirements, ranging from a portion of a block to an entire licence, at the end of the initial phase.
Staff retention	The Company's ability to compete in the upstream oil and gas exploration and production industry is dependent on being able to retain and attract experienced technical personnel.

Compliance	**The overall external political, industry or market environment may negatively impact on the Group's ability to independently grow and manage its business.**
Deteriorating stakeholder sentiment	Communicate with investors on a regular basis providing transparent and timely information. Effectively convey strategic goals and objectives and improve delivery. The Company has initiated a comprehensive review of its long-term strategic goals and objectives.
Changing regulatory and political environment in India	Develop sustainable relationships with governments and communities. Indian PSC includes fiscal stability clauses. Actively collaborate with industry groups to formulate and communicate interests to government authorities.

Business Review
Corporate Social Responsibility

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

To deliver this goal, our investment and operational decisions take appropriate account of the social, health, safety and environmental impacts that may arise during our activities.

Based on mutual respect and understanding, the Group strives to build and maintain enduring relationships with the Government of India, local authorities, partners and business associates. Respecting the rich cultural diversity of the regions in which we engage in business, the Group strives to minimise our impact on the environment, taking into consideration the specific requirements of the region and local working practices to achieve optimum performance and timely delivery of projects.

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.

The Group contributes to community and social development by carrying out its business activities in a manner that provides energy and infrastructure, employment, skills development and trade to the areas in which the Group operates. The Group will consider monetary and human resource contributions to local social programmes which the Company deems appropriate to contribute or improve the overall wellbeing of the communities in which we operate.

Health, Safety and Environment Activities

The Board has tailored the Group's Health Safety and Environment (HSE) policy and management system taking reference from world class operations to suit Indian conditions. Safety, security and emergency procedures have been incorporated into the weave of the Group's operations. The central HSE Committee and Environment Management Committees meet on a monthly basis to assess and monitor compliance. The Group regularly undertakes internal and external HSE audits, including pre-mobilisation HSE audit of rigs and vessels. The Group undertakes periodic environmental marine monitoring around production facilities and around the drilling locations. Prompt compliance with applicable regulations by the Group has been recognised by concerned agencies.

The PY-3 field's floating production unit, the Tahara, fell out of ABS classification on 30 July 2011 and as a result the field was shut-in.

Compliance to ministerial and regulatory bodies such as OISD, DGH, MOEF, DGMS, ODAG, Coast Guard, Navy, TMB and others are maintained by forwarding necessary reports as required. Hardy participates in different meetings convened by these agencies. Senior officials from these agencies also visit our offshore facilities and appreciate our HSE management system.

The CHSE Committee, the Company's apex body on HSE activities, meets every month and reviews the HSE plans, activities, accidents and incidents pertaining to the month. Representatives from contractors are also invited for these meetings. Regular HSE audits, drills and emergency exercises are carried out in all facilities offshore.

2011 HSE performance

The PY-3 floating production unit, Tahara, has operated for almost three years without an LTA.

Safety performance at a glance

Facility	Date of last LTA	Accident free days since last LTA (as on 31-12-2011)
FPU – Tahara	29-04-2008	1341
FSO – Endeavor	26-04-2010	614
OSV – Tanzanite[Δ]	Nil	759 (Since charter)
OSV – Ocean Jade*	Nil	718 (Since charter)
Bell 412 Helicopter[†]	Nil	977 (Since charter)

Accident statistics at a glance

	2011	2010	2009
Lost time accidents	**0**	1	0
Non lost time accidents	**2**	6	1
Total recordable injuries	**2**	7	1
Non injurious accidents	**4**	4	4
No loss incidents	**2**	3	7
Environmental incidents	**0**	0	0
Total accidents/incidents	**8**	14	12

Δ OSV – Tanzanite has been in service since 16-01-2010

* OSV – Jade has been in service after drydock maintenance since 18-11-2009

† Bell 412 Helicopter, of 'Swajas', has been flying since 01-04-2009

Key HSE activities in 2011:

- Deputy Director General of the India Coast Guard undertook a site visit of the PY-3 field in February 2011 to inspect the Company's oil spill response equipment.
- Hardy participated in the National Level Pollution Response Exercise.
- An OSRL expert was commissioned to undertake a familiarisation programme for PY-3 offshore personnel during in February 2011.
- Secretary to TN Govt. for Minor Ports, State Port Officer, and Port Medical Officer made a site inspection of the PY-3 field in April 2011.
- Hardy was the recipient of the 'Environment Award' for the year 2010 under 'Oil Industry Group', and the award was presented to the Company by the Director General of the India Coast Guard during the 16th NOSDCP Meeting held in April 2011.
- Director, DGMS, visited PY-3 field July 2011
- DGCA Auditor inspected the helifuel system at the Tahara in August 2011.
- In December 2011 the Company was required to order the total evacuation of the FPU – Tahara due to cyclone 'Thane' crossing the coast at Pondicherry, India. The FSO and OSVs were also advised to move to safe waters.

Environmental impact policy and performance

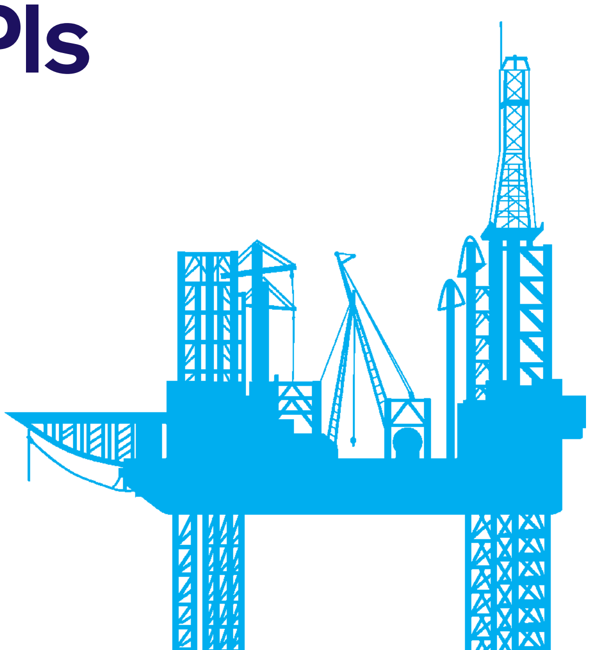
Offshore petroleum operations interact with the marine environment which can lead to short-term and long-term physical, chemical and biological changes to the area.

Marine

As a part of the commitment for environmental protection and towards compliance to the conditions imposed by Ministry of Environment and Forests, Hardy has been regularly carrying out an environmental marine monitoring programme to assess the quality of the marine environment since 1998. A marine environmental survey was carried out in 2008 by Onshore & Offshore Environmental Consultants in collaboration with the Advanced Centre for Marine Biology, Annamalai University. This has been accomplished through implementation of adequate preventive and control measures.

Based on the detailed study and factors highlighted above, it clearly reveals that the marine environment in and around the PY-3 oil field has not been altered or affected by the ongoing production activities. Numeration of phyto and zooplanktons shows that the populations and diversity of the region are maintained and the environment is healthy with good productivity. Infaunal analysis reveals that the sediments are rich in invertebrate fauna with diverse groups of marine organisms. Toxicological studies on fish and crustaceans indicate that the bio-accumulation is within permissible limits. The values obtained during the present study are in accordance with the other marine environments in this region.

In 2011 the Board adopted Total Recordable Injuries as one of Hardy's KPIs



Business Review
Corporate Social Responsibility continued

Environmental management system

Hardy's environmental management system is intended to mitigate the risks of marine pollution due to routine and accidental discharges of wastes and consequent adverse impacts on the marine environment.

Offshore oil platforms generally generate the following wastes:
– major produced water, drilling fluids and drill cuttings; and
– minor deck drainage, sanitary waste and domestic waste.

The various conventions held and agreements reached for setting limits for discharge from offshore oil/gas exploration and production activities provide necessary guidelines for monitoring required standards before discharging different wastes. Set out below is a table outlining the major policies and measures that the Company undertakes as operator of the PY-3 field:

Routine discharges	Control measures
Produced water	Produced water recovered during crude oil or condensate gas treatment is generally warm and charged with salts and solids. The quantity of water produced given by the Water Oil Ratio (WOR) can increase considerably with the age of the oil field. Currently, the PY-3 field produces less than 10 stbd and is treated by gravity separation. Treated water is discharged overboard after confirming no oil content within allowable limits.
Drilling fluids	Drilling fluids are used in exploration and production drilling to maintain hydrostatic pressure control in the well and to lubricate the drill bits. Water-based drilling fluids are currently discharged directly to the ocean after ensuring that there is no oil contamination.
Drill cuttings	The drill cuttings removed from the well are rock debris and mineral particles generated by drilling into underground formations. The discharge of rock cuttings and mud may have adverse environmental effects especially by changing the sediment particle size distribution and also by the possible suffocation of benthic fauna. Except at sensitive areas such as corals and mangroves, water-based cuttings are allowed to be discharged directly into sea after clear separation from the drilling fluids and through washings.
Deck drainage	Deck drainage is either collected and treated separately for oil removal by gravity separation or is handled by the Oil Water Sewage (OWS) system before discharge. Typically, OWS systems are provided with online analysers and if the oil content is above the preset value, it will not allow the water to be discharged.
Domestic wastes	Domestic waste originates from kitchens, laundries and galleys located on drilling and production facilities. It typically comprises metal cans, glass or plastic bottles, papers, boxes and biodegradable wastes. This waste is segregated, stored and dispersed as per the waste management plans of the individual facilities concerned.
Sanitary wastes	Sanitary waste generated from toilets and lavatories need to be treated before discharge. Our facilities are required to maintain a residual chlorine concentration in sanitary waste discharge as close to 1 mg/l as possible for disinfection purposes.
Oil spill contingency plan	An oil spill contingency plan has been prepared in line with IMO guidelines and the National Oil Spill Disaster Contingency Plan. It has been approved by Indian Coast Guard and Oil Industry Safety Directorate (under Ministry of Petroleum & Natural Gas, GOI). As per the plan, resources required for an oil spill will be mobilised based on a tiered approach as follows: Tier 1 within local capability; Tier 2 over and above local capability, resources available with neighbour operations and national agencies (viz. Indian Coast Guard) will also be mobilised; Tier 3 in addition to Tier 2 resources, resources from specialised agencies such as Oil Spill Response Ltd (OSRL), and EARL will also be mobilised.

Air quality

Evaluation of environmental impact via regular ambient air quality studies have confirmed that the air quality is not affected by offshore operations and the main focus of monitoring is of the impact on the immediate marine ecological system.

Flaring: Gas produced from the PY-3 field is associated gas which is separated from the crude oil through conventional processing at the Tahara. Prior to shut-in the field was producing approximately 3.1 mmscfd. The current method of disposal is via power generation (for use on the Tahara) and flaring offshore. The flaring practice will continue until some viable alternative emerges.

Employment practices

Our policy is to ensure equal opportunities in career development, promotion, training and reward for all of our employees. We continually monitor the skills required to manage our activities and ensure there is a balance of skilled, experienced expatriate and local employees in our offices. We seek to avoid discrimination in the workplace in support of our aim to attract, develop and retain talented and committed people to deliver our business goals and objectives.

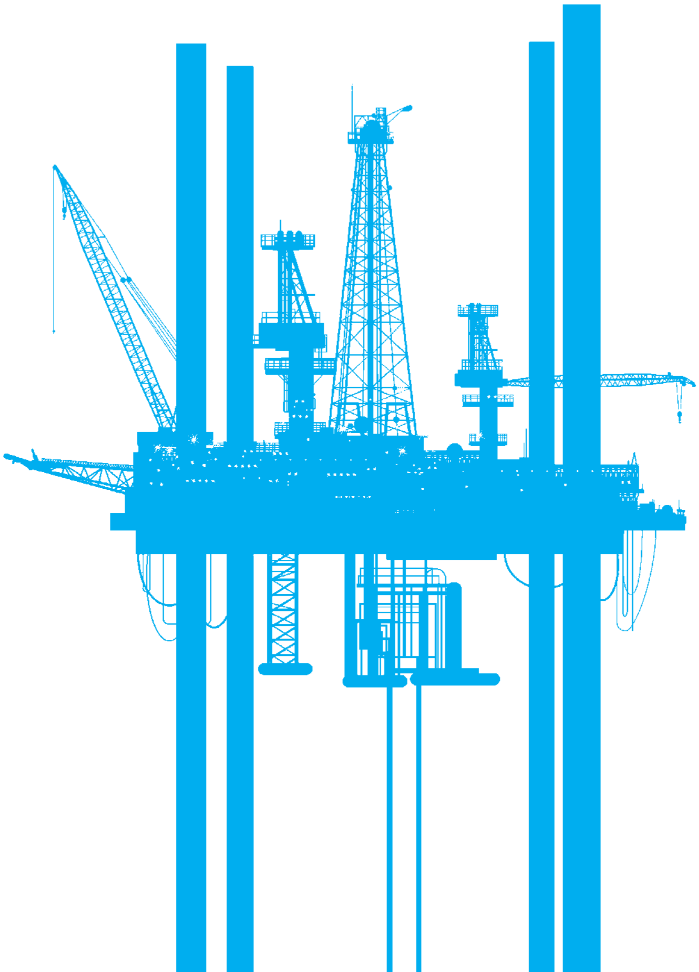
Our India team continues to drive the core of our business and we will look to continue to retain and enhance our technical, operational and management competencies in this region. In 2012 we will continue to need to receive excellence from our staff to effectively execute our 2012 work plan and beyond. The Board would like to take this opportunity to recognise the importance of our team and acknowledge their efforts in the past year.

Outlook

The Board believes that prevention of accidents, ill health and protection of the environment are essential to the efficient operation of its business. The Board is committed to high standards of HSE protection. These aspects command equal prominence with other business considerations in the decision making process. HSE protection are responsibilities shared by everyone working for the Company and the full support of all the Company's staff, corporate partners, and contractors is vital to the successful implementation of this policy. The Board ensures that personnel are aware of their delegated HSE responsibilities and are properly trained to undertake them diligently. The Board aims to ensure that the necessary resources are provided to support this policy fully and to seek continuous improvement in performance.

High corporate social responsibility standards and constant grass roots level interaction give the Group awareness of local communities' sensibilities and needs.

The Board aims to ensure that the necessary resources are provided to support high HSE standards and to seek continuous improvement in performance



Business Review

Board of Directors

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02

03

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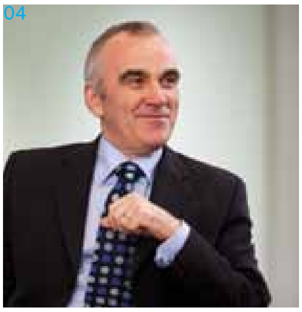
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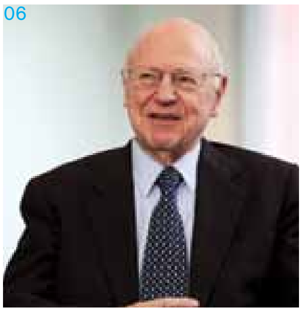
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08


01. **Alasdair Locke**
Non-Executive Chairman

02. **Ian MacKenzie**
Chief Executive Designate

03. **Yogeshwar Sharma**
Chief Executive Officer

04. **Peter Milne**
Non-Executive Director

05. **Dr Carol Bell**
Senior Non-Executive Director

06. **Paul Mortimer**
Non-Executive Director

07. **Pradip Shah**
Non-Executive Director

08. **Ian Bruce**
Non-Executive Director

Alasdair Locke *(aged 58)*
Non-Executive Chairman

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 was appointed to Hardy's board as Non-Executive chairman in January 2012. He is also Chairman of Argenta Holdings plc, an unlisted holding company which trades in Lloyds of London. 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).

Ian MacKenzie *(aged 54)*
Chief Executive Designate

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 has held directorships for six UK registered companies as well as six Norwegian companies for which he was the chairman of the main 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 Gordons, Aberdeen. He also has formal qualifications in Finance & Accounts. He is a Chartered Mechanical Engineer, FEANI registered European Engineer, member of the Energy Institute, Society of Petroleum Engineers and a past external examiner in the RGU Oil & Gas MSc course.

Yogeshwar Sharma *(aged 60)*
Chief Executive Officer

Mr Sharma, a co-founder of Hardy, has over 40 years of broad international oil and gas industry experience, with particular emphasis in reservoir engineering and field management. Prior to founding Hardy, he worked at Schlumberger Doll Research in the USA, and Elf Geoscience Research Centre in London. While with Elf International he was an external examiner at Heriot Watt University for three years. Mr Sharma completed his undergraduate studies at the University of Alberta in Mechanical Engineering and postgraduate studies at the University of Calgary in Chemical Engineering. He is a registered Professional Engineer in Alberta, Canada, a full member of the SPE and a member of the Society of Applied Industrial Mathematics. Mr Sharma has published articles on reservoir engineering and reservoir modelling in the Journal of Petroleum Engineering. He is a non-executive director of Longreach Oil and Gas Ventures Limited. Mr Sharma will remain as Chief Executive Officer until the Company's Annual General Meeting on 16 May 2012 when he will become a Non-Executive Director and will be succeeded as Chief Executive Officer by Mr MacKenzie.

Peter Milne *(aged 57)*
Non-Executive Director

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.

Dr Carol Bell *(aged 53)*
Senior Non-Executive Director

Dr Bell was appointed as an independent Non-Executive Director in December 2005. Dr Bell has over 30 years' experience in the oil and gas sector, most recently as the managing director of Chase Manhattan's Global Oil & Gas Group. Prior to that she was the global head of J.P. Morgan's energy team in equity research. Dr Bell began her career in corporate planning and development with RTZ Oil and Gas and subsequently worked with Charterhouse Petroleum plc. She was awarded a PhD in the archaeology of ancient trade in May 2005. Dr Bell is a member of the investment advisory committee of Gemini Oil and Gas (an oil and gas royalty fund). She is also a director of global offshore seismic services company Petroleum Geo-Services ASA (PGS) and the exploration and production companies Der noske oljeselskap ASA and Salamander Energy plc.

Paul Mortimer *(aged 78)*
Non-Executive Director

Mr Mortimer has diverse board level experience and over 30 years experience in the oil, gas and mining industries. Mr Mortimer held various senior management roles through his 23 year career with Exxon Corporation including senior vice president of Exxon Minerals, New York, and director and vice president of Esso Argentina, Buenos Aires. After Exxon, he was responsible for corporate development and coal at Newmont Mining Corporation in New York and was a director of Peabody Coal. He has acted as a consultant to Morgan Stanley and a number of gold mining companies. He is a director of two oil and gas royalty funds, Gemini Oil and Gas Limited and Gemini Oil and Gas Management Limited. Mr Mortimer, a mining engineer from South Africa, was awarded a Rhodes Scholarship in 1957 and read Politics, Philosophy and Economics at Oxford. He also holds an MBA from the Harvard Business School.

Pradip Shah *(aged 59)*
Non-Executive Director

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.

Ian Bruce *(aged 58)*
Non-Executive Director

Mr Bruce is former co-chairman of Peters & Co. Limited, an independent, fully integrated investment dealer in the Canadian energy sector. Mr Bruce spent six years with a major Canadian chartered accountancy firm prior to starting in the investment business in 1983. He joined Peters & Co. Limited in 1998, following senior roles with RBC Dominion Securities (1985 to 1994) and Scotia Capital Markets (1994 to 1998). Mr Bruce was the former chairman and director of the investment industry association of Canada (2006), has been past chairman, director and executive committee member of Alberta Children's Hospital Foundation (1989 to 2004), and past director and executive committee member of the Investment Dealers Association of Canada. Mr Bruce holds an undergraduate degree from Queen's University; an MBA from the Richard Ivey School of Business at the University of Western Ontario; and the designations of chartered accountant, chartered business valuator and CF (Corporate Finance Qualification). In 2004, he became a Fellow of the Chartered Accountants of Alberta, Canada.

Executive officers

Ramasamy Jeevanandam
Chief Financial Officer – HEPI

Mr Jeevanandam has over 30 years of industry experience in the upstream oil and gas industry. Mr Jeevanandam previously worked at ONGC for over 14 years holding a position of joint director – finance prior to leaving. He is a Certified Public Accountant (USA), Chartered Financial Analyst (India), Qualified Cost Accountant and Company Secretary from the India Institute of Cost Accountants and Company Secretaries and holds a postgraduate degree in Commerce and a Law degree from the University of Madras. Mr Jeevanandam joined Hardy in 1997 as head of finance for Indian operations and has been the CFO and Director of HEPI since 2000.

Richard Galvin
Treasurer & Corporate Affairs Executive

Mr Galvin has over 15 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 Treasurer & Corporate Affairs Executive of the Company in 2011.

Governance
Corporate Governance Statement

Introduction
The Board is committed to ensuring that high levels of corporate governance are achieved. 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 UK Corporate Governance Code
The Company does maintain a listing on the London Stock Exchange and as a result is required to make certain statements relating to the way it is governed, covering issues provided for in The UK Corporate Governance Code published in June 2010 (the Code). The Code is publically available on the Financial Reporting Council's website at www.frc.org.uk. In compliance with the Code, this report describes the manner in which the Company has applied the main principles of governance set out in the Code and provides an explanation where the Board has chosen to not comply.

The Company continues to be an explorer with limited cash flows and a modest employee base of approximately 37 people. The Company has a clear mandate to optimise the allocation of limited resources to support its exploration programme. As such, 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 addressing specific Combined Code deficiencies and 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 December 2011. Disclosures below include matters where Hardy has not fully complied during 2011 and its plans for compliance during 2012.

Leadership
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 strong, sustainable financial performance and long-term shareholder value. To achieve this, the Board directs and monitors the Company'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 Company. The Board has a formal schedule of matters reserved which is provided later in this report.

Composition
At the beginning of 2011 the Company's Board comprised a Non-Executive Chairman, Chief Executive Officer, Finance Director and three independent Non-Executive Directors.

Effective 31 August 2011, Dinesh Dattani, the Finance Director of Hardy, ceased to be a Director of the Company.

Subsequent to the year end, the Board approved the appointment of Alasdair Locke as Non-Executive Chairman, Ian MacKenzie as Chief Executive and Peter Milne as a Non-Executive Director.

At the AGM to be held on 16 May 2012, shareholders will be asked to elect Alasdair Locke, Ian MacKenzie, and Peter Milne who were appointed to the Board in early 2012. In addition Pradip Shah is seeking re-election as Non-Executive and as previously announced Yogeshwar Sharma is seeking election as a Non-Executive Director following Mr MacKenzie's appointment as Chief Executive. Dr Carol Bell, Ian Bruce and Paul Mortimer will not be seeking re-election and will step down from the Board at the Company's next AGM. Further information is contained in the accompanying AGM circular.

Biographical details of the Board members are set out on page 28 and 29 of this report.

Following the Company's AGM election the Board will comprise one Executive, a Non-Executive Chairman and three Non-Executives. The Non-Executive Directors have either held senior appointments in oil and gas companies, companies with interests in the energy sector or have significant corporate and financial experience and bring a broad range of business, technical and commercial experience to the Board. The Board believes that its composition is suitable for operating an effective publicly traded international junior oil and gas company.

How the Board operates
The Board holds scheduled meetings regularly during the year and also meets on an ad hoc basis as required. The Board endeavours to arrange for one meeting to be held at its India based office. This provides senior managers from across several disciplines with the opportunity to present to the Board and to meet the Board members informally. It also provides the Board with an opportunity to meet a broad cross section of staff and to assess senior managers at first hand.

During 2011 the Board met on 13 occasions. In addition to the formal meetings of the Board, the Chairman and Chief Executive Officer maintained frequent contact with the other Directors to discuss any issues of concern they may have had relating to the Company and kept them fully briefed on the Group's operations.

Set out below is a table showing attendance at Board meetings by the Directors during 2011.

Director	Meetings attended
Paul Mortimer	13
Yogeshwar Sharma	13
Dinesh Dattani*	11
Dr Carol Bell	11
Pradip Shah	11
Ian Bruce	11

*Ceased to be a Director effective 31 August 2011

The Board is pleased with the high level of attendance and participation by both Executive and Non-Executive Directors at Board and committee meetings.

In addition to the formal meetings of the Board, the Executive Directors maintain frequent verbal and written contact with the Non-Executive Directors to discuss various issues affecting the Company and its business. In addition, the Board executes a number of resolutions in writing to conduct Company business.

The Non-Executive Directors, including the Chairman, meet without the Executive Directors present, generally at the end of every Board meeting. Matters arising out of such discussions are communicated to the Executive Directors as appropriate.

Information flow
The Chairman establishes the agenda for each Board meeting after consultation with other Directors. Business set out on Board agendas is discussed at each meeting with sufficient information provided to all the Directors. Board meeting agendas and supporting information and

working papers are circulated to each Director prior to each meeting. Directors are provided sufficient information on the basis of which to discuss relevant matters in order to allow Directors to be appropriately informed and able to make informed decisions.

At most Board meetings, the Board reviews future cash flows and historical financial information with respect to the business and affairs of the Company. In addition, the Directors are provided a status report on each of its exploration, development and production assets and a meaningful dialogue takes place. The Board receives reports of its various committees – Audit, Remuneration and Nomination – and takes appropriate action. Matters requiring resolutions are voted upon and approved if appropriate. Matters reserved specifically for Board approval are discussed and evaluated prior to approval. Decisions requiring Board approval in between scheduled Board meetings are made by circulating supporting information and approved unanimously in writing by the Directors.

Matters specifically reserved by 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 disposal, material contracts, major capital expenditure projects and budgets.
- Capital structure, debt and equity financing and other matters.
- Risk management and internal controls (supported by the Audit Committee).
- The Company's corporate governance and compliance arrangements.
- 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 Company's Senior Executive team. Certain other matters are delegated to the Board committees, namely the Audit, Remuneration and Nominations Committees.

Directors

Chairman and Chief Executive Officer
There is a defined separation of the responsibilities between Non-Executive Chairman and the Chief Executive Officer of the Company. The Chairman is primarily responsible for the effective working of the Board while the Chief Executive Officer is responsible for the operational management of the business, for developing strategy in consultation with the Board and for the implementation of the strategy. The roles of Chairman and Chief Executive Officer are exercised by different individuals.

For the year ended 31 December 2011, Mr Paul Mortimer was the Non-Executive Chairman of the Company. In January 2012 Mr Alasdair Locke was appointed to the Board and subsequently assumed the role of Non-Executive Chairman.

Non-Executive Directors
The Non-Executive Directors bring a broad range of business and commercial experience to the Company. The Board considers each of the Non-Executive Directors to be independent in character and judgement.

Mr Shah has served as a Non-Executive Director for a period of more than nine years and has previously been granted 260,333 options to purchase Ordinary Shares in the Company. Such options were granted upon the Company's listing on AIM in June 2005. The Board has dispensed with the grant of stock options to the Non-Executive Directors since 2005. Notwithstanding this 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.

Mr Sharma has previously been granted 1,280,700 options to purchase Ordinary Shares in the Company. Such options were issued as part of his remuneration package as an Executive Director of the Company. Notwithstanding that Mr Sharma has been an employee of the Company in the past five years the Board is fully satisfied that he demonstrates complete independence, robustness of character and judgement in his role as a Board member.

The Board acknowledges that most of the Non-Executive Directors have shareholdings in the Company thus expressing their confidence in the Company and its future.

Senior Independent Director
The Senior Independent Director is available to meet shareholders if they have concerns that cannot be resolved through discussion with the Chairman, the Chief Executive, or for which such contact is inappropriate. For the year ended 31 December 2011 Dr Carol Bell was the Company's Senior Independent Non-Executive Director. She will remain the Senior Independent Non-Executive Director until the Company's next AGM when Mr Peter Milne will assume the role of Senior Independent Director.

Delegations of authority

Board Committees
The Board has established Audit, Remuneration and Nomination Committees, each of which has terms of reference (approved by the Board) setting out its authority and duties. The terms of reference for Audit, Remuneration and Nomination Committees can be found on the Company's website. The Board considered various issues that would normally fall within the terms of reference of the various committees. All members of the Audit Committee, the Remuneration Committee and the Nomination Committee are Non-Executive Directors. The membership and roles of these committees are detailed in a separate section of this report; the Audit Committee on pages 34 to 35, the Nomination Committee on page 41, and the Remuneration Committee on pages 36 to 40.

Executive Committee
The Board delegates authority for the management of the day-to-day business and operational matters to the Chief Executive Officer and other Executives. The Committee meets on a bi-weekly basis. The Committee currently comprises the Chief Executive Officer, Chief Financial Officer of HEPI and the Treasurer & Corporate Affairs Executive.

Other governance matters

Independent professional advice
All of the Directors are aware that independent professional advice is available to each Director in order to properly discharge his or her duties as a Director. In addition, each Director and 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 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.

Governance
Corporate Governance Statement continued

Induction
All new Directors received an induction as soon as practical on joining the Board. This included meetings with the Executive Committee members and other senior management and, where appropriate, visits to the Company's principal offices of operation. The new Directors were also provided an overview of their duties as a Director, corporate governance policies and established Board procedures as part of the induction process. An induction was given to Messrs Locke, MacKenzie and Milne at the beginning of 2012 and the process is ongoing.

In 2011, the Chairman reviewed training and development needs with each Director. 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 Company. The Board had 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 Company. 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 has a policy of appraising Board performance annually. Having reviewed various approaches to Board appraisal, Hardy has concluded that for a company of its current scale, an internal process in which all Board members submit answers to a questionnaire that considers the functionality of the Board and its committees, is most appropriate at this stage. This questionnaire also contains a series of questions to evaluate the performance of individual Board members and that of the Chairman. The Senior Independent Non-Executive Director is responsible for reporting on this matter to the Remuneration Committee and to the Board, including reviewing the performance of the Chairman, with the exception of reviewing their own performance (which is carried out by the Chairman). The process of completing the performance evaluation of the Board as a whole, its Chairman, and individual Executive and Non-Executive Directors, was completed in early 2011.

Each 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.

Business model
Hardy creates value through the exploration of undiscovered hydrocarbons. In order to explore we must first be granted a licence by the Government 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 underexplored sedimentary basins. 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. If the appraisal programme confirms that development of a discovery will be commercially and financially viable, we begin work on a development plan. This maps out how we will get the hydrocarbons into production to generate revenue and cash flow. We also create value through the implementation of enhanced production strategies to optimise the value of recoverable hydrocarbons from existing producing fields.

Shareholder relations
Communication with shareholders is given high priority and there is regular dialogue with institutional investors, as well as general presentations made at the time of the release of the annual and interim results. All Directors are kept aware of changes in major shareholders in the Company and are available to meet with shareholders who have specific interests or concerns. The Company issues its results promptly to individual shareholders and also publishes them on the Company's website: www.hardyoil.com. Regular updates to record news in relation to the Company and the status of its exploration and development programmes are included on the Company's website. Shareholders and other interested parties can subscribe to receive these news updates by email by registering online on the website free of charge.

The Chairman and all Executive Directors are available to meet with institutional shareholders to discuss any issues and gain an understanding of the Company's business, its strategies and governance. At the 2011 Annual General Meeting of shareholders, several directors were present including the Chairman. Dr Carol Bell currently serves in the capacity 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 Directors. Meetings are also held with the corporate governance representatives of institutional investors when requested.

Annual General Meeting
At every AGM individual shareholders are given the opportunity to put questions to the Chairman, and Executive Directors and to other members of the Board that may be present. Notice of the AGM 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.

Internal controls
The Board of Directors reviews the effectiveness of the Company's system of internal controls in line with the requirement of the 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 Company has necessary procedures in place for the year under review and up to the date of approval of the Annual Report and Accounts. The Directors acknowledge their responsibility for the Company'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 Company. A risk assessment for each project is carried out by a team consisting of the Executive Directors and senior management before making any commitments. This team meets as and when required. Internal and external risks, including exploration and development risks, regulatory and compliance obligations under various production-sharing contracts, economics including oil price, interest rate and currency exposure, as well as natural catastrophes are continuously assessed.

During 2011, the Audit Committee reviewed and reported to the Board the effectiveness of the system of internal control through detailed consideration of the financial control procedures in place. Given the size of the Company, 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. Most of the assets are owned jointly with others, budgets and expenditures are rigorously reviewed and approvals as well as project audits take place with respect to capital and operating expenditures on a regular basis.

The Directors are responsible for taking such steps as are reasonably available to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Going concern
The Company's business activities, together with factors likely to affect its future operations, financial position, and liquidity position are set out in the Chairman's Statement, Chief Executive's Statement, Review of Operations, Financial Review, and the Risks and Uncertainties section of the Annual Report. In addition, note 25 to the consolidated financial statements discloses the Company'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, are of the opinion that the Company has adequate working capital to execute its operations and has 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 financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As a result, the Directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements in accordance with Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009.

Non-compliance with the UK Corporate Governance Code
The Company did not comply with the UK Corporate Governance Code in the following matters during 2011.

Code provision	Subject matter	Discussion
B.1.1	Non-Executive Directors meeting independence requirements	Paul Mortimer and Pradip Shah have served for more than nine years. As a result, under the Company's policy, both Directors are subject to annual re-election. Paul Mortimer, Pradip Shah and Carol Bell were granted share options in 2005 when the Company's Ordinary Shares were listed on AIM. The Board has confirmed, notwithstanding the above, that all of the Non-Executive Directors are independent.
C.3.4	Audit Committee whistleblower arrangements	The Audit Committee has made arrangements for the adoption of a formal whistleblower policy in conjunction with an overarching Employee Code of Conduct. The Employee Code of Conduct is expected to be adopted by the Board later in the year at which time a copy will be published on the Company website.
D.1.3	Remuneration for Non-Executive Directors should not include share options	Share options were granted in 2005 to Non-Executive Directors when the Company was listed on AIM and not subject to the Code. The Company has changed its policies whereby no share options have been granted to Non-Executive Directors since 2005.

The Board believes that its composition is suitable having regard to its international stature with a focus on India. Notwithstanding the long tenure of some of the Directors, the Board believes all of the Non-Executive Directors provide valuable advice and counsel in furthering the business objectives of the Company.

Although Hardy is a publicly-listed company and has been listed on the London Stock Exchange's main market for listed securities since February 2008, the Company continues to be an early stage exploration company with limited cash flows and a modest employee base of approximately 37 people. The Company has a clear mandate to optimise the allocation of limited resources to support its exciting exploration programme. As such, 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 addressing specific Code deficiencies and enhancing the Company's corporate governance policies and practices deemed appropriate for the size and maturity of the organisation.

Alasdair Locke
Chairman
6 March 2012

Governance
Audit Committee Report

The Committee comprises four Non-Executive Directors and oversees the Company's financial reporting and internal controls, and provides a formal reporting link with the external auditors. The full terms of reference for the Audit Committee are available on the Company's website: www.hardyoil.com.

The Committee met four times during the year. The attendance of members at the Audit Committee meetings held in 2011 was as follows:

Director	Meetings attended
Dr Carol Bell (Chairman*)	4
Ian Bruce	4
Pradip Shah	4
Peter Milne**	–

* Chairman of the Audit Committee until the Company's next Annual General Meeting in May 2012

** Will be appointed Chairman following the Company's next Annual General Meeting in May 2012

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

– Monitoring the controls that are in place to ensure the integrity of the financial information reported to shareholders.
– Reviewing significant financial reporting issues and accounting policies and disclosures in financial reports.
– Overseeing that an effective system of internal control and risk management systems are maintained.
– Overseeing the relationship with the external auditors, reviewing the scope and results of audits.
– Providing a forum for reporting by the Group's external auditors, including regular in-camera discussions.
– Approving non-audit services provided by the external auditors, or any other accounting firm.
– Ensuring the independence and objectivity of the external auditors is safeguarded when appointing them to conduct non-audit services.
– Ensuring compliance with legal requirements, accounting standards and the Listing Rules and the Disclosure and Transparency Rules.

The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board. Some or all Executive Directors attend meetings of the Audit Committee by invitation.

The Code requires that at least one member of the Audit Committee has recent and relevant financial experience. Dr Carol Bell, who was the Chairman of the Audit Committee for 2011, has over 30 years of oil and gas sector experience, most recently as managing director of Chase Manhattan's Global Oil & Gas Group. Mr Ian Bruce is a CA, CBV and CF and until his retirement in 2011 was the co-chairman of Peters & Co. Limited, an independent, fully integrated investment dealer in the Canadian energy sector. Mr Pradip Shah is also a chartered accountant. As a result the Board is satisfied that the Audit Committee has recent and relevant financial experience.

The Company's external auditors are Crowe Clark Whitehill LLP and the Audit Committee closely monitors the level of audit and non-audit services they provide to the Group. In 2011 Crowe Clark Whitehill did not provide non-audit services to the Company.

In 2011 the Finance Director and the Chief Financial Officer of Hardy Exploration & Production (India) Inc. were invited to attend each meeting of the Audit Committee during 2011. The external auditors have unrestricted access to the Audit Committee Chairman. During the 2011 audit process, the Audit Committee Chairman met with the audit engagement partner from Crowe Clark Whitehill, without the presence of management.

In 2011, the Audit Committee met on four occasions. The key work undertaken by the Committee was as follows:

Consideration and review of full-year and half-yearly results

– The Audit Committee met with the external auditors as part of the full-year and half-yearly accounts approval process.

Audit planning and update on relevant accounting developments

– The Audit Committee approved the scope of the work to be undertaken by the external auditors for interim and year-end statutory audits.

Consideration and approval of the risk management framework, appropriateness of key performance indicators

– The Audit Committee considered the recommendations put forward by the Executive to adopt a risk management framework which provides for 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.
– The Executive provided clear updates of risk and uncertainties facing the Company and accompanying actions to mitigate such risk for the Company's Interim and Annual reports.
– The Audit Committee undertook a review of the key performance indicators that had been adopted by the Company in previous years. As a result of the review the Company has modified its reported key performance indicators for 2011.

Absence of Financial Director

– With the retirement of Dinesh Dattani as Finance Director and subsequent to the Board's decision not to appoint another Financial Executive to the Board, the Audit Committee considered the appropriateness of previous year-end audit practices. Mr Jeevanandam (CFO of HEPI) has previously been significantly involved in the preparation and delivery of the Company's year-end report and accounts and would continue to do so. The Chairman of the Committee agreed to be available to provide a higher level of oversight during this year's Audit process.

Review of accounting policy for exploration and evaluation assets and the adoption of successful efforts method of accounting

– The Audit Committee regularly reviews the overall reasonableness of the Company's accounting policies. For the 2011 accounts the Audit Committee requested that management and the external auditor (Crowe Clark Whitehill) provided the Audit Committee with information to enable it to assess whether the full cost method of accounting for its oil and gas assets is consistent with those used by peer companies in the upstream oil and gas industry.
– Following the review the Audit Committee deemed that the successful efforts method of accounting provided a reasonable and appropriate presentation in line with the Company's international oil and gas peers. As a result the Committee recommended the restatement of the Company's 2010 and 2011 accounts.

Review of the Company's internal control system

- During 2011, the Audit Committee reviewed and reported to the Board on the effectiveness of the system of internal control through detailed consideration of the financial control procedures in place. Given the size of the Company, the relative simplicity of the systems and the close involvement of senior management, the Committee 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. Most of the assets are owned jointly with others, budgets and expenditures are rigorously reviewed and approvals as well as project audits take place with respect to capital and operating expenditures on a regular basis.

The Code states that the Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment or removal of the external auditors. On the basis of the review of external audit effectiveness, the Committee recommended to the Board that it recommends to shareholders the re-appointment of the auditors at the Company's 2012 Annual General Meeting.

Dr Carol Bell
Chairman of the Audit Committee
6 March 2012

Governance
Remuneration Committee Report

This Directors' Remuneration Report has been prepared in accordance with the requirements of the Listing Rules of the financial Services Authority. The relevant legislation requires the Auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether, in their opinion, the part of the report that has been subject to audit has been properly prepared in accordance with the relevant legislation. This report is therefore divided into separate sections to disclose the audited and unaudited information.

Unaudited information

The Company's Remuneration Committee comprises three Non-Executive Directors: Mr Pradip Shah (Chairman), Mr Paul Mortimer, and Dr Carol Bell. Hardy's Remuneration Committee operates within the terms of reference approved by the Board.

The attendance of members at the Remuneration Committee meetings held in 2011 was as follows:

Director	Meetings attended
Pradip Shah*	4
Paul Mortimer	4
Dr Carol Bell	4

* Chairman of the Committee

Main responsibilities

The Remuneration Committee considers remuneration policy, employment terms and remuneration of the Executive Directors 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 Executive Directors 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.

None of the Directors participate in any discussion or votes on any proposal relating to his or her own remuneration. 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 Directors outside the framework of the Remuneration Committee.

Committee advisors

In the past the Remuneration Committee had engaged Simon Patterson of Patterson Associates as a Remuneration Consultant to assist the committee in setting the remuneration of Executive Directors and Non-Executive Directors. No remuneration advisors were retained by the committee during 2011.

Statement of Hardy's policy on Directors' remuneration

The Company has established levels of remuneration that are appropriate to attract, retain and motivate Executive Directors of the quality required to run its business successfully. A significant proportion of Executive Directors' remuneration is structured so as to link rewards to corporate and individual performance, align their interests with those of shareholders and to incentivise them to perform at the highest levels. The Remuneration Committee considers remuneration policy and the employment terms and remuneration of the Executive and makes recommendations to the Board of Directors on the overall remuneration packages for the Executives.

The main goals of Hardy's remuneration policy are to reward past performance, incentivise future performance, encourage teamwork, retain Company talent and assure alignment with shareholders. These goals are achieved by maintaining appropriate base salaries, annual cash bonuses and providing a systematic annual grant of options. All incentive compensation levels are subject to recommendations of the Remuneration Committee and approved by the Board.

Executive remuneration

Base salaries

Base salaries of Executive Directors are reviewed on an annual basis. No changes to base salaries have been made since 1 July 2007 except for the Chief Executive Officer whose base salary was increased effective 1 April 2010.

Annual bonus

Although the Company has the policy of awarding cash bonuses, no such awards have been made to Executive Directors to date. In the future, the Remuneration Committee will consider recommending the total amount available for annual bonuses having regard to the cash requirement and overall performance of the Group. The size of the bonus will correspond to the salary of the Executive Director and each participant based upon performance targets, including corporate, team and individual performance measures. Any cash bonus shall be targeted at 20 per cent of base salary and shall not exceed 40 per cent of base salary. Each year, transparent objectives will be set for each participant.

Share options

The Company has adopted a policy of granting stock option awards on an annual basis although stock option awards cannot be made during close periods. The Board believes that equity incentives are and will continue to be an important means of retaining, attracting and motivating Directors, senior management and key employees. Accordingly, in June 2005, the Board adopted the share option scheme entitling the Company to award options to Directors and employees. The Company's share option scheme has been considered and approved by the shareholders in 2006. Options are not granted at a discount to the market value. Under the scheme, options are exercisable between the 1st and 10th anniversaries of the date of grant. Options granted in June 2005 were subject to performance conditions whereby the share price of Hardy would need to rise by 20 per cent, 45 per cent and 70 per cent of the price at which the Hardy IPO was undertaken. In the first year of the performance period, one third of the options will become exercisable at or after 12 months following the date of grant. One third of the options will become exercisable at or after 24 months following the date of grant. The remaining one third of the options will become exercisable at or after 36 months following the date of grant. All of such performance conditions have been met.

All options granted in 2010 and subsequent years, will generally 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. In the event that the Performance

Condition is not satisfied by the fifth anniversary of the date of grant, the options shall lapse. Options will vest immediately upon the occurrence of a Rule 8 Event under the unapproved share option scheme (relating to change of control etc).

Following shareholder consultation in 2011 regarding the awarding of share options, the Remuneration Committee will consider the setting of performance conditions such as multiple tests for vesting share options, relative performance as a benchmark, and internal targets.

Pension and other benefits
The Company provides for pension contributions to Executive Directors, personal pension plans as well as life and medical insurance.

Non-Executive remuneration

Policy
The main goals of the Company's remuneration policy for the Chairman and Non-Executive Directors are to assure alignment with shareholders through independence, recognise time commitments devoted to corporate affairs and attract and retain outstanding candidates.

The remuneration of the Non-Executive Directors is determined by the Chairman and the Executive Directors 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 Company'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.

Director fees
Each Non-Executive Director currently receives an annual fee of £36,000. Mr Mortimer received an additional annual fee of £12,000 to reflect his additional responsibilities as Chairman. Each Non-Executive Director is also entitled to the reimbursement of necessary travel and other expenses. Mr Locke was appointed as Non-Executive Chairman of Hardy on 13 January 2012 and is entitled to receive an annual fee of £100,000. Mr Milne was appointed as a Non-Executive Director on 1 March 2012 and is entitled to receive an annual fee of £50,000.

Restricted share awards
Effective 1 January 2009, restricted shares are to be issued to the Chairman and each Non-Executive Director on an annual basis. The number of restricted shares to be issued will be equivalent to 25 per cent of their 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 cash fee. In the event of a close period, such shares will not be issued until after the close period is over. In the event of change of control of Hardy and the participant is no longer a Director going forward, all of 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, the Board has discretion to accelerate vesting on a date determined by it.

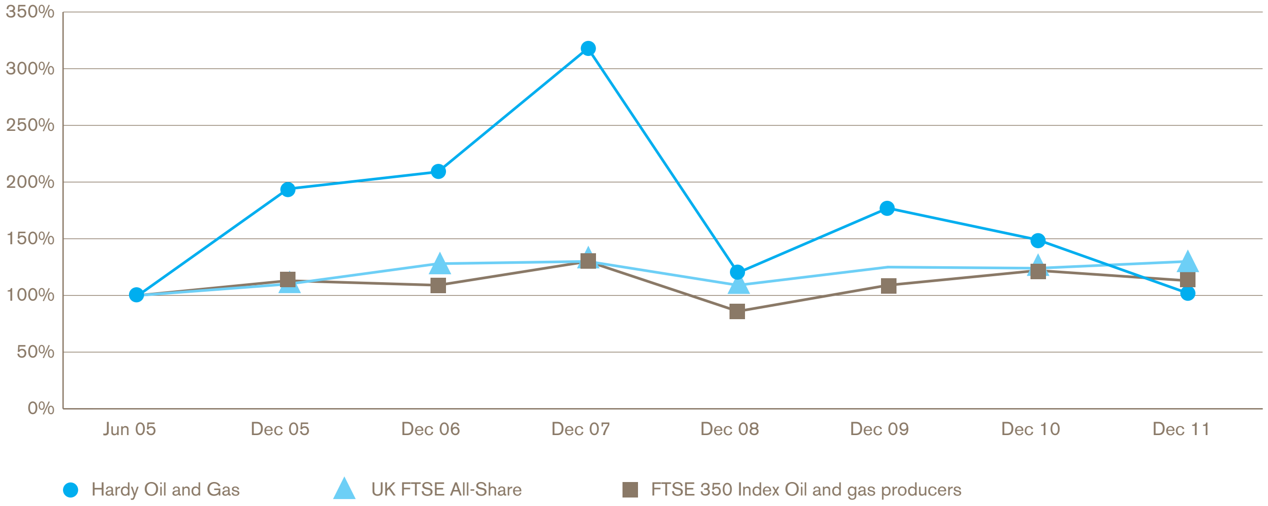
A one-time restricted share award may be made to a new Non-Executive Director on joining the Board. Such an award was made to Messrs Alasdair Locke and Peter Milne upon their appointments as Directors in January and February 2012. The Company was in a closed period at the time of their respective appointments; as such the issuance of restricted shares will be executed following the publication of the Company's preliminary results. Such shares will be held in trust and will be released after three years from the date of issue (subject to earlier release in certain circumstances) provided they remain Directors of the Company for that period.

Legacy share option awards to Non-Executive Directors
Mr Paul Mortimer, Mr Pradip Shah, and Dr Carol Bell have previously been granted options to purchase Ordinary Shares of Hardy in the past. Executive Directors were granted stock options during October 2010. No options have been granted to Non-Executive Directors since 2005. Options will be forfeited if a Director resigns before the options vest. In other circumstances, the vesting of options will be at the discretion of the Remuneration Committee and Board approval. In the event of a change of control, all of the unvested options will vest. Options granted following the initial public offering in June 2005 were subject to performance conditions based upon appreciation in the price of Ordinary Shares of the Company. All of the performance conditions have been met. Subsequent options granted have been subject to vesting provisions over a three year period, commencing from the anniversary of the date of grant.

Governance
Remuneration Committee Report continued

Performance graph
Ordinary Shares of the Company were listed on the AIM exchange from 10 June 2005, and 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.

Shareholder return and index performance
05 June 2005 – 31 December 2011



Service agreements and Letters of Appointment
All of the service contracts with Directors are on an evergreen basis, subject to termination provisions. The Company may in lieu of notice terminate an Executive'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 in lieu of the notice period. As a matter of Company policy, no bonuses shall accrue as a result of lapse of time in the event of termination. The appointments of Executive Directors are subject to termination of 12 months or less by either party. The appointments of Non-Executive Directors are subject to termination upon at least three months' notice.

The service contract of Mr Sharma is on an evergreen basis until terminated by not less than six months' written notice or such longer period as may be required by statute. 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 contracts.

Yogeshwar Sharma entered into parallel services agreements with the Company and HEPI (with the payment of salary and other individual terms being governed by the agreement with HEPI) dated 2 June 2005. His services agreements with the Company and HEPI were updated effective 1 April 2010. His appointment is subject to termination upon six months' notice by either party. Effective 1 April 2010, his salary was increased from £200,000 to £225,000 per annum. Mr Sharma has agreed to step down from his role as Chief Executive Officer at the Company's next AGM.

Ian MacKenzie entered into a service agreement with the Company with effect of 1 February 2012, subject to termination upon 12 months' notice by either party. The agreement provides for an annual salary of £225,000, 7.5 per cent pension contribution, membership of a medical scheme, life and long-term disability assurance cover, travel costs and professional dues. Upon Mr MacKenzie's appointment he is entitled to the award of 750,000 options in accordance with the Company's Unapproved Share Option Scheme. The options will be subject to various performance conditions.

The services of Paul Mortimer, Pradip Shah, Dr Carol Bell, Ian Bruce, Alasdair Locke and Peter Milne as Non-Executive Directors are provided under the terms of agreements with the Company and each Non-Executive Director dated 2 June 2005 with respect to Messrs Mortimer and Shah, 16 December 2005 with respect to Dr Bell, 24 October 2008 with respect to Ian Bruce, 13 January 2012 with respect to Alasdair Locke and 29 February 2012 with respect to Peter Milne. These appointments are subject to termination upon at least three months' notice.

Mr Locke's terms of agreement provides for the one time award of restricted shares equivalent to £50,000 in the event that 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 and an award of restricted shares equivalent to £50,000 upon the appointment of a new Chief Executive Officer.

Directors' beneficial interest in shares

The Directors who held office at 31 December 2011 and who had beneficial interests in the Ordinary Shares of the Company can be summarised as follows:

Name of Director	Position	As at 31 December 2011	2010
Paul Mortimer[Δ]	Non-Executive Chairman	**882,193**	875,432
Yogeshwar Sharma	Chief Executive Officer	**4,158,135**	4,158,135
Dr Carol Bell [Δ]	Senior Non-Executive Director	**9,106**	4,036
Pradip Shah[Δ]	Non-Executive Director	**673,541**	668,471
Ian Bruce[*†Δ]	Non-Executive Director	**444,892**	439,822

* Includes 11,192 Ordinary Shares beneficially held for his children.
† On 24 October 2008, Ian Bruce was appointed a Non-Executive Director of the Company. On that date, he was issued 20,182 Ordinary Shares of Hardy, with a value of £50,000 under a Restricted Shares Agreement. Such Ordinary Shares are held in escrow and will be released to him after three years (subject to acceleration in certain circumstances), provided he remains a Director of the Company for a period of three years.
Δ Also includes restricted shares awarded to Non-Executive Directors (including the Chairman) as part of their remuneration.

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 (with the exception of Ian Bruce).

Information subject to Audit

Directors' emoluments and compensation

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

	31 December 2011					
Name of Director	Salaries/fees	Restricted Shares	Bonuses	Benefits	Total	2010 Total
Paul Mortimer	**76,128**	**18,488**	–	–	**94,616**	73,925
Yogeshwar Sharma[1]	**368,264**	–	–	**31,086**	**399,350**	342,713
Dinesh Dattani[2,3]	**463,261**	–	–	**72,110**	**535,371**	293,951
Dr Carol Bell	**57,096**	**13,488**	–	–	**70,960**	55,443
Sastry Karra	–	–	–	–	–	434,576
Pradip Shah	**57,096**	**13,488**	–	–	**70,960**	55,443
Ian Bruce	**57,096**	**13,488**	–	–	**70,960**	55,443

1. Mr Sharma's benefits included pension contribution and medical insurance.
2. In 2011 Mr Dattani received a payment of $257,411 in connection with the cessation of his employment.
3. Mr Dattani's benefits included leave, travel, relocation, and medical insurance.

None of the remuneration paid was subject to performance conditions. No bonuses were paid to any of the Executive Directors during 2009, 2010 or 2011. Remuneration of Mr Karra included payments for services rendered as an Executive as well as Non-Executive Director and on cessation of his employment. Remuneration of Mr Dattani included payments for services rendered as an Executive and on cessation of his employment. Mr Dattani ceased to be a Director of the Company on 31 August 2011.

Share options

The Company has adopted a share option scheme which allows it to grant options to subscribe for Ordinary Shares at the discretion of the Board of Directors to Directors and selected employees of Hardy and its subsidiary companies. The plan has not been approved by UK tax authorities. No options have been granted to Non-Executive Directors since 2005. Set out below is certain information pertaining to share options granted to Directors who hold office at 31 December 2011:

	Number of options						
Director	**Beginning of 2011**	**Granted during 2011**	**End of 2011**	Date of grant	Vested at end of 2011	Expiry date	Exercise price per share (£)
Paul Mortimer	**260,233**	–	**260,233**	7 June 2005	**260,233**	6 June 2015	1.44
	780,700	–	**780,700**	7 June 2005	**780,700**	6 June 2015	1.44
Yogeshwar Sharma	**300,000**	–	**300,000**	2 July 2007	**300,000**	1 July 2017	4.31
	200,000	–	**200,000**	11 Oct 2010	–	10 October 2020	2.116
Carol Bell	**260,233**	–	**260,233**	7 June 2005	**260,233**	6 June 2015	2.86
Pradip Shah	**260,233**	–	**260,233**	7 June 2005	**260,233**	6 June 2015	1.44

Governance

Remuneration Committee Report continued

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.

Options granted on 7 June 2005 are subject to performance criteria based upon appreciation in the market value of Ordinary Shares of the Company. All of such performance conditions have been met. All subsequent options granted to the end of 2009 are subject to vesting provisions whereby one third of the options granted vest on each of the three anniversaries from the date of grant. All options granted in 2010 and subsequent years, will generally 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 10 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. In the event that the Performance Condition is not satisfied by the fifth anniversary of the date of grant, the options shall lapse. Options will vest immediately upon the occurrence of a Rule 8 Event under the unapproved share option scheme (relating to change of control etc).

No share options were exercised by any of the Directors of the Company during 2011.

On 30 December 2011, the market price of an Ordinary Share of Hardy was £1.46 per share. The highest and lowest market price of an Ordinary Share of Hardy during 2011 was £2.41 and £1.39 respectively.

Restricted shares

As mentioned above, the Board of Directors has adopted a policy whereby restricted shares will be issued to the Chairman and each Non-Executive Director on an annual basis. The number of restricted shares to be issued will be equivalent to 25 per cent of their annual cash 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. The share award will be in addition to the annual cash fee. In the event of change of control of Hardy and the participant is no longer a Director going forward, all of 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 are still restricted are forfeited if the participant is no longer a Director of Hardy. In the event of a close period, the restricted shares will, subject to Board approval, be issued after the close period is over.

Other matters

Mr Sharma is a Non-Executive Director of a publicly traded company and has disclosed his remuneration comprises an annual director fee of $40,000 and that he has previously been awarded 100,000 stock options.

The Company does not have any long-term incentive schemes in place for any of the Directors.

The Company does not have any pension plans 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
6 March 2012

Governance
Nomination Committee Report

The Company's Nomination Committee comprises three Non-Executive Directors with Ian Bruce (Chairman), Pradip Shah and Carol Bell as its membership and it meets as required. The Nomination Committee met three times during the year. The attendance of members at the Nomination Committee meetings held in 2011 was as follows:

Director	Meetings attended
Ian Bruce (Chairman)	3
Pradip Shah	3
Dr Carol Bell	3

Responsibilities
The Nomination Committee considers the structure, size and composition of the Board and senior executive team, retirements, replacements and appointments of additional Directors, reviews succession plans for the Directors and makes recommendations to the Board on membership of the Board, the Board's other committees and other matters within its remit.

Key matters considered by the Committee during the year and subsequent to the year-end:
Chairmanship – In 2011 Mr Paul Mortimer expressed to the Committee his interest to step down as Chairman of the Board but indicated that he was prepared to continue as a Director if required. Mr Mortimer had been the Chairman of the Board for over nine years. The Committee reviewed the current composition of the Board, discussed and agreed to the key criteria for the identification of candidates. The Committee noted the additional time commitment expected and recognised the need for availability in the event of crises for a Chairman of a small exploration and production company. The Nomination Committee engaged a specialist search consultancy to assist in the identification of candidates. Following extensive shareholder consultation the Nomination Committee recommended the appointment of Mr Locke. Mr Locke was appointed to the Board on 16 January 2012.

Executive Director – In 2011, it was agreed that Mr Dinesh Dattani, Finance Director, would cease to be a Director of the Company effective 31 August 2011. Following a review of the Board's composition it was agreed that Mr Dattani's position as Finance Director based in London would not be filled. The Nomination Committee recommended that Executives Messrs Jeevanandam and Galvin would assume additional responsibilities, effective 1 September 2011.

Subsequent to the year end the Nomination Committee has also facilitated the appointment of a new Chief Executive and an additional Non-Executive Director
Chief Executive succession – In late 2011 Mr Sharma had indicated his intention to cease being an Executive Director and his desire to continue as a Non-Executive Director following the recruitment of an appropriate candidate. The Company disclosed Mr Sharma's intention in January 2012 in conjunction with Mr Locke's appointment as Chairman. Mr Locke subsequently put forward a candidate for the Nomination Committee to consider. Members of the Nomination Committee undertook a number of interviews with the candidate. As a result, the Nomination Committee recommended to the Board the appointment of Ian MacKenzie as Chief Executive Officer.

Non-Executive appointment – A number of Non-Executive Directors have indicated to the Board that they will not be putting themselves forward for re-election at the Company's Annual General Meeting in 2012. The departing Non-Executive Directors include Dr Carol Bell, Mr Paul Mortimer and myself. As Dr Carol Bell and I have extensive relevant financial experience and expertise it was agreed to identify a candidate with current and relevant financial experience and expertise. Mr Locke subsequently put forward a candidate who members of the Nomination Committee interviewed. As a result the Nomination Committee recommended the appointment of Peter Milne as Non-Executive Director.

Ian Bruce
Chairman of the Nomination Committee
6 March 2012

Governance
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 December 2011. Their reports will be presented before the shareholders at the Annual General Meeting scheduled to be held on 16 May 2012.

Business review and future developments
Hardy is an international upstream oil and gas company focused in India. 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 Company's activities during 2011 and plans for 2012 can be found in the Chairman's Statement, Chief Executive Officer's Statement, Review of Operations, Financial Review, Corporate Responsibility Statement, Directors' Remuneration Report and the Risks and Uncertainties section of the Annual Report, which are incorporated herein by reference.

Directors
The Directors that served in office during 2011 were Paul Mortimer (Non-Executive Chairman), Yogeshwar Sharma (Chief Executive Officer), Dinesh Dattani (Finance Director) until 31 August 2011, Dr Carol Bell (Senior Non-Executive Director), Pradip Shah (Non-Executive Director), and Ian Bruce (Non-Executive Director).

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 Company has a Directors' and Officers' liability insurance policy in place.

Results and dividends
The Group is reporting a total comprehensive loss of $1,877,954 for 2011 compared to a loss of $1,023,201 for 2010. The Directors do not recommend the payment of a dividend for 2011.

Election and re-election of Directors
At the next Annual General Meeting of the Company to be held on 16 May 2012, Mr Yogeshwar Sharma and Mr Pradip Shah, will offer themselves for re-election as Non-Executive Directors. Mr Alasdair Locke, Mr Ian MacKenzie and Mr Peter Milne were appointed to the Board in early 2012 and will stand for election at the Company's upcoming AGM.

Biographical details for Mr Yogeshwar Sharma, Mr Pradip Shah, Mr Alasdair Locke, Mr Ian MacKenzie and Mr Peter Milne are set out on pages 28 to 29.

Messrs Locke, Shah, Milne and Sharma 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.

Mr MacKenzie has entered into a service agreement as an Executive Director with the Company pursuant to which his engagement is subject to termination upon 12 months' notice by either party.

Mr Shah and Mr Sharma have served as Directors for more than nine years. The Company had remained unlisted until June 2005 when Ordinary Shares of the Company were listed on the Alternative Investment Market of the London Stock Exchange. Mr Locke is the Company's Non-Executive Chairman. Mr Shah chairs the Company's Remuneration Committee. Mr Milne will chair the Audit Committee upon his election to the Board at the Company's 2012 Annual General Meeting. Both Mr Shah and Mr Milne are Non-Executive Directors of the Company. The Board of Directors believe that the contribution being made by all the Directors continues to be invaluable and are 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.

Capital structure and significant shareholders

The Company's authorised and issued share capital and changes thereto are disclosed in note 21 to the consolidated financial statements. Disclosures with respect to share options are provided in note 8 to the consolidated financial statements and in the Directors' Remuneration Report.

At 31 December 2011 and at the date of this report, there were 72,785,204 and 72,795,204 Ordinary Shares of Hardy respectively that were issued and fully paid. Major interests in share capital of the Company, in excess of 3 per cent, as of the date of this report are as follows:

Shareholding	Number of Ordinary Shares held	Per cent
Lloyds TSB Group plc.	11,705,617	16.08
Universities Superannuation Scheme Limited	6,174,638	8.49
Aegon Asset Management	5,538,544	7.60
Yogeshwar Sharma	4,158,135	5.71
Aequitas Investments Limited	3,928,866	5.40
Standard Life Investments Ltd	3,111,312	4.28
NFU Mutual Insurance Society Limited	2,713,479	3.73
Gadus SE	2,554,829	3.51
Legal and General	2,479,938	3.41
Grahame Whately	2,438,169	3.35
Seren Capital Management Limited	2,312,641	3.18
Total	**47,116,168**	**64.74**

Annual General Meeting

The Company's next Annual General Meeting will be held at the offices of Tavistock Communications, 131 Finsbury Pavement, London EC2A 1NT on 16 May 2012 at 10.00 am. 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 International Financial Reporting Standards 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 December 2011, 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 keeping proper accounting records that 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.

Director's responsibility statement pursuant to disclosure and Transparency Rule 4.1.12

The Directors confirm that, to the best of their knowledge:

a) the financial statements, which are prepared in accordance with International Financial Reporting Standards 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
b) the Directors' Report 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.

Governance
Directors' Report continued

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 in each of the business units in which it operates.

Charitable and political donations
During 2011, the Company made a payment of £1,300 to the Geological Society. These were the only donations made in the UK or in the European Union during the year.

Payment policy
Hardy's policy with respect to payments to its vendors is to establish terms of payment when contracting for goods or services and generally abide by those payment terms. Normal credit terms are generally 30 days.

Reappointment of Auditors
Crowe Clark Whitehill LLP have expressed their willingness to continue as auditors. In accordance with the Isle of Man Companies Acts 1931 to 2004, a resolution reappointing Crowe Clark Whitehill LLP as auditors of the Company will be proposed at the next Annual General Meeting.

Going concern
The Company's business activities, together with factors likely to affect its future operations, financial position, and liquidity position are set out in the Chairman's Statement, Chief Executive Officer's Statement, Review of Operations, Financial Review, and the Risks and Uncertainties section of the Annual Report. In addition, note 25 to the financial statements disclosed the Company'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, are of the opinion that the Company 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 the foreseeable future. As a result, the Directors have continued to adopt the going concern basis of accounting in preparing the annual financial statements.

Events subsequent to 31 December 2011
There have not been any material events that have occurred since 31 December 2011 to the date of this report.

Approved by the Board of Directors.

Alasdair Locke
Chairman
6 March 2012

Financial Statement
Independent Auditor's Report to the shareholders of Hardy Oil and Gas plc

We have audited the Group and parent company financial statements (the 'financial statements') of Hardy Oil and Gas plc for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, the Consolidated and Parent Company Statements of Changes in Equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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.

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 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
As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
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.

Opinion on financial statements
In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

Emphasis of matter – request for extension of an exploration licence
In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in notes 2 and 15 to the financial statements concerning the process of arbitration with the Government of India for an extension of the exploration licence in block CY-OS/2. Intangible assets – exploration include an amount capitalised of US$51,023,493 in respect of block CY-OS/2. In the event that the Group is not successful in the arbitration, the exploration expenditure capitalised in respect of this block will be subject to impairment testing. No adjustment has been made to the carrying value of this capitalised expenditure.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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.

We read the Directors' Report and consider the implication for our report if we become aware of any apparent misstatements or inconsistencies within it. The information in the Directors' Report includes that specific information presented in the Review of Operations and Financial Review that is cross referred from the Business Review section of the Directors' Report.

Under the Listing Rules we are required to review:
- the Directors' Statement in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with certain elements of the UK Corporate Governance Code specified for our review; and
- certain elements of the Board of Directors' Remuneration Report to shareholders.

Crowe Clark Whitehill LLP

Crowe Clark Whitehill LLP
Statutory Auditor
London
6 March 2012

Financial Statement
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2011

	Notes	2011 US$	2010 US$ restated
Continuing operations			
Revenue	3	**11,279,596**	13,176,134
Cost of sales			
Production costs	4	**(4,045,717)**	(4,930,240)
Unsuccessful exploration costs	15	**(3,432,734)**	(1,827,418)
Depletion		**(1,377,228)**	(2,911,423)
Decommissioning charge		**(210,303)**	(400,321)
Gross profit		**2,213,614**	3,106,732
Administrative expenses		**(6,877,035)**	(3,344,192)
Operating loss	5	**(4,663,421)**	(237,460)
Interest and investment income	10	**445,026**	401,566
Finance costs	11	**(382,569)**	(70,059)
(Loss)/profit before taxation		**(4,600,964)**	94,047
Taxation	12	**2,723,010**	(330,894)
Loss for the year from continuing operations attributable to owners of the parent		**(1,877,954)**	(236,847)
Discontinued operations			
Administrative expenses		**–**	(743,457)
Depreciation		**–**	(42,897)
Loss for the year from discontinued operations	3	**–**	(786,354)
Total comprehensive loss for the year attributable to owners of the parent		**(1,877,954)**	(1,023,201)
Loss per share – (adjusted)			
Basic and diluted	13	**(0.03)**	(0.01)
Comprehensive loss per share			
Basic and diluted	13	**(0.03)**	(0.01)

Financial Statement

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital US$	Share premium US$	Shares to be issued US$	Retained earnings US$	Total US$
At 1 January 2010	685,300	108,475,924	6,557,708	39,812,679	155,531,611
Change in policy adjustment	–	–	–	(35,775,474)	(35,775,474)
At 1 January 2010 – restated	685,300	108,475,924	6,557,708	4,037,205	119,756,137
Changes in equity for the year 2010					
Total comprehensive loss for the year	–	–	–	(1,023,201)	(1,023,201)
Share-based payment	–	–	(961,287)	–	(961,287)
Share options exercised	50	10,904	–	–	10,954
Restricted shares issued	175	60,693	–	–	60,868
Issue of share capital	33,700	10,415,410	–	–	10,449,110
Issue expenses	–	(1,022,652)	–	–	(1,022,652)
At 31 December 2010	719,225	117,940,279	5,596,421	3,014,004	127,269,929
Changes in equity for the year 2011					
Total comprehensive loss for the year	–	–	–	(1,877,954)	(1,877,954)
Share-based payment	–	48,196	(1,339,895)	–	(1,291,699)
Share options exercised	250	57,979	–	–	58,229
Restricted shares issued	220	59,861	–	–	60,081
Issue of share capital	8,157	1,889,769	–	–	1,897,926
At 31 December 2011	**727,852**	**119,996,084**	**4,256,526**	**1,136,050**	**126,116,512**

The change in accounting policy is presented in Note 1d)

Financial Statement
Consolidated Statement of Financial Position
As at 31 December 2011

	Notes	**2011 US$**	2010 US$	Restated as at 1 Jan 2010 US$
Assets				
Non-current assets				
Property, plant and equipment	14	**5,886,118**	7,713,857	11,022,172
Intangible assets – exploration	15	**81,701,488**	85,126,921	84,061,978
Intangible assets – others	16	**10,380**	16,439	46,144
Site restoration deposit	23	**3,737,505**	4,084,930	3,630,471
Deferred tax asset	12	**6,001,302**	4,637,682	4,039,768
Total non-current assets		**97,336,793**	101,579,829	102,800,533
Current assets				
Inventories	18	**2,068,524**	2,499,191	2,453,998
Trade and other receivables	19	**1,129,872**	4,573,986	3,822,520
Short-term investments	20	**29,693,968**	28,149,496	20,505,130
Cash and cash equivalents	25	**6,804,018**	8,375,388	10,036,678
Total current assets		**39,696,382**	43,598,061	36,818,326
Total assets		**137,033,175**	145,177,890	139,618,859
Equity and liabilities				
Equity attributable to owners of the parent				
Share capital	21	**727,852**	719,225	685,300
Share premium		**119,996,084**	117,940,279	108,475,924
Shares to be issued		**4,256,526**	5,596,421	6,557,708
Retained earnings		**1,136,050**	3,014,004	4,037,205
Total equity		**126,116,512**	127,269,929	119,756,137
Non-current liabilities				
Provision for decommissioning	23	**4,815,000**	4,500,000	4,500,000
Current liabilities				
Trade and other payables	24	**6,101,663**	13,407,961	15,362,722
Total current liabilities		**6,101,663**	13,407,961	15,362,722
Total liabilities		**10,916,663**	17,907,961	19,862,722
Total equity and liabilities		**137,033,175**	145,177,890	139,618,859

Approved and authorised for issue by the Board of Directors on 6 March 2012

Yogeshwar Sharma.

Alasdair Locke
Non-Executive Chairman

Yogeshwar Sharma
Chief Executive Officer

Financial Statement
Consolidated Statement of Cash Flows
For the year ended 31 December 2011

	Notes	2011 US$	2010 US$ restated
Operating activities			
Cash flow (used in) operating activities	6	**(3,441,912)**	(916,991)
Cash flow (used in) discontinued operations		**–**	(743,457)
Taxation paid		**(52,751)**	113,422
Net cash from (used in) operating activities		**(3,494,663)**	(1,547,026)
Investing activities			
Expenditure on property, plant and equipment		**727,734**	(74,320)
Expenditure on intangible assets – exploration		**(7,301)**	(5,989,882)
Purchase of intangible assets – others		**–**	(17,545)
Purchase of other fixed assets		**(6,339)**	(29,716)
Site restoration deposit		**347,425**	(454,459)
Short-term investments		**(1,544,472)**	(7,644,366)
Disposal of discontinued operations		**–**	4,275,047
Net cash (used in) investing activities		**(482,953)**	(9,935,241)
Financing activities			
Interest and investment income		**457,579**	392,756
Finance costs		**(67,569)**	(70,059)
Issue of shares		**2,016,236**	9,498,280
Net cash from financing activities		**2,406,246**	9,820,977
Net decrease in cash and cash equivalents		**(1,571,370)**	(1,661,290)
Cash and cash equivalents at the beginning of the year		**8,375,388**	10,036,678
Cash and cash equivalents at the end of the year	25	**6,804,018**	8,375,388

Financial Statement
Notes to the Consolidated Financial Statements
For the year ended 31 December 2011

1. Accounting policies
The following accounting policies have been applied in preparation of consolidated financial statements of Hardy Oil and Gas plc (Hardy or the Group). The domicile, country of incorporation, address of the registered office and a description of the Group's principal activities can be found in the Director's Report.

a) Basis of measurement
Hardy prepares its financial statements on a historical cost basis except as otherwise stated.

b) Going concern
The Group has a history of profitable operations and has successfully raised financing in the past to provide funding for its ongoing exploration and development programmes and to augment its working capital. Having considered the guidance given in the document *Going concern and liquidity risk: Guidance for Directors* issued in October 2009 by the Financial Reporting Council and having regard to the Group's existing working capital position and its ability to raise potential financing, if required, the Directors are of the opinion that the Group has adequate resources to enable it to undertake its planned work programme of exploration, appraisal and development activities over the next 12 months from the date of this financial statement.

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, the following standards and interpretations were in issue but not yet effective:

Issued but not yet EU adopted
IFRS 1 Amendments – Severe hyper inflation and removal of fixed dates for first time adoption
IFRS 9 – Financial instruments
IFRS 10 – Consolidated Financial Statements
IFRS 11 – Joint Arrangements
IFRS 12 – Disclosure of Interests in other entities
IFRS 13 – Fair value measurement
IAS 1 – (amended) – Presentation of items of other comprehensive income
IAS 12 – (amended) – Deferred tax: Recovery of underlying Assets
IAS 19 – (amended) – Employee Benefits
IAS 27 – Separate Financial Statements
IAS 28 – Investments in Associates and Joint Ventures
IFRIC 20 – Stripping costs in the production Phase of a surface mine

Issued and EU adopted
IFRS 7 (amended) – Financial instruments disclosures

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) Change in accounting policies
Hardy was following the full cost method of accounting for its oil and gas assets wherein all expenditures incurred in connection with and directly attributable to the acquisition, exploration and appraisal of oil and gas assets were accumulated and capitalised in its India cost pool.

Hardy has elected to change to a successful efforts based accounting policy for its oil and gas assets with retrospective effect. Hardy believes this will align its accounting policy with its international peers and provide a better reflection of the results of its activities as well as its financial position.

The effect of change in this policy is writing off the cost of the unsuccessful wells capitalised in the books since inception and the associated cost of geological and geophysical activities. In addition, the depletion of property, plant and equipment – development/producing assets were charged by considering the future cost of development with the associated proved and probable reserves under the unit of production method.

The cumulative costs of exploration of dry wells and the related costs charged up to the year 2009 are US$50,663,569, the costs charged for 2010 are US$1,827,418 and the costs charged for 2011 are US$3,432,734.

The change in computing the depletion and decommissioning charges without considering the future costs and the associated recoverable reserves for the period up to December 2009 is US$24,785,043 and cost for the year 2010 is US$3,311,744. The depletion and decommissioning charge for the year 2011 is US$1,587,531.

The effect of change in this policy for the subsequent years are not possible to predict and therefore no quantification is made.

The effect of change in the accounting policy reduces the total carrying value of Intangible Assets – Exploration by US$55,923,721.

1. Accounting policies continued

The change in the method for computing the depletion impacted a reduction in the profit for 2011 by US$125,669 (2010:US$289,409) and increased the profit by US$975,410 for the period up to 2009.

Accordingly, the corresponding amount charged to the Statement of Comprehensive Income for the year 2011 is US$3,558,403 and for the year 2010 is US$2,116,827 and the amount adjusted in the retaining earning for the period up to 2009 after adjusting deferred tax impact is US$35,775,474.

e) Functional and presentation currency

These financial statements are presented in US dollars which is the Group's functional currency. All financial information presented is rounded to the nearest US dollar.

f) Basis of consolidation

The consolidated financial statements include the results of Hardy Oil and Gas plc and its subsidiary undertakings. The Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows include the results and cash flows of subsidiary undertakings up to the date of disposal.

The Group conducts the majority of its exploration, development and production through unincorporated joint arrangements with other companies.

The consolidated financial statements reflect the Group's share of production revenues and costs attributable to its participating interests under the proportional consolidation method.

g) Revenue and other income

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 part of profit sharing, tariff, and income from technical services to third parties if any. Revenues are recognised when crude oil has been lifted and title has been passed to the buyer or when services are rendered.

h) Joint ventures

The Group participates in several unincorporated joint ventures which involve the joint control of assets used in the Group's oil and gas exploration and producing activities. The Group accounts for its share of assets, liabilities, income and expenditure of joint ventures in the Statement of Financial Position and Statement of Comprehensive Income as appropriate.

i) 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.

Expenditures incurred in connection with and directly attributable to the acquisition, exploration and appraisal of oil and gas assets are capitalised for each licence granted under the production sharing contracts and are undepleted within intangible exploration assets until the validity to explore the contract area is ended or commercial reserves have been discovered.

Exploration expenditure incurred for geological and geophysical activities before the commencement of exploratory drilling is initially capitalised within intangible exploration assets. 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 successful exploration, if commercial reserves are established and technical feasibility for extraction is demonstrated, the related capitalised intangible exploration and appraisal costs are transferred into a cost centre within the Property Plant and Equipment – development assets after testing for impairment, if any. Where exploration well results indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs will be written-off to the income statement.

ii) Oil and gas development and producing assets

Development and production assets are accumulated on a field-by-field basis. These comprise the cost of developing commercial reserves discovered to put them on production and the exploration and evaluation costs transferred from intangible exploration and evaluation assets, as stated in the policy above. In addition, interest payable and exchange differences incurred on borrowings directly attributable to development projects, if any, and assets in 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 costs are estimated and considered as an asset and liability when the liability arises. The decommissioning cost is included within the cost of property, plant and equipment development assets. If 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 'Decommissioning charge' in the Statement of Comprehensive Income and unwinding of the discount on the provision is included in the finance costs.

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Notes to the Consolidated Financial Statements continued
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1. Accounting policies continued
iv) Disposal of assets
Proceeds from any disposal of assets are credited against the specific capitalised costs included in the relevant cost pool and any loss or gain on disposal is recognised in the Statement of Comprehensive Income. Gain or loss arising on disposal of a subsidiary is also recorded in the Statement of Comprehensive Income.

j) 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 each year 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 as a whole. 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.

k) 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

l) 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

m) Investments
Investments by the parent company in its subsidiaries are stated at cost.

n) 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 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.

o) Inventory
Inventory of crude oil is valued at the lower of average cost and 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.

p) Financial instruments
Financial assets and financial liabilities are 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 necessary provisions for estimated irrecoverable amounts.

Trade payables are not interest bearing and their fair value is deemed to be their nominal value.

q) Equity
Equity instruments issued by Hardy and the Group are recorded at net proceeds after direct issue costs.

1. Accounting policies continued

r) Taxation

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 subsequently 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 income 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 against which deductible temporary differences can be utilised.

Deferred income tax liabilities are recognised for all temporary differences except in respect of taxable temporary differences associated with investment in subsidiaries, associates and interest in joint ventures where the timing of the reversal of the temporary differences can be controlled and it is possible that the temporary differences will not reverse in the foreseeable future.

Deferred tax is recognised in respect of all temporary differences that have originated but not reversed at the year-end 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 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 or substantively enacted at the year-end date.

s) 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 rate. Exchange difference arising out of actual payments/realisations and from the year-end restatement are reflected in the Statement of Comprehensive Income.

Rates of exchanges are as follows:

	31 December 2011	31 December 2010
£ to US$	**1.5447**	1.5544
US$ to Indian Rupees	**53.24**	44.92

t) Leasing commitments

Rental charges or charter hire charges payable under operating leases are charged to the Statement of Comprehensive Income as part of production cost over the lease term.

u) 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 conditions other than the market conditions are taken into account. 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.

2. Critical accounting estimates and judgements

Estimates and judgements 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

The Group holds a 75 per cent participating interest in the block CY-OS/2 off the east coast of India. Intangible assets include an amount of US$51,023,493 with respect to exploration expenditures on the block wherein a gas discovery was announced on 8 January 2007. The exploration period for the block ended on 23 March 2007. The Government of India (GOI) has been requested to extend the block for appraisal and declaration of commerciality for its gas discovery for a period of 5 years from the date of discovery. This request was declined. The Production Sharing Contract (PSC) provides for a period of 60 months from the date of discovery for declaration of commerciality in case of a discovery being Non-Associated Natural Gas (NANG). This period will be limited to 24 months for an oil discovery.

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Notes to the Consolidated Financial Statements continued
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2. Critical accounting estimates and judgements continued
The Group has obtained third party legal and technical opinions that support the Group's view that the discovery is NANG and has referred the dispute to arbitration for adjudication. The Group believes that it will be successful in obtaining the extension of its licence in block CY-OS/2 in the arbitration. Therefore, the intangible assets arising from expenditure on this block continue to be recognised in full and the Directors do not believe that any impairment of these costs has arisen.

The arbitration process is continuing as at the date of approval of these financial statements.

(ii) Decommissioning
The liability for decommissioning is updated to the current cost estimates of decommissioning. Accordingly, the provision made in the books will reflect the risk free discounted future cost for decommissioning and this is an annual adjustment based on the changes in costs as a result of technical advancements and other factors. A 5 per cent change in the liability for decommissioning will impact the decommissioning charge by US$48,729. A 5 per cent change in proven developed reserves will impact the decommissioning charge by US$55,568.

(iii) Depletion
Depletion is based on best estimates of commercial reserves existing as at the year-end date. The determination of commercial reserves is based on assumptions which include those relating to the future prices of crude oil and natural gas, capital expenditure plans, cost of production and other factors. A 5 per cent change in proven developed reserves will impact the depletion charge by US$65,827.

3. Segment analysis
The Group is organised into two business units as at end of the year: India and United Kingdom. The India 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.

	2011 US$			
	India	UK	Inter-segment eliminations	Total
Revenue				
Oil sales	15,796,702	–	–	15,796,702
Profit oil to government	(4,732,595)	–	–	(4,732,595)
Management fees	–	180,000	(180,000)	–
Other income	46,038	169,451	–	215,489
	11,110,145	349,451	(180,000)	11,279,596
Operating loss	(2,886,699)	(1,776,722)	–	(4,663,421)
Interest income	366,657	78,369	–	445,026
Interest on inter-corporate loan	–	1,119,894	(1,119,894)	–
Finance costs	(382,569)	–	–	(382,569)
Loss before taxation	(2,902,611)	(578,459)	(1,119,894)	(4,600,964)
Taxation	2,709,935	13,075	–	2,723,010
Loss for the year	(192,676)	(565,384)	(1,119,894)	(1,877,954)
Segment assets	104,569,369	32,463,806	–	137,033,175
Inter-corporate loan	–	93,842,704	(93,842,704)	–
Segment liabilities	(10,761,308)	(155,355)	–	(10,916,663)
Inter-corporate borrowings	(93,842,704)	–	93,842,704	–
Capital expenditure	(718,138)	4,044	–	(714,094)
Unsuccessful exploration costs	(3,432,734)	–	–	(3,432,734)
Depreciation, depletion and amortisation	(1,609,225)	(29,199)	–	(1,638,424)

3. Segment analysis continued

	2010 (Restated) US$				
	India	Nigeria discontinued operations	UK	Inter-segment eliminations	Total
Revenue					
Oil sales	15,667,643	–	–	–	15,667,643
Profit oil to government	(2,783,447)	–	–	–	(2,783,447)
Management fees	–	–	180,000	(180,000)	–
Other income	–	–	291,938	–	291,938
	12,884,196	–	471,938	(180,000)	13,176,134
Operating profit/(loss)	1,130,087	(786,354)	(5,465,435)	4,097,888	(1,023,814)
Interest income	350,709	–	50,857		401,566
Interest on inter-corporate loan	–	–	1,274,231	(1,274,231)	–
Finance costs	(70,059)	–	–	–	(70,059)
Profit/(loss) before taxation	1,410,737	(786,354)	(4,140,347)	2,823,657	(692,307)
Taxation	(960,175)	–	629,281	–	(330,894)
Profit/(loss) for the year	450,562	(786,354)	(3,511,066)	2,823,657	(1,023,201)
Segment assets	113,623,198	–	31,554,692	–	145,177,890
Inter-corporate loan	–	–	94,429,751	(94,429,751)	–
Segment liabilities	(17,640,671)	–	(267,290)	–	(17,907,961)
Inter-corporate borrowings	(94,429,751)	–	–	94,429,751	–
Capital expenditure	6,101,046	–	10,417	–	6,111,463
Unsuccessful exploration costs	(1,827,418)	–	–	–	(1,827,418)
Depreciation, depletion and amortisation	(3,382,126)	(42,897)	(34,578)	–	(3,459,601)

The Group is engaged in one business activity, the production of and exploration for oil and gas. Other income relates to technical services to third parties, overhead recovery from joint venture operations and miscellaneous receipts, if any. Revenue arises from the sale of oil produced from the contract area CY-OS-90/1 India and the revenue by destination is not materially different from the revenue by origin.

Hardy Oil (Africa) Limited (HOAL), a wholly-owned subsidiary of Hardy Oil and Gas plc, holding exploration assets through its subsidiary Hardy Oil Nigeria Limited was sold with effect from 30 September 2010. Accordingly, the loss relating to Nigerian operations is presented as a loss on discontinued operations in the year 2010.

4. Cost of sales

Production cost included in the cost of sales consists of:

	2011 US$	2010 US$
Opening stock of crude oil	**389,801**	–
Cost of crude oil produced and saved	**3,655,916**	5,320,041
Closing stock of crude oil	**–**	(389,801)
Production cost	**4,045,717**	4,930,240

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5. Operating loss
Operating loss is stated after charging:

	2011 US$	2010 US$
Unsuccessful exploration costs	**3,432,734**	1,827,418
Depletion charge of property, plant and equipment – producing	**1,377,228**	2,911,423
Decommissioning charge of property, plant and equipment	**210,303**	400,321
Depreciation charge of property, plant and equipment – others	**50,893**	147,857
Provision for irrecoverable costs	**2,333,148**	–
Movement in inventory of oil	**389,801**	(389,801)
Operating lease costs		
– Plant and machinery	**2,207,631**	3,571,626
– Land and buildings	**440,732**	536,075
External auditors' remuneration		
– Fees payable to the Company's auditors for the audit of the Group's financial statements	**61,910**	78,571
– Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	**–**	98,245
– All other services	**13,021**	12,310
Exchange loss (gain)	**910,641**	(527,610)

The provision for potentially irrecoverable costs relates to the costs potentially irrecoverable from the parties to a production sharing contract for which budget approval is pending from the concerned parties. This provision is contained in administrative costs.

The Group has a policy in place for the award of non-audit services to be provided by the auditors, which requires approval of the Audit Committee.

6. Reconciliation of operating profit of continuing operations to operating cash flows

	2011 US$	2010 US$
Operating loss	**(4,663,421)**	(237,460)
Unsuccessful exploration costs	**3,432,734**	1,827,418
Depletion and depreciation	**1,428,121**	3,016,383
Decommissioning charge	**210,303**	400,321
Share-based payments	**(1,269,420)**	(961,287)
	(861,683)	4,045,375
Decrease/(increase) in inventory	**430,667**	(45,193)
Decrease/(increase) in trade and other receivables	**4,223,777**	(2,364,766)
(Decrease)/increase in trade and other payables	**(7,234,673)**	(2,552,407)
Cash flow (used in) operating activities	**(3,441,912)**	(916,991)

7. Staff costs

	2011 US$	2010 US$
Wages and salaries	**3,003,506**	4,050,752
Social security costs	**292,388**	218,971
Share-based payments charge	**(1,291,699)**	(897,337)
	2,004,195	3,372,386

Staff costs include executive Directors' salaries, fees, benefits and share-based payments and are shown gross before amounts recharged to joint ventures.

The average monthly number of employees, including executive Directors and individuals employed by the Group working on joint venture operations, are as follows:

	2011	2010
Management and administration	**19**	21
Operations	**18**	26
	37	47

8. Share-based payments

Share options have been granted to subscribe for Ordinary Shares of US$0.01 each in the capital of the Company, which are exercisable between 2010 and 2021, at prices of £1.44 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 price 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 2010 options, three years. 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:

	2011		2010	
	Number of options	**Weighted average price £**	Number of options	Weighted average price £
Outstanding at beginning of the year	**4,453,399**	**2.80**	4,752,101	2.92
Granted during the year	**–**	**–**	1,140,000	2.12
Forfeited/lapsed during the year	**(1,035,000)**	**3.85**	(1,433,702)	2.67
Exercised during the year	**(25,000)**	**1.44**	(5,000)	1.44
Outstanding at the end of the year	**3,393,399**	**2.64**	4,453,399	2.80
Exercisable at the end of the year	**2,708,399**	**2.77**	3,224,399	2.88

The aggregate of the estimated fair values of the options granted outstanding as at 31 December 2011 is US$5,812,019. The inputs into the binomial model for computation of value of options are as follows:

Share price at grant date	varies from £1.44 to £7.69
Option exercise price at grant date	varies from £1.44 to £7.69
Expected volatility	8% – 40%
Expected life	6 years from grant date
Risk free rate	4.35% – 4.70%
Expected dividend	Nil

Expected volatility was determined by calculating Hardy's historical volatility. The expected life used has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations. Details of outstanding options at the end of the year with the weighted average exercise (WAEP) price are as follows:

	2011		2010	
Exercisable between	**Number**	**WAEP**	Number	WAEP
2005–2016	**1,771,399**	**£1.68**	1,796,399	£1.68
2006–2017	**30,000**	**£3.02**	30,000	£3.03
2007–2018	**630,000**	**£3.67**	1,180,000	£3.81
2008–2019	**277,000**	**£7.69**	327,000	£7.69
2010–2021	**685,000**	**£2.12**	1,120,000	£2.12

On 24 October 2008, the Company issued 20,182 Ordinary Shares having a face value of US$0.01 per share and an aggregate market value of US$80,203 (£50,000) to Mr Ian Bruce upon his appointment as a Non-Executive Director. The cost of issuing such shares is charged to the Statement of Comprehensive Income over a three year period from the date of issue. In 2011 the balance, an outstanding amount of US$22,279 has been expensed as a share based payment.

The Group has reversed a net amount of US$1,269,420 in the current year and reversed an amount of US$961,287 in 2010 towards equity settled share based payments. Equity shares to be issued are revalued at the exchange rate as at 31 December 2011. The revaluation (loss)/gain for the year 2011 is US$(411,475) (2010: US$63,950). The value of shares to be issued as at 31 December 2011 is US$4,256,526 (2010: US$5,596,421).

9. Directors' emoluments

Details of each Director's remuneration and share options are set out in the Directors' Remuneration Report that forms part of the Company's Annual Report. Directors' emoluments are included within the remuneration of the key management personnel in note 31.

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10. Interest and investment income

	2011 US$	2010 US$
Bank interest	**409,180**	381,500
Dividend	**35,846**	20,066
	445,026	401,566

11. Finance costs

	2011 US$	2010 US$
Bank guarantee charges	**67,569**	70,059
Other finance costs	**315,000**	–
	382,569	70,059

12. Taxation
a) Analysis of taxation (credit) for the year

	2011 US$	2010 US$
Current tax charge		
UK corporation tax	**–**	–
Foreign tax – India		
Minimum alternate tax	**(1,359,390)**	928,808
Foreign tax – USA	**–**	–
Total current tax charge	**(1,359,390)**	928,808
Deferred tax (credit) charge	**(1,363,620)**	(597,914)
Taxation (credit)	**(2,723,010)**	(330,894)

	2011 US$	2010 US$
Deferred tax (credit) charge	**–**	–
Origination and reversal of temporary differences	**(1,363,620)**	(597,914)

Deferred tax analysis:

	2011 US$	2010 US$
Differences between accumulated depletion, depreciation and amortisation and capital allowances	**2,811,865**	2,194,625
Other temporary differences	**3,189,437**	2,443,057
Deferred tax (liability)	**6,001,302**	4,637,682

b) Factors affecting tax charge for the year

	2011 US$	2010 US$
(Loss)/profit before taxation from continuing operations	**(4,600,964)**	94,047
Profit before taxation multiplied by the rate of tax in UK of 28%	**–**	26,333
Foreign tax on overseas income – current year	**–**	928,808

Indian operations of the Group are subject to a tax rate of 42.23 per cent which is higher than UK and US corporation 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. 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.

13. Loss per share

Loss per share is calculated on a loss of US$1,877,954 for the year 2011 (2010: US$236,847) on a weighted average of 72,531,961 Ordinary Shares for the year 2011 (2010: 68,597,410). No diluted loss per share is calculated.

Comprehensive loss per share is calculated on a loss of US$1,877,954 for the year 2011 (2010: US$1,023,201) on a weighted average of 72,531,961 Ordinary Shares for the year 2011 (2010: 68,597,410).

No diluted loss per share on loss attributable to parent company for the year 2011 and 2010 is calculated.

14. Property, plant and equipment

Oil and gas assets represent interests 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 January 2010	35,651,789	2,609,272	38,261,061
Additions	74,320	29,716	104,036
Deletions	–	(463,888)	(463,888)
At 1 January 2011	35,726,109	2,175,100	37,901,209
Additions	(201,713)	6,339	(195,374)
Deletions	–	(78,823)	(78,823)
At 31 December 2011	**35,524,396**	**2,102,616**	**37,627,012**
Depletion, depreciation and amortisation			
At 1 January 2010 (as restated)	24,785,043	2,453,846	27,238,889
Charge for the year (as restated)	3,311,744	100,607	3,412,351
Deletions	–	(463,888)	(463,888)
At 1 January 2011 (as restated)	28,096,787	2,090,565	30,187,352
Charge for the year	1,587,531	44,834	1,632,365
Deletions	–	(78,823)	(78,823)
At 31 December 2011	**29,684,318**	**2,056,576**	**31,740,894**
Net book value at 31 December 2011	**5,840,078**	**46,040**	**5,886,118**
Net book value at 31 December 2010 (as restated)	7,629,322	84,535	7,713,857

The reduction in additions represents an adjustment to previous estimates made.

15. Intangible assets – exploration

	India US$	Nigeria US$	Total US$
Cost and net book value			
At 1 January 2010 – restated	80,964,457	3,097,521	84,061,978
Additions	5,989,882	–	5,989,882
Unsuccessful exploration cost	(1,827,418)	–	(1,827,418)
Deletions	–	(3,097,521)	(3,097,521)
At 1 January 2011	**85,126,921**	**–**	**85,126,921**
Additions	6,503,223	–	6,503,223
Reversal of charges	(6,495,922)	–	(6,495,922)
Unsuccessful exploration cost	(3,432,734)	–	(3,432,734)
At 31 December 2011	**81,701,488**	**–**	**81,701,488**

The Group holds a 75 per cent participating interest in the block CY-OS/2 off the east coast of India. Intangible assets include an amount of US$51,023,493 with respect to exploration expenditures on the block wherein where a gas discovery was announced on 8 January 2007. The exploration period for the block ended on 23 March 2007. The Government of India (GOI) has been requested to extend the block for appraisal and Declaration of Commerciality for its gas discovery for a period of five years from the date of discovery to declare commerciality. The GOI has declined this request.

Provisions of the PSC provide for an appraisal period of 60 months from the date of discovery. For an oil discovery, this period is limited to 24 months. The Company has obtained third party legal and technical opinions that support the Company's view that the discovery is NANG. Accordingly, the dispute has been referred to arbitration for adjudication. The arbitration process is continuing at the date of approval of these financial statements.

Financial Statement
Notes to the Consolidated Financial Statements continued
For the year ended 31 December 2011

15. Intangible assets – exploration continued
In the event that Hardy's application for an extension of the CY-OS/2 licence was to be unsuccessful, the capitalised expenditure will be subject to impairment testing.

Intangible assets – exploration also includes an amount of US$21,435,551 in respect of Block KG-DWN-2003/1(D3).

16. Intangible assets – others

	US$
Cost	
At 1 January 2010	491,183
Additions	17,545
At 1 January 2011	**508,728**
Additions	**–**
At 31 December 2011	**508,728**
Accumulated depreciation	
At 1 January 2010	**445,039**
Charge for the year	**47,250**
At 1 January 2011	**492,289**
Charge for the year	**6,059**
At 31 December 2011	**498,348**
Net book value as at 31 December 2011	**10,380**
Net book value as at 31 December 2010	16,439

Intangible assets – others represent the cost of software used for geological and geophysical studies and other software for normal business operations.

17. Members of the Group
The Group comprises 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 the 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.

18. Inventories

	2011 US$	2010 US$
Crude oil	**–**	389,801
Drilling and production stores and spares	**2,068,524**	2,109,390
	2,068,524	2,499,191

19. Trade and other receivables

	2011 US$	2010 US$
Trade receivables	**–**	3,687,777
Other receivables	**1,080,222**	837,113
Prepayments and accrued income	**49,650**	49,096
	1,129,872	4,573,986

20. Short-term investments

	2011 US$	2010 US$
HSBC US$ Liquidity Fund Class-A	**27,505,453**	25,184,787
HSBC £ Liquidity Fund Class-A	**2,188,515**	2,964,709
	29,693,968	28,149,496

The above investments are in liquid funds which can be converted into cash at short notice. Book value of these investments approximates fair values.

21. Share capital

	Number US$0.01 Ordinary Shares	US$
Authorised Ordinary Shares		
At 1 January 2010	200,000,000	2,000,000
At 1 January 2011	200,000,000	2,000,000
At 31 December 2011	**200,000,000**	**2,000,000**
Allotted, issued and fully paid Ordinary Shares		
At 1 January 2010	68,530,044	685,300
Share options exercised during the year	5,000	50
Restricted shares issued during the year	17,489	175
Shares issued during the year	3,370,000	33,700
At 1 January 2011	71,922,533	719,225
Share options exercised during the year	25,000	250
Restricted shares issued during the year	21,971	220
Shares issued during the year	815,700	8,157
At 31 December 2011	**72,785,204**	**727,852**

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

22. 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.

Shares to be issued
The shares to be issued represent the fair value of share options issued to Directors and employees.

23. Provision for decommissioning

	US$
At 1 January 2010	4,500,000
Additional cost for decommissioning	–
At 1 January 2011	4,500,000
Additional cost for decommissioning	–
Change in decommissioning estimate	315,000
At 31 December 2011	**4,815,000**

The provision has been made by estimating the decommissioning cost at current prices using existing technology. The inflation and discount rates applied have been based on suitable current market information. Decommissioning costs are expected to be incurred between 2018 and 2020.

The calculation of the provision has been changed to apply a discounted method. This change in the method of calculation is deemed to be a change of accounting estimate and is applied prospectively from the year ended 31 December 2011.

It is anticipated that the effect of the change in accounting estimate will be neutral over future periods to the anticipated date of decommissioning.

An amount of Rs.198,984,770 (US$3,737,505) has been deposited 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.

24. Trade and other payables

	2011 US$	2010 US$
Trade payables	**4,606,945**	8,080,059
Other payables	**259,671**	1,587,289
Accruals	**1,235,047**	3,740,613
	6,101,663	13,407,961

Financial Statement
Notes to the Consolidated Financial Statements continued
For the year ended 31 December 2011

24. Trade and other payables continued
Trade and other payables are unsecured, payable on demand and are outstanding for a period of less than 12 months. Trade payables, other payables and accruals are all expected to be settled within normal credit terms.

25. 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 treasury functions are responsible for managing fund requirements and investments which includes banking and cash flow management. Interest and foreign exchange exposure are key functions of treasury management to ensure adequate liquidity at all times to meet cash requirements.

Hardy's principal financial instruments are cash, deposits and short-term investments and these instruments are for the purpose of meeting its requirements for operations.

Hardy's main risks arising from financial instruments are foreign currency risk, liquidity risk, commodity price risk and credit risks. Set out below are policies that are used to manage such risks:

Foreign currency risk
The Group reports in US dollars and the majority of its business is conducted in US dollars. All revenues from oil sales are received in US dollars and all costs except a portion towards expenses for overheads 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 year.

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 year-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 and ensure security of capital at the time of issue.

Commodity price risks
The Group's share of production of crude oil from PY-3 field is sold to the Government of India's nominee Chennai Petroleum Corporation Limited. The sale price is arrived at based on an average price for the 30-day period commencing 15 days before and ending 15 days after the delivery of crude oil. No commodity price hedging contracts have been entered into by the Group.

Credit risk
All Hardy's sales are to Chennai Petroleum Corporation Limited, a state oil company in India. As it is the Government of India nominee for the purchase of crude oil, the credit risk is negligible.

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 term 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 for sale of crude oil to Chennai Petroleum Corporation Limited. At year-end, the Group did not have any bad debt risk. The maximum financial risk exposure relating to the financial assets is the carrying value of such financed assets as on 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 the 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, repay debt if any, put in place new debt facilities or such other restructuring as appropriate. No significant changes were made in the objectives, policies or processes during the year ended 31 December 2011.

25. Financial risk management continued

Maturity of non-current financial liabilities

The maturity of non-current financial liabilities as at 31 December 2011 and 31 December 2010 is as follows:

	2011 US$	2010 US$
In more than two years but not more than five years	–	–
In more than five years	4,815,000	4,500,000

The Group does not have any fixed maturity or interest bearing financial liabilities as at 31 December 2011 or 31 December 2010.

Interest rate risk profile of financial assets

The interest rate risk profile of the financial assets of the Group as at 31 December 2011 is as follows:

	Fixed rate financial asset US$	Floating rate financial asset US$	Financial asset – no interest is earned US$	Total US$
US Dollar	5,000,000	794,958	35,584	5,830,542
Pound Sterling	–	219	85,429	85,648
Indian Rupee	760,696	–	127,132	887,828
Cash and cash equivalents	5,760,696	795,177	248,145	6,804,018

An amount of Rs.198,984,770 (US$3,737,505) 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$65,559 for every one per cent change in interest rates. Financial assets include cash and deposits and the floating interest rates are based on market rates.

The interest rate risk profile of the financial assets of the Group as at 31 December 2010 is as follows:

	Fixed rate financial asset US$	Floating rate financial asset US$	Financial asset – no interest is earned US$	Total US$
US Dollar	5,000,000	400,277	1,089,285	6,489,562
Pound Sterling	–	238	207,986	208,224
Indian Rupee	1,274,007	–	403,595	1,677,602
Cash and cash equivalents	6,274,007	400,515	1,700,866	8,375,388

An amount of Rs.183,495,070 (US$4,084,930) 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$66,745 for every one per cent change in interest rates. Financial assets include cash and deposits and the floating interest rates are based on market rates.

Currency exposures

The currency exposures of the monetary assets denominated in currencies other than US dollars of the Group as at 31 December 2011 are as follows:

	Indian Rupee US$	Pound Sterling US$	Total US$
US$	4,625,333	2,274,163	6,899,496

An amount of US$912,321 was recognised as a foreign exchange loss on account of exchange rate fluctuations on bank balances and investments made in currencies other than US dollars for the year 2011.

Exchange gain will increase by US$45,737 for every one per cent appreciation of Indian rupee and sterling and a loss of US$46,662 for every one per cent depreciation of Indian rupee and sterling.

Financial Statement

Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2011

25. Financial risk management continued

The currency exposures of the monetary assets denominated in currencies other than US dollars of the Group as at 31 December 2010 were as follows:

	Indian Rupee US$	Pound Sterling US$	Total US$
US$	5,762,532	3,172,933	8,935,465

An amount of US$227,031 was recognised as a foreign exchange gain on account of exchange rate fluctuations on bank balances and investments made in currencies other than US dollars for the year 2010.

Exchange gain will increase by US$25,325 for every one per cent appreciation of Indian rupee and sterling and a loss of US$26,478 for every one per cent depreciation of Indian rupee and sterling.

26. Financial instruments

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

Financial assets

Primary financial instruments	**Book value 2011 US$**	**Fair value 2011 US$**	Book value 2010 US$	Fair value 2010 US$
Short-term investments	**29,693,968**	**29,693,968**	28,149,496	28,149,496
Cash and short-term deposits	**6,804,018**	**6,804,018**	8,375,388	8,375,388
Trade and other receivables	**1,129,872**	**1,129,872**	4,573,986	4,573,986
Site restoration deposit	**3,737,505**	**3,737,505**	4,084,930	4,084,930
	41,365,363	**41,365,363**	45,183,800	45,183,800

Financial liabilities

Primary financial instruments	**Book value 2011 US$**	**Fair value 2011 US$**	Book value 2010 US$	Fair value 2010 US$
Accounts payable	**(6,101,663)**	**(6,101,663)**	(13,407,961)	(13,407,961)
Provisions for decommissioning	**(4,815,000)**	**(4,815,000)**	(4,500,000)	(4,500,000)
	(10,916,663)	**(10,916,663)**	(17,907,961)	(17,907,961)

All of the above financial assets and liabilities are current at the year-end dates.

27. Capital commitments

	2011 US$	2010 US$
Oil and gas expenditures	**–**	–

28. Pension commitments

The Group has no pension commitments as at the year-end date.

29. 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:

	2011 US$	2010 US$
Land and buildings:		
One year	**168,584**	289,511
Two to five years	**–**	74,645
After five years	**–**	–
Other:		
One year	**2,617**	8,200
Two to five years	**–**	649
After five years	**–**	–

30. Contingent liabilities

Bank guarantees for US$1,857,150 have been issued to the Government of India. The guarantees were obtained by placing a fixed deposit of Rs.40,499,480 (US$760,696) with a bank with the interest rate of 9 per cent.

The Group issues guarantees in respect of obligations under various production sharing contracts (PSC) in the normal course of business. The Group has provided guarantees of US$1,857,150 as at 31 December 2011 issued under a facility with a bank for the Group's share of minimum work programme commitments for the year to 31 March 2012. The details of the bank guarantees provided are as follows:

PSC	Guarantee Number	US$
KG-DWN-2001/1	ILG010/42465/07	1,000,000
KG-DWN-2003/1	ILG011/42465/07	857,150

In addition, the parent company guarantees the Group's obligations under various PSCs to the Government of India.

The guarantees are deemed to have negligible fair value and are therefore accounted for as contingent liabilities.

31. Related party transactions

The aggregate remuneration of Directors and the key management personnel of the Group is as follows:

	2011 US$	2010 US$
Short-term employee benefits	**1,759,491**	2,412,582
Share-based payments	**204,806**	813,431
	1,964,297	3,226,013

Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report which forms part of the Group's 2011 Annual Report.

Financial Statement

Parent Company Statement of Changes in Equity

For the year ended 31 December 2011 – Restated

	Share capital US$	Share premium US$	Shares to be issued US$	Retained earnings US$	Total US$
At 1 January 2010	685,300	108,475,924	6,557,708	11,100,082	126,819,014
Changes in equity for the year 2010					
Total comprehensive loss for the year (restated)	–	–	–	(3,511,066)	(3,511,066)
Share-based payment	–	–	(961,287)	–	(961,287)
Share option exercised	50	10,904	–	–	10,954
Restricted shares issued	175	60,693	–	–	60,868
Issue of share capital	33,700	10,415,410	–	–	10,449,110
Issue expenses	–	(1,022,652)	–	–	(1,022,652)
At 31 December 2010	719,225	117,940,279	5,596,421	7,589,016	131,844,941
Changes in equity for the year 2011					
Total comprehensive loss for the year	**–**	**–**	**–**	**(565,384)**	**(565,384)**
Share-based payment	**–**	**48,196**	**(1,339,895)**	**–**	**(1,291,699)**
Share option exercised	**250**	**57,979**	**–**	**–**	**58,229**
Restricted shares issued	**220**	**59,861**	**–**	**–**	**60,081**
Issue of share capital	**8,157**	**1,889,769**	**–**	**–**	**1,897,926**
At 31 December 2011	**727,852**	**119,996,084**	**4,256,526**	**7,023,632**	**132,004,094**

The comprehensive loss of the previous year is restated after adjusting the additional deferred tax liability of US$1,089,818 towards write-off in respect of loan given to HOAL consequent to the sale of HOAL. Total comprehensive loss for the year 2010 of US$2,421,248 which includes an amount of US$4,097,888 written-off with respect to inter-corporate loan given to HOAL and equity contribution to HOAL of US$387,835 consequent to the disposal of the undertaking on 27 October 2010.

Financial Statement

Parent Company Statement of Financial Position

As at 31 December 2011

	Notes	2011 US$	2010 US$ Restated
Assets			
Non-current assets			
Property, plant and equipment	9	**23,312**	48,467
Intangible assets – others	10	**–**	–
Investments	11	**99,695,643**	100,557,539
Total non-current assets		**99,718,955**	100,606,006
Current assets			
Trade and other receivables	12	**62,272**	448,681
Short-term investments	13	**29,693,968**	28,149,496
Cash and cash equivalents	17	**5,098,350**	5,335,219
Total current assets		**34,854,590**	33,933,396
Total assets		**134,573,545**	134,539,402
Equity and liabilities			
Equity attributable to the owners			
Equity			
Called-up share capital	14	**727,852**	719,225
Share premium		**119,996,084**	117,940,279
Shares to be issued		**4,256,526**	5,596,421
Retained earnings		**7,023,632**	7,589,016
Total equity		**132,004,094**	131,844,941
Non-current liabilities			
Provision for deferred tax	15	**2,414,096**	2,427,171
Current liabilities			
Trade and other payables	16	**155,355**	267,290
Total liabilities		**2,569,451**	2,694,461
Total equity and liabilities		**134,573,545**	134,539,402

Approved and authorised for issue by the Board of Directors on 6 March 2012.

Financial Statement

Parent Company Statement of Cash Flows

For the year ended 31 December 2011

	Notes	2011 US$	2010 US$
Operating activities			
Cash flow (used in) operating activities	4	**(2,484,496)**	(3,001,732)
Net cash (used in) operating activities		**(2,484,496)**	(3,001,732)
Investing activities			
Purchase of other property, plant and equipment		**(4,044)**	(10,417)
Disposal of subsidiary undertaking (net of expenses)		**–**	4,275,047
Short-term investments		**(1,544,472)**	(7,644,366)
Net cash (used in) investing activities		**(1,548,516)**	(3,379,736)
Financing activities			
Interest and investment income		**1,192,860**	1,328,898
Inter-corporate loan		**587,047**	(4,838,851)
Issue of shares		**2,016,236**	9,498,280
Net cash from financing activities		**3,796,143**	5,988,327
Net (decrease)/increase in cash and cash equivalents		**(236,869)**	(393,141)
Cash and cash equivalents at the beginning of the year		**5,335,219**	5,728,360
Cash and cash equivalents at the end of the year		**5,098,350**	5,335,219

Financial Statement

Notes to the Parent Company Financial Statements

For the year ended 31 December 2011

1. Accounting policies

The Company follows the accounting policies of the Group.

2. Revenue

	2011 US$	2010 US$
Overhead recovery	**169,451**	291,938
Management fees from subsidiary	**180,000**	180,000
	349,451	471,938

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$565,384 (loss for 2010: US$3,511,066).

4. Reconciliation of operating loss to operating cash flows

	2011 US$	2010 US$
Operating loss	**(1,776,722)**	(1,367,547)
Depreciation	**29,199**	34,578
Share-based payments	**(994,571)**	(1,306,271)
	(2,742,094)	(2,639,240)
(Increase)/decrease in trade and other receivables	**369,533**	(353,014)
(Increase)/decrease in trade and other payables	**(111,935)**	(9,478)
Cash flow (used in) operating activities	**(2,484,496)**	(3,001,732)

5. Staff costs

	2011 US$	2010 US$
Wages and salaries	**1,347,594**	1,210,302
Social security costs	**155,140**	118,725
Share-based payments	**(1,016,850)**	(1,242,321)
	485,884	86,706

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:

	2011	2010
Management and administration	**7**	7

6. Share-based payments

Share-based payments are disclosed in note 8 to the Consolidated Financial Statements.

7. Audit fees

Audit fees payable to the Company's auditors for the audit of the parent company financial statements for the year 2011 is US$10,000 (2010: US$10,000).

8. Interest and investment income

	2011 US$	2010 US$
Bank interest	**42,523**	30,791
Interest on inter-corporate loan	**1,119,894**	1,274,231
Dividend	**35,846**	20,066
	1,198,263	1,325,088

Financial Statement

Notes to the Parent Company Financial Statements continued

For the year ended 31 December 2011

9. Property, plant and equipment

	Total US$
Cost	
At 1 January 2010	357,917
Additions	10,417
At 1 January 2011	368,334
Additions	4,044
At 31 December 2011	**372,378**
Depreciation	
At 1 January 2010	285,289
Charge for the year	34,578
At 1 January 2011	319,867
Charge for the year	29,199
At 31 December 2011	**349,066**
Net book value at 31 December 2011	**23,312**
Net book value at 31 December 2010	48,467

10. Intangible assets – others

	US$
Cost	
At 1 January 2010	131,250
At 1 January 2011	131,250
At 31 December 2011	**131,250**
Accumulated depreciation	
At 1 January 2010	131,250
Charge for the period	–
At 1 January 2011	**131,250**
Charge for the year	–
At 31 December 2011	**131,250**
Net book value as at 31 December 2011	**–**
Net book value as at 31 December 2010	–

Intangible assets represent the software used for office automation and other business applications of the Group.

11. Investments

	Shares in subsidiary US$	Loan to subsidiary US$
Carrying value at 1 January 2010	6,170,639	97,576,000
Additional investment during the year	344,984	4,838,851
Sale of subsidiary undertaking 2010	(387,835)	(7,985,100)
Carrying value at 1 January 2011	6,127,788	94,429,751
Additional investment during the year	(274,849)	(587,047)
Carrying value at 31 December 2011	**5,852,939**	**93,842,704**

Shares in subsidiary represent the investment made as at 31 December 2011 in Hardy Exploration & Production (India) Inc, the wholly-owned subsidiary of Hardy Oil and Gas plc. Full detail of this subsidiary is given in note 17 of the consolidated financial statements.

Loan to subsidiary at 31 December 2011 consists of US$93,842,704 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.

12. Trade and other receivables

	2011 US$	2010 US$
Other receivables	**48,008**	417,541
Prepayments and accrued income	**14,264**	8,861
Prepaid expenses – share-based payments	**–**	22,279
	62,272	448,681

13. Short-term investments

	2011 US$	2010 US$
HSBC US$ Liquidity Fund Class-A	**27,505,453**	25,184,787
HSBC £ Liquidity Fund Class-A	**2,188,515**	2,964,709
	29,693,968	28,149,496

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 December 2011 and 2010.

14. Share capital

	Number US$0.01 Ordinary Shares '000'	US$
Authorised Ordinary Shares		
At 1 January 2010	200,000	2,000,000
At 1 January 2011	200,000	2,000,000
At 31 December 2011	**200,000**	**2,000,000**
Allotted, issued and fully paid Ordinary Shares		
At 1 January 2010	68,530,044	685,300
Share options exercised during the year	5,000	50
Restricted shares issued	17,489	175
Shares issued during the year	3,370,000	33,700
At 1 January 2011	71,922,533	719,225
Share options exercised during the year	25,000	250
Restricted shares issued	21,971	220
Shares issued during the year	815,700	8,157
At 31 December 2011	**72,785,204**	**727,852**

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

15. Deferred taxation

Deferred tax analysis:

	2011 US$	2010 US$
Differences between accumulated depreciation and capital allowances	**57,391**	49,215
Other temporary differences	**1,187,956**	1,183,057
Group relief availed	**(3,659,443)**	(3,659,443)
Deferred tax (liability)	**(2,414,096)**	(2,427,171)

16. Trade and other payables

	2011 US$	2010 US$
Trade payables	**92,200**	195,747
Accruals	**63,155**	71,543
	155,355	267,290

Financial Statement

Notes to the Parent Company Financial Statements continued

For the year ended 31 December 2011

17. Financial risk management

The Company follows the risk management policy stipulated in note 25 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 December 2011 is as follows:

	Fixed rate financial asset US$	Floating rate financial asset US$	Financial asset – no interest is earned US$	Total US$
US Dollars	5,000,000	–	18,547	5,018,547
Pound Sterling	–	219	79,584	79,803
Cash and cash equivalents	5,000,000	219	98,131	5,098,350

Financial assets include cash and deposits and the floating interest rates are based on the base rate of the relevant central bank.

The interest rate risk profile of the financial assets of the company as at 31 December 2010 is as follows:

	Fixed rate Financial asset US$	Floating rate Financial asset US$	Financial asset – no interest is earned US$	Total US$
US Dollars	5,000,000	–	127,858	5,127,858
Pound Sterling	–	238	207,123	207,361
Cash and cash equivalents	5,000,000	238	334,981	5,335,219

Financial assets 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 Dollar of the company are as follows:

	Pound Sterling in Equivalent US$	
	2011	2010
US$	**2,268,318**	3,172,070

Foreign exchange loss recognised on account of exchange rate for the year 2011 is US$4,637 (2010 gain: US$20,491).

18. Financial instruments

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

Financial assets

Primary financial instruments	**Book value 2011 US$**	**Fair value 2011 US$**	Book value 2010 US$	Fair value 2010 US$
Short-term investments	**29,693,968**	**29,693,968**	28,149,496	28,149,496
Cash and short-term deposits	**5,098,350**	**5,098,350**	5,335,219	5,335,219
Trade and other receivables	**62,272**	**62,272**	448,681	448,681
	34,854,590	**34,854,590**	33,933,396	33,933,396

All of the above financial assets are current and unimpaired as at the year-end date.

Financial liabilities

Primary financial instruments	**Book value 2011 US$**	**Fair value 2011 US$**	Book value 2010 US$	Fair value 2010 US$
Accounts payable	**(155,355)**	**(155,355)**	(267,290)	(267,290)

All of the above financial liabilities are current as at the year-end date.

19. 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:

	2011 US$	2010 US$
Land and buildings:		
One year	**70,199**	148,711
Two to five years	**–**	70,638

20. 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 the subsidiary company at year-end dates:

	2011 US$	2010 US$
Amount owed from subsidiary undertakings	**93,842,704**	94,429,751

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:

	2011 US$	2010 US$
Parent company fees to joint venture operations of subsidiary	**169,451**	291,938
Management fees	**180,000**	180,000
Inter-company interest income	**1,119,894**	1,274,231

The interest income is based on market rates.

Hardy Oil (Africa) Limited was a subsidiary until 30 September 2010.

Notes

Notes

Company Information
Reserves and Resources

The Company had previously committed to commission the updating of a Competent Person's Report (CPR) on an annual basis in conjunction with the year-end financial reporting process. Due to limited drilling activity in 2011 and the uncertainty surrounding the recommencement of production in the PY-3 asset, the Company took the decision to postpone the updating of a Competent Person's Report until later in the year. The estimates provided in the Company's 2011 CPR are provided below.

Reserves (Proven + Probable)

Net PY-3 oil production from 31 December 2010 to 31 December 2011 was 129 mmbbl.

				31 December 2010	
Reserves (Proven + Probable)[1]				Gross	Net[4]
PY-3[2]	Producing	Oil	mmbbl	15.1	2.1
Total Reserves (Proven + Probable)		**Oil**	**mmbbl**	**15.1**	**2.1**

Notes:

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.
2. 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.
3. 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 Government of India (DGH).
4. 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 175 bcf.

				31 December 2010	
Contingent Resources (2C)[1]				Gross	Net
GS-01	B1 (Dhirubhai 33)	Gas	bcf	83.0	8.3
CY-OS/2 [2,3]	Ganesha 1	Gas	bcf	130.0	97.5
D3	A1 (Dhirubhai 39)	Gas	bcf	210.0	21.0
D3	B1 (Dhirubhai 41)	Gas	bcf	213.0	21.3
D3	R1 (Dhirubhai 44)	Gas	bcf	98.0	9.8
D3	W1 (Dhirubhai 52)	Gas	bcf	162.4	16.2
GS-01	B1 (Dhirubhai 33)	Oil	mmbbl	1.85	0.19
		Gas	bcf	896.4	174.1
Total Contingent Resources[1] (2C)		**Oil**	**mmbbl**	**1.85**	**0.19**

Notes

1. GCA has used the Petroleum Resources Management System published by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers in March 2007 (SPE PRMS) as the basis for its classification and categorisation of hydrocarbon volumes.
2. With respect to Ganesha-1 (CY-OS/2) non-associated natural gas discovery, in 2010 the Group formally commenced arbitration proceedings pursuant to dispute resolution provisions of the governing PSC regarding a licence extension request.
3. In the event of a commercial development of a discovery, ONGC has the option to back-into the CY-OS/2 licence at an interest of 30 per cent.

Prospective Resources

D9 – The exploration phase of the block is complete and the joint venture has until July 2012 to submit an appraisal programme for the KG-D9-A2 natural gas discovery. In the absence of the submission the block will stand relinquished.

Subsequent to the effective date of the Company's 2011 CPR, the Company has drilled two wells on the D9 block:

- KG-D9-B3 which was targeting Pilocene channel sands and was plugged and abandoned
- KG-D9-A2 which was targeting several Miocene sands announced a natural gas discovery in the Upper Miocene sands

				31 December 2010	
Risked Prospective Resources (Best Estimate)[1, 2]				Gross	Net
CY-OS/2 [3, 4]	Prospects	Gas	bcf	113	84
GS-01	Prospects	Gas	bcf	142	14
D3	Prospects and Leads	Gas	bcf	3,959	396
D9	Prospects and Leads	Gas	bcf	4,655	466
D9	Prospects and Leads	Oil	mmbbl	180	18
		Gas	bcf	8,869	960
Total Risked Prospective Resources (Best Estimate)[1, 2]		**Oil**	**mmbbl**	**180**	**18**

Notes:
1. Aggregated risked Prospective Resources have been derived by Hardy and are not aggregated or provided as risked volumes by GCA.
2. The GCA has used the Petroleum Resources Management System published by the Society of Petroleum Engineers, World Petroleum Council, American Association of Petroleum Geologists and Society of Petroleum Evaluation Engineers in March 2007 (SPE PRMS) as the basis for its classification and categorisation of hydrocarbon volumes.
3. With respect to Ganesha-1 (CY-OS/2) non-associated natural gas discovery, in 2010 the Group formally commenced arbitration proceedings pursuant to dispute resolution provisions of the governing PSC regarding a licence extension request.
4. In the event of a commercial development of a discovery, ONGC has the option to back-into the CY-OS/2 licence at an interest of 30 per cent.

Company Information
Definitions and Glossary of Terms

AGM:	Annual general meeting
Assam block:	Licence AS-ONN-2000/1
Board:	The Board of Directors of Hardy Oil and Gas plc
CA:	Chartered Accountant
CBV:	Chartered Business Valuator
the Company:	Hardy Oil and Gas plc
CPCL:	Chennai Petroleum Company Limited, formerly known as Madras Refinery Limited
CPR:	Competent person's report
D3:	Licence KG-DWN-2003/1 awarded in NELP V
D9:	Licence KG-DWN-2001/1 awarded in NELP III
DGH:	Directorate General of Hydrocarbons
Dhirubhai 33:	Gas discovery on GS-01-B1 well
Dhirubhai 39:	Gas discovery on KGV-D3-A1 well
Dhirubhai 41:	Gas discovery on KGV-D3-B1 well
Dhirubhai 44:	Gas discovery on KGV-D3-R1 well
Dhirubhai 52:	Gas discovery on KGV-D3-W1 well
Dhirubhai 54:	Gas discovery on KGV-D9-A2 well
DOC:	Declaration of commerciality
FDP:	Field development plan
FPU:	Floating production unit
FSO:	Floating storage and offloading vessel
Ganesha:	Gas discovery on Fan-A1 well located in CY-OS/2
GCA:	Gaffney, Cline & Associates Ltd
GOI:	Government of India
Group:	The Company and its subsidiaries
GS-01:	Licence GS-OSN-2000/1 awarded under NELP II
H2:	Second half of the year
Hardy:	Hardy Oil and Gas plc
HEPI:	Hardy Exploration & Production (India) Inc.
HOAL:	Hardy Oil (Africa) Limited
HOEC:	Hindustan Oil Exploration Company Limited
HSE:	Health, safety and environment
IAS:	International Accounting Standards
IFRS:	International Financial Reporting Standards
IPO:	Initial public offering
KG Basin:	Krishna Godavari sedimentary basin comprising an area on the south east India continental shelf
KPI:	Key performance indicator
London Stock Exchange:	London Stock Exchange plc
MC:	Management Committee
Main Market:	Official List of the London Stock Exchange's market for listed securities
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
NELP:	New Exploration Licensing Policy of the Ministry of Petroleum and Natural Gas of India
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
ONGC:	Oil and Natural Gas Corporation Limited
PSC:	Production sharing contract
PY-3:	Licence CY-OS-90/1
Reliance:	Reliance Industries Limited
SPE:	Society of Petroleum Engineers

US$:	United States dollars
2D/3D:	Two dimensional/three dimensional
2P:	Proven plus probable
API°:	American Petroleum Institute gravity
AVO:	Amplitude variations with offset
bcf:	Billion cubic feet
BOP:	Blow-out preventer
bwpd:	Barrels of water per day
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
Prospective Resources:	Those quantities of petroleum which are estimated, on a given date, to be potentially recoverable from undiscovered accumulations
DST:	Drill stem test
DWT:	Dead weight tonne
GCOS:	Geological chance of success
FPS:	Floating production system
km:	Kilometre
km^2:	Kilometre squared
lkm:	Line kilometre
m:	Metre
MDT:	Modular formation dynamics tester
MDRT:	Measured depth from the rotary table
mmcfd:	Million standard cubic feet per day
mmcmd:	Million standard cubic metres per day
mmbbl:	Million stock tank barrels per day
MWP:	Minimum work programme
NANG:	Non-Associated natural gas
OSV:	Offshore supply vessel
PSDM:	Pre-stack depth migration
psi:	Pounds per square inch
scf:	Standard cubic feet
scfd:	Standard cubic feet per day
stbd:	Stock tank barrel per day
TCF:	Trillion cubic feet
TVD:	Total vertical depth
TVDRT:	Total vertical depth from rotary table

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Yogeshwar Sharma (Chief Executive Officer)
Dr Carol Bell (Senior Non-Executive)
Peter Milne (Non-Executive)
Paul Mortimer (Non-Executive)
Pradip Shah (Non-Executive)
Ian Bruce (Non-Executive)

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