Hardy Oil and Gas plc
Annual Report and Accounts
2012

Building momentum

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 development 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

In 2013, our primary objectives will be to build on current momentum by securing key stakeholders' approvals and initiating activity to take us closer to realising production from our D3, PY-3 and GS-01 blocks.

We have clear deliverables for each asset in 2013 and management has built positive momentum going into an important year for Hardy.

2012 Operational Summary

- D3 – Submitted a revised Declaration of Commerciality proposal for the Dhirubhai 39 and 41 natural gas discoveries
- D3 – Completed PSDM processing of 3D data covering the eastern area of the block
- CY-OS/2 – Hon'ble Tribunal ruled in the Company's favour, allowing for a further three years to appraise the Ganesha-1 natural gas discovery and awarded interest and costs to the Company (contingent asset – $24.8 million)
- GS-01 – Submitted field development plan for the Dhirubhai 33 natural gas discovery
- PY-3 – Secured partner consensus on the field's facility technical specifications and continued work towards the submission of a full field development plan
- D9 – Relinquished the block due to poor hydrocarbon potential of the block

2012 Financial Summary

- Cash used from continuing operations before movements in working capital of $6.8 million (2011: used $0.9 million)
- Cash and short-term investments at 31 December 2012 amounted to $29.1 million (2011: $36.5 million) and no debt
- Loss before taxation amounted to $12.7 million (2011: loss of $4.6 million)

Corporate

- In January 2012 the Company announced the appointment of Alasdair Locke as Non-Executive Chairman
- In March 2012 the Company announced the appointment of Ian MacKenzie as Chief Executive Officer and Peter Milne as a Non-Executive Director
- Completed a comprehensive review of the Company's assets, strategy and resources. Relocating corporate office to Aberdeen
- Cost rationalisation exercise undertaken resulting in a reduction in annual overhead costs of approximately $1.0 million

All financial amounts in US dollars unless otherwise stated.

Overview

Our India Focus

Domestic supply is projected to fall short of expected demand creating a robust environment to monetise gas discoveries.

India is currently the fourth largest consumer of energy in the world after USA, China and Russia. India's demand for natural gas is expected to grow by about 19 per cent per annum and domestic supply is projected to fall well short of expected demand (see Fig 1).[1]

India's sedimentary basins are under-explored and significant accumulations of hydrocarbons remain to be found. India has an estimated sedimentary area of 3.14 million km^2 comprising of 26 sedimentary basins. India estimates that 130 billion barrels of oil and gas equivalent are yet to be found.[2]

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 one 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 Indian 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 the GOI), there is a strong community of upstream technical, operating and commercial professionals based in India.

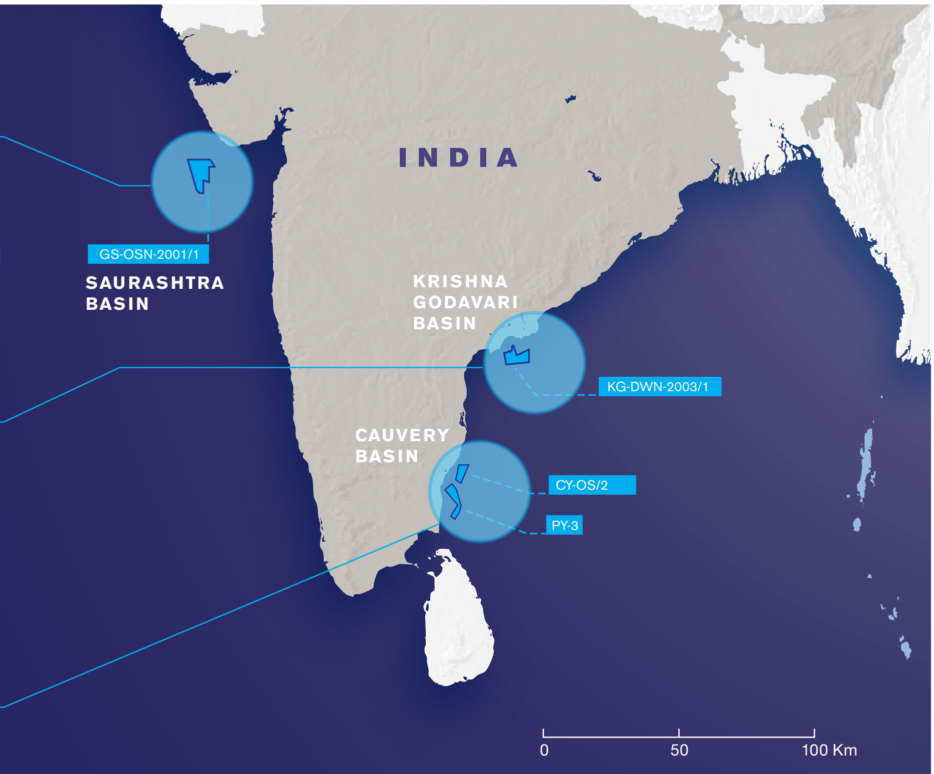
Attractive fiscal platform

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

1 12th Five year plan volume ii, Planning Comission Governing of India

2 Directorate General of Hydrocarbons Under Ministry of Petroleum & Natural Gas, Govt. of India annual report 2011/12

Asset Overview



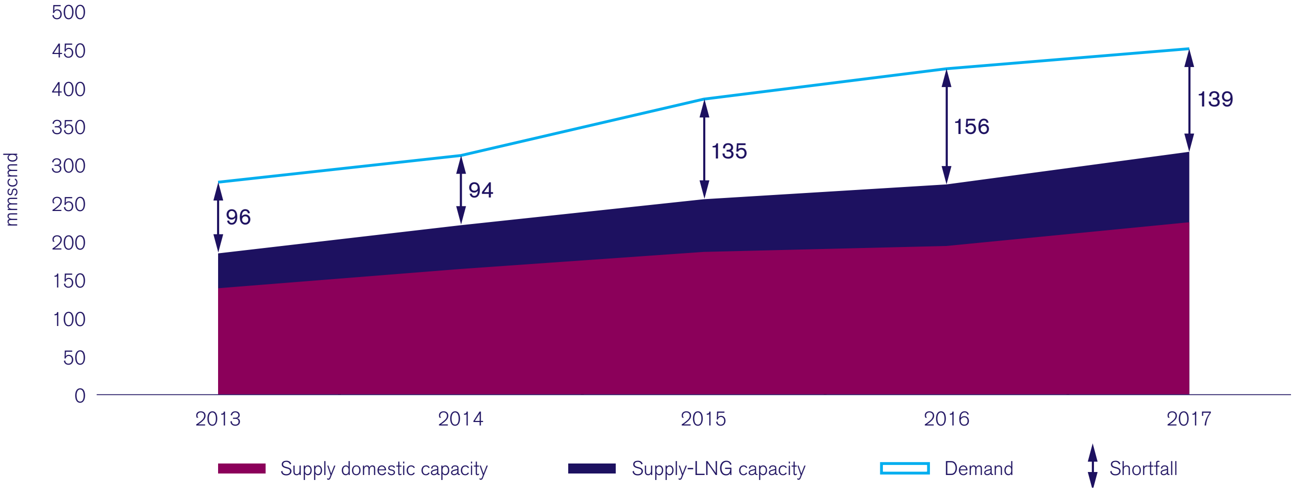
Gujarat-Saurashtra Basin
Located in the relatively shallow waters off the west coast of India the Gujarat-Saurashtra Basin has many significant producing oil and gas fields. The Company's Dhirubhai 33 natural gas discovery is located within the GS-01 licence. In 2011 the Dhirubhai 33 discovery was declared commercial and a field development plan has been submitted to the GOI.

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). To date four consecutive natural gas discoveries have been drilled on the D3 block. Net risked prospective resources are estimated at approximately 396 bcf.

Cauvery Basin
The Cauvery Basin is located in the south east of India. The basin is a proven oil and gas province. Hardy is the operator of two licences (PY-3 and CY-OS/2) within this basin. The PY-3 oil field commenced production in 1997 and has produced over 24 mmbbl. Currently shut-in, the Company estimates that a further 15 mmbbls can be recovered with the drilling of additional wells. The Ganesha-1 natural gas discovery is located in the CY-OS/2 block and is currently under appraisal.

Fig 1

India Natural Gas[1]
Supply and Demand Forecast



Business Review
Chairman's Statement

Management has built positive momentum going into an important year for Hardy

Alisdair Locke
Chairman

Overview

Early in 2012, I accepted an appointment to Hardy's Board and assumed the Chairmanship shortly thereafter. I was very pleased with the Board's prompt appointment of Ian MacKenzie as Chief Executive Officer. Ian has an exceptional track record of delivering results in a competitive industry and his experience and leadership qualities are well suited to implement our objectives.

With the Board's support, an early priority for Ian was to oversee a strategic review which resulted in two key conclusions: the Company's India-focused asset portfolio has good underlying value; and there were opportunities to implement organisational efficiencies to reduce overhead expenditures. Drawing on these conclusions we have subsequently put in place clear business plans for each asset and taken steps to conserve capital through cutting organisational overhead.

"In 2013, our primary objectives will be to build on the current positive momentum by securing key stakeholders' approvals and initiating activity to take us closer to realising production from our D3, PY-3 and GS-01 blocks."

Management has built positive momentum going into an important year for Hardy, specifically:

On D3, we expect the recommencement of exploration drilling, of the fifth well, in the second quarter of 2013 and the sixth and final committed exploration well due later in the year. In 2012 the D3 joint venture Operating Committee reviewed and resubmitted a declaration of commerciality proposal for the Dhirubhai 39 and 41 natural gas discoveries subject to a Government of India (GOI) review. The proposed development is a dry gas, subsea cluster development with the flexibility to add in additional discoveries. The GOI's review is ongoing.

On PY-3 we will submit a comprehensive full field development plan to the GOI for approval after which we expect to secure appropriate offshore production and storage facilities and initiate planning for a development drilling programme to recommence production in 2014.

On GS-01 we intend to conclude discussions with our joint venture partner to increase our interest in the block. A priority in 2013 will be to secure GOI approval of the field development plan and initiate planning for development.

Finally, on CY-OS/2, an early priority of the Company is to have the block restored to the joint venture, as per the Hon'ble Tribunal's award, which provides for a further three years to complete the appraisal of the Ganesha-1 natural gas discovery. Once restored to the Company, as operator, we will initiate planning for the appraisal programme. The joint venture was also awarded interest cost on its Rs5.0 billion (approximately $90 million) investment in the block (Interest Cost) and various costs associated with the arbitration process (Cost). The Interest Cost of $24.6 million and Cost of $0.2 million that were awarded are currently considered as contingent assets in the financial statements for the year 2012 (note 15). Interest has accrued at simple interest rate of nine per cent per annum on the joint venture's investment.

Key results

No revenue was realised in 2012 compared to $11.3 million in 2011 (in July 2011 the PY-3 field was shut-in). Administrative expenses increased to $7.5 million compared to $6.9 million in 2011. The Company made a total comprehensive loss of $11.1 million in 2012.

The Group started 2012 with cash reserves of $36.5 million. Net cash used in continuing operating activities was $6.5 million. Exploration-related expenditures amounted to $1.5 million and interest and investment income was $0.9 million. As a result, the Group's cash reserves at the end of 2012 fell to $29.1 million. The Group remains in a strong financial position with no debt.

Our business model

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.

Our strategy

We undertook a strategic review through 2012, following which we have concluded that Hardy's India-focused portfolio has the potential to add significant shareholder value and our medium-term focus will therefore remain on India. The outcome of planned activity through 2013 is expected to confirm our view on the longer-term prospects of our portfolio. In the interim we will continue to consider all opportunities to accelerate value creation for our shareholders.

India energy demand – India's demand for natural gas is expected to grow by about 19 per cent per annum (from 194 million standard cubic metres per day (mmscmd) in 2013 to 466 mmscmd in 2017) to meet the incremental requirement of the power, fertiliser and other industries. The CNG and city gas sector will also see a quantum growth in natural gas use. It is expected that by 2017, 300 cities will be covered with city gas distribution. Domestic supply is projected to be 231 mmscmd, falling well short of expected demand creating a robust environment in which to monetise the Company's current and potential gas discoveries.

Board appointments

The Board underwent a significant reorganisation which has resulted in the appointment of three new Directors and retirement of three other Non-Executive Directors. I was appointed to the Board as Chairman in January 2012.

Prior to my appointment, Carol Bell, Ian Bruce, and Paul Mortimer 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. On behalf of the Board I would like to thank them for their contribution over their tenure.

On 1 March 2012, the Company announced the appointment of Peter Milne as a Non-Executive Director and he has subsequently assumed the role of Audit Committee chair and Senior Non-Executive Director. Peter brings to the Board extensive financial expertise and upstream experience.

Business Review
Chairman's Statement continued

At the time of my appointment Yogeshwar Sharma expressed his intention to step aside as Chief Executive Officer and assume a non-executive role with the Company. We are grateful to Yogeshwar Sharma, one of the founders of the Company, for his invaluable contribution over many years and we are particularly grateful for the continuity provided through the transition to Non-Executive Director.

On 1 March 2012 we were pleased to announce the appointment of Ian MacKenzie. Under challenging conditions Ian has made an immediate impact to the business and recent actions have built positive momentum as we head into an important year for the Company. Ian and his management team have been methodical in their approach to formulating sound business plans for each of our assets with clear deliverables and accountability. We are confident that his experience and leadership qualities are best suited to optimise value for our shareholders.

Governance
We undertook a number of initiatives to improve our corporate governance practices. Earlier this year the Board adopted a new Code of Business Conduct (the Code). Subsequently, Ian MacKenzie has introduced and explained the Code to all employees and contractors. The Board reviewed and amended the Board committees' terms of reference in accordance with Institute of Chartered Secretaries and Administrators (ISCA) guidelines and the UK Corporate Governance Code. We are in regular contact with major shareholders and we are committed to implement and enhance governance practices appropriate for a Company of our size and resources.

Risk management
The Board remains focused on identifying and managing keys risks to our business objectives. The Board has put in place a formal risk and uncertainties review process, involving the generation and identification of key risks, the formulation of mitigation strategies by the Company's senior management team and regular reporting to the Board. This process facilitates a dynamic risk management process.

The Board has identified the following principal risks for 2013:
- Strategic risk – Asset portfolio over-weighted to long-cycle appraisal and development; sub-commercial exploration results
- Financial risk – Absence of stakeholder approvals for proposed development and appraisal programmes; liquidated damages for incomplete minimum work programmes
- Operational risk – A loss of well control could occur during offshore drilling operations; securing timely approval for a PY-3 full field development plan; lack of control of timing of exploration drilling; staff retention
- Compliance – Deteriorating stakeholder sentiment; changing regulatory and political environment in India

"The outcome of planned activity through 2013 is expected to confirm our view on the longer-term prospects of our portfolio."

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.

Outlook

The D3 exploration licence in the Krishna Godavari Basin remains at the core of our organic growth potential and we expect drilling to recommence in the second quarter of 2013. 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. The CY-OS/2 award is very encouraging and we will provide updates as we re-engage with the GOI to advance appraisal activity on this block.

In 2013, our primary objectives will be to build on the current positive momentum by securing key stakeholders' approvals and initiating activity to take us closer to realising production from our D3, PY-3 and GS-01 blocks. We have clear deliverables for each asset in 2013 and management are fully accountable for the implementation of agreed plans. Energy demand in India is growing at an exceptional rate and there are indications that a more collaborative environment is taking hold in India. We believe that these external factors should complement our efforts.

The Company remains in a strong working capital position from which to fund its planned work activity.

Alasdair Locke
Chairman
6 March 2012

Business Review
Our Business Model

Hardy's India-focused asset portfolio provides a good platform from which to create significant shareholder value

Hardy creates value through investment in exploration and development activities to achieve the generation of revenue from the production of hydrocarbons and ultimately, result in the return of capital to stakeholders.

01
Obtaining exploration rights
Acquire directly through national authorities or indirectly via purchase or farm in

02
Exploration
Geoscience surveys and studies, high-grade prospects, verify via drilling

03
Appraisal
Geotechnical and engineering studies to assess commerciality of discoveries

04
Development
Finalise optimal development plan implement plan and commence production

05
Production optimisation and enhanced recovery
Monitor production and performance, identify viable enhanced recovery techniques

06
Return profits to shareholders
Establish sustainable business, return capital to shareholders

1. Obtaining exploration rights

Obtaining hydrocarbon exploration rights is accomplished through:

a. The granting of exploration licences by the Government of the countries in which we choose to invest. In India this is accomplished via the New Exploration Licensing Policy (NELP), a periodic competitive closed bid process.
b. The acquisition of exploration licences from third parties. This can be accomplished via direct farm-in, purchase, or corporate mergers.

2. Exploration

Exploration campaigns are planned to try to discover oil and gas fields within under-explored sedimentary basins. Initial activity will typically involve investment in extensive geotechnical analysis which will typically include geological modelling of sedimentary basins, the acquisition of seismic and other data; which is then integrated to facilitate the identification of possible subsurface hydrocarbons accumulations (prospects). Drilling of exploration wells commences if a prospect has a reasonable chance of success and meaningful size estimate.

3. Appraisal

When we have a significant discovery we undertake appraisal programmes which may include the drilling of wells and further geotechnical analysis to determine the size and quality of the discovery. Initial development concepts are also formulated at this time to facilitate the determination of commerciality. Presence of markets to monetise the discovered hydrocarbon is identified at this time.

4. Development

If the appraisal programme confirms that the development of a discovery will be commercially and financially viable, we begin work on a development plan. The plan will map out the optimal process to extract the hydrocarbons in a cost effective manner and identify which markets the production may be sold into. Field developments are complex, require significant capital investment and may take many years to implement.

5. Production optimisation and enhanced recovery

Once a discovery is producing we use our expertise and knowledge to ensure production strategies optimise recovery in a safe and cost effective manner. Later in a field's life we create value through the implementation of enhanced production strategies to optimise the value of recoverable hydrocarbons from existing producing fields.

6. Return profits to shareholders

After retaining sufficient profit to reinvest in the business, we return profits to our shareholders. Dispositions and farm downs, throughout the investment cycle described above, may also accelerate returning profits to shareholders.

Business Review
Chief Executive's Statement

We are committed to a plan with set timelines, deliverables and accountability.

Ian MacKenzie
Chief Executive Officer

Overview
I joined Hardy early in 2012 and, following a comprehensive induction process, I assumed the Chief Executive Officer role at the Company's Annual General Meeting (AGM) in May. At the time, the PY-3 oil field had been shut-in since July 2011 and the Company had recently announced the relinquishment of the D9 exploration block. Consequently, my first priority was to undertake a strategic review to identify the key value drivers of the Company's asset portfolio and establish a clear business plan to optimise shareholder value. Our efforts have started to generate positive momentum for the year ahead as we continue to implement our plan.

Strategic review
With the guidance of the Board, management initiated a strategic review. Our review was focused on assessing Hardy's existing assets, organisational competencies and opportunities to create value for shareholders. The Board concurred with management that Hardy's India-focused asset portfolio provides a good platform from which to create significant shareholder value.

India's improving investment climate
Throughout 2012 we have observed robust public debate regarding the performance and practices of India's upstream oil and gas sector. We welcome a higher level of transparency which should result in an increase in investment in the sector and the streamlining of various approval processes. India's gas market fundamentals remain strong and the gap between demand and supply is expected to increase with consequent upward pressure on future gas pricing.

Reorganisation
As a result of the shut-in of the Company's producing assets, an early objective of our review was to align our underlying overheads with value creating activities without compromising the competencies required to remain an offshore operator. Based on our review, the Company's UK corporate office was relocated to Aberdeen, Scotland. The new location is in close proximity to industry expertise in designing, planning and executing complex offshore hydrocarbon projects. In addition annualised overhead reduction of approximately $1.0 million has been achieved. We also modified the Company's internal budgeting and financial reporting practices to enhance transparency and accountability.

Ongoing assessment
We intend to undertake further direct recruitment or engagement of support personnel and resources, as we advance execution of our plans for the PY-3, GS-01 and CY-OS/2 assets. We continue to assess and evaluate further opportunities that complement our existing portfolio in India and identify longer term upstream opportunities to diversify the Company's portfolio.

Implementation

In 2012 we secured agreement, from the PY-3 joint venture on the technical specification of the PY-3 field production system. We are now in the process of gaining consensus with our partners for the submission of a comprehensive full field development plan. Once partner and GOI approvals are secured we can initiate planning to fast-track recommencement of production.

Extensive reprocessing of 3D seismic data was completed by the D3 joint venture in 2012. As a result, a number of prospects have been high-graded and, with the arrival of the deepwater drillship, Dhirubhai Deepwater KG2, we are expecting two exploration wells to be drilled in 2013. Once these wells have been drilled the joint venture will compile data collected, including the four previous natural gas discoveries, and set out to engineer a comprehensive development strategy for all proven hydrocarbon accumulations.

Near the end of 2012, a full field development plan for GS-01 was submitted for the shallow water, natural gas discovery, Dhirubhai 33 located offshore the west coast of India. We had worked closely with the operator to have the full field development plan submitted by the prescribed deadline to the respective department of GOI. Early in 2013 the Company confirmed that it was in discussions with Reliance to increase our participating interest. These discussions are ongoing and we will provide an update once discussions are concluded. As approvals are secured we will be able to advance planning for the development of the asset.

As announced in February 2013, the Hon'ble Tribunal issued an award in the CY-OS/2 joint venture's favour. The ruling entitles the joint venture to undertake appraisal of the Ganesha-1 natural gas discovery over a three-year period from the date the block is restored to the joint venture. Our immediate priority is to re-engage with the regulator and initiate planning for the appraisal of the Ganesha-1 natural gas discovery.

A common theme with our assets is dependence on securing approvals from partners and various GOI authorities. We fully recognise the impact that extended delays have to the valuation of our assets and we are making it our priority to utilise all acceptable avenues to secure approvals in a timely manner.

Health, safety and environment (HSE)

As an offshore operator, the Company is committed to excellent health and safety practices which are at the forefront in all of our activities. Although all offshore activities were suspended in March 2012 we intend to initiate activities in the future and will continue our robust commitment to maintain high HSE standards throughout the organisation. The Company's HSE policy document was reviewed and amended with increased focus on leadership and accountability. Subsequently the revised policy was rolled out and discussed with all staff.

Resource potential

Due to limited drilling activity in 2011 and 2012 and the uncertainty regarding the timing of PY-3 oil field's recommencement of production, the Company has not undertaken the updating of a Competent Person's Report (CPR). We intend to re-evaluate whether or not to update our CPR following the completion of exploration drilling on the D3 block.

Stakeholder engagement

Stakeholder engagement will be a key focus for Hardy through 2013. We believe that maintaining open and close relationships with existing partners and other key stakeholders in the upstream oil and gas sector in India are critical to the successful execution of the Company's strategy. We achieve this through regular collaborative dialogue and the sharing of independent views and objectives.

2013 programme

The D3 exploration licence in the Krishna Godavari Basin remains at the core of our near term growth potential. The Krishna Godavari Basin is a world-class petroleum province and together with rapidly improving Indian gas pipeline infrastructure and the high demand for gas, the prospects for the economic development of gas resources in this area are excellent.

Through 2013, we will continue to collaborate actively with our partners Reliance Industries Limited (Reliance) and BP to optimise the exploration programme for this highly prospective block. The declaration of commerciality proposal for the D3 block is being reviewed by the GOI and this process is expected to continue through 2013. Processing of 3D seismic data covering the eastern area of the D3 block was completed in 2012 and interpretation continues. With the arrival of the drillship Dhirubhai Deepwater KG2 in Indian waters, drilling of the fifth exploration well is expected to commence in the second quarter of 2013 and the sixth and final committed exploration well scheduled later in 2013.

The working capital position of the Company remains strong and we are well funded to meet our planned work programmes. We will continue to seek opportunities to build value for shareholders.

Staff and outlook

Following the Company's strategic review the decision was taken to implement cost reducing measures which resulted in the regrettable reduction of staff in some areas. We have also committed to a plan with set timetables, deliverables and accountability and we are confident we have the right people in place to meet our objectives.

I would like to acknowledge the high level of professionalism, commitment and patience demonstrated by our employees during a year of transition and uncertainty. Our methodical approach has built up positive momentum and I expect Hardy to build on this through the year.

Ian MacKenzie
Chief Executive Officer
6 March 2013

Business Review
Review of Operations

Hardy's key activities in 2012 were: the progression of the D3 exploration programme; the submission of a field development plan for GS-01; CY-OS/2 dispute resolution; deliberation with the PY-3 joint venture partners; and rationalisation of corporate overhead.

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

2012 Performance

Health, safety and environment

The Company had zero recordable injuries to report in 2012 compared to two for the same period in 2011. All offshore activities were suspended in March 2012.

The Board has tailored the Group's HSE policy and management system taking reference from world-class operations to suit Indian conditions. Hardy's HSE policy was reviewed and amended in early 2013. The revised policy has subsequently been presented and explained to all employees and contractors.

Exploration

At the beginning of 2012 the Company's exploration plans were to carry out special processing (pre-stack depth migration (PSDM)) 3D seismic data covering the phase-II area of D3 exploration block and possibly drill an exploration well in D9. Subsequently the D9 joint venture elected to relinquish the D9 block due to poor hydrocarbon potential and made a payment for the unfinished minimum work programme (MWP). Special processing of the D3 seismic data progressed and exploration drilling is expected to recommence in the second quarter of 2013.

Development

The D3 joint venture re-submitted a proposal for the declaration of commerciality (DOC) for the Dhirubhai 39 and 41 natural gas discoveries to the GOI. 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 2012, Hardy submitted a field development plan for the Dhirubhai 33 natural gas discovery (well name GS01-B1) in the GS-01 exploration block. The development plan provides for dry-tree completions to an unmanned platform and multi-phase pipeline to shore with onshore processing and export facilities.

Production

The PY-3 oil field remained shut-in pending stakeholder approval for the drilling of additional wells and the procurement of suitable production facilities. Throughout 2012 the Company worked closely with all stakeholders to advance the approval process for a comprehensive full field development plan. The field's existing wells are capable of producing at a daily rate of over 3,000 barrels per day (bbld) and additional wells are expected to increase the daily production rate to over 8,000 bbld.

Arbitration

Through 2012 the Company continued to participate in a formal dispute resolution process to extend the expiry date of the CY-OS/2 licence. Early in 2013 the Hon'ble Tribunal, hearing our dispute, issued an award in the joint venture's favour which provides for the GOI to restore the joint venture's interest and a further three years to complete appraisal activity for the Ganesha-1 natural gas discovery.

Summary table

The table below provides a brief comparison of our stated operational objectives for 2012 and our subsequent accomplishments through the year:

Performance scorecard

Block	Objective	Execution
D3	Complete PSDM seismic processing and interpretation	PSDM seismic processing was completed in 2012 and interpretation is on-going
D3	Secure approval of proposed DOC	Submitted a revised DOC proposal which is currently under review by the GOI
D9	Drill one exploration well and assess B3 discovery	Relinquished the block and made payment for outstanding MWP
GS-01	Submit a field development plan to GOI	A field development plan was submitted to the GOI in 2012
PY-3	Secure MC approval for 2012 drilling programme	Stakeholders agreed to a timeline for the submission of a comprehensive full field development plan
CY-OS/2	Completion of dispute resolution	Arbitration award, in favour of the Company, was received in Q1 2013
CPR	Update the Company's CPR report in 2012	CPR will likely be updated following planned exploration drilling in 2013

Key Performance Indicators (KPIs)

The Board recently reviewed its KPIs. Taking into account the challenges facing the Company today the Board has identified two financial and three 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. In addition to the five key measures the Company also recognises that timely stakeholder approvals of our field development plans are important milestones in our pursuit of realising production and creating significant shareholder value.

The key performance indicators for 2012 are summarised in the table below:

Outlook for 2013

D3 – Recommencement of exploration drilling, of the fifth well, in the second quarter of 2013 and the sixth and final committed exploration well due later in the year. In 2012 the D3 joint venture Operating Committee reviewed and resubmitted a declaration of commerciality proposal for the Dhirubhai 39 and 41 natural gas discoveries subject to a GOI review. The proposed development is a dry gas, subsea cluster development with the flexibility to add in additional discoveries. The GOI's review is ongoing.

PY-3 – Submit a comprehensive full field development plan to the GOI for approval, after which we expect to secure appropriate offshore production and storage facilities and initiate planning for a development drilling programme to recommence production in 2014.

GS-01 – Conclude discussions with our joint venture partner to increase our interest in the block. A priority in 2013 will be to secure GOI approval of the field development plan and initiate planning for development.

CY-OS/2 – Have the block restored to the joint venture, as per the Hon'ble Tribunal's award, which provides for a further three years to complete the appraisal of the Ganesha-1 natural gas discovery. Once restored to the Company, as operator, we will initiate planning for the appraisal programme. The joint venture was also awarded interest cost on its Rs5.0 billion (approximately $90 million) investment in the block (Interest Cost) and various costs associated with the arbitration process (Cost). The Interest Cost of $24.6 million and Cost of $0.2 million that were awarded are currently considered as contingent assets in the financial statements for the year 2012 (note 15). Interest has accrued at simple interest rate of nine per cent per annum.

CPR update

Due to limited drilling activity in 2011 and 2012 and the uncertainty regarding the timing of PY-3 oil field's recommencement of production, the Company has not undertaken the updating of a CPR. The Board will re-evaluate following the completion of exploration drilling on the D3 block.

A summary of the Company's 2011 CPR as at 31 December 2010 is provided below and the complete report can be downloaded from www.hardyoil.com.

		2P
Reserves (net entitlement)	mmbbls	2.1

		2C
Contingent Resources (net)	bcf mmbbls	174 0.2

		Best
Risked Prospective Resources (net)*	bcf	494

* Aggregated risked Prospective Resources have been derived by Hardy and are not aggregated or provided as risked volumes by Gaffney, Cline & Associates Ltd (GCA).

Key performance indicators

Category	KPI	2012 aim/target	2012	2011	2010
HSE	Total recordable injuries	Reduction	0	2	7
Operations	Contingent resource (bcf)	Increase	174	174	174
	Wells drilled	No wells planned in 2012	0	1	2
Financial	Cash and short-term investments	> than $10 million	$29.1	$36.5	$36.5
	Cash flow overhead*	Reduce	$4.7Δ	$6.2	$6.5

* Administrative expense less share-based payments, foreign exchange charges, partner recharge.
Δ Excludes restructuring charge of $0.7 million.

Business Review
Review of Operations continued

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

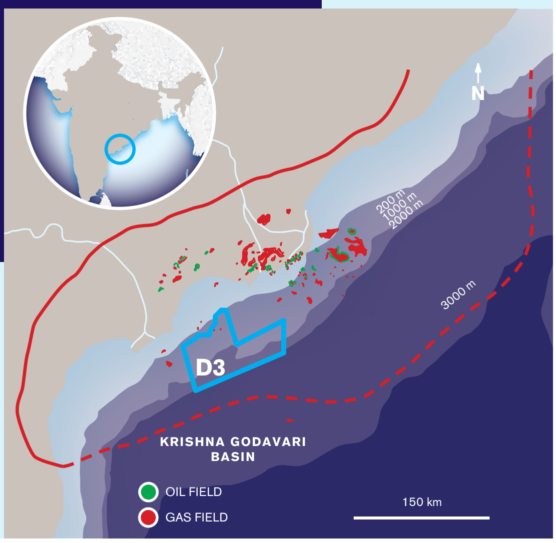
D3

Krishna Godavari Basin

D3

Block KG-DWN-2003/1
Exploration (Hardy 10 per cent interest)

The D3 exploration licence in the Krishna Godavari Basin remains at the core of our organic growth potential and we expect drilling to recommence in the second quarter of 2013.



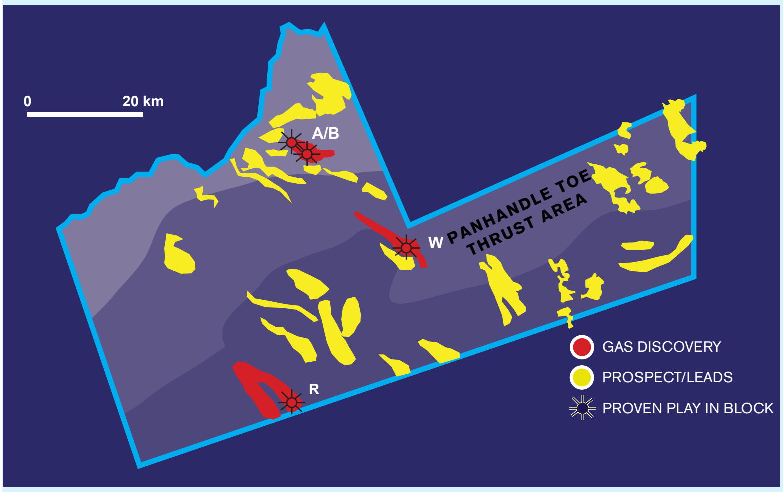
Operations
The joint venture continued to undertake a number of geotechnical studies including the PSDM reprocessing of over 1,292 km^2 of 3D data. Geotechnical studies have been focused on assessing the potential of the eastern area of the block and high grading prospects, including deeper plays.

A revised proposal for the DOC for the Dhirubhai 39 and 41 natural gas discoveries, submitted earlier this year, remain under review by the GOI. The proposed development plan provides for a dry gas, subsea cluster development with the flexibility to add in additional wells and to include a possible adjoining area of discoveries.

Outlook
The deepwater drillship Dhirubhai Deepwater KG2, contracted to the D3 joint venture operator, Reliance, is currently operating in Indian waters. Drilling of a fifth exploration well is expected to commence in the second quarter of 2013.

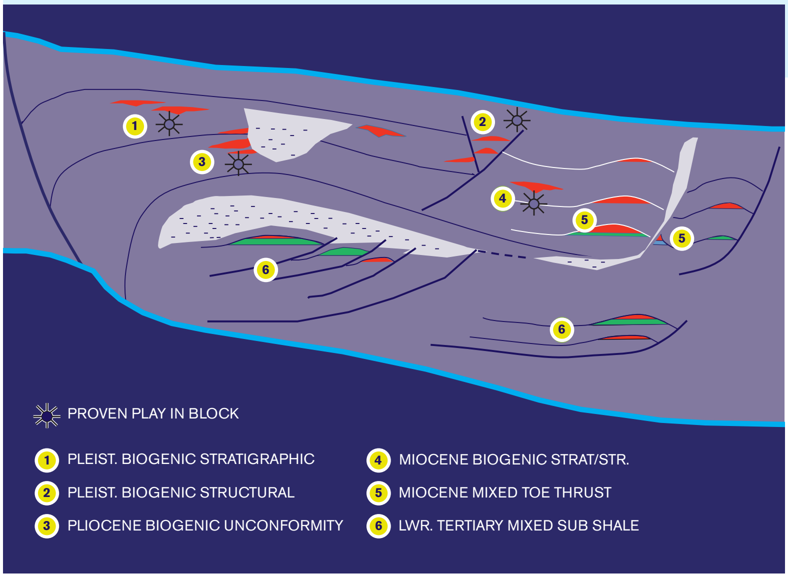
The GOI's review of the D3 DOC proposal will likely continue through 2013.

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 Illustration

Background

Situated in the Krishna Godavari Basin, a prolific petroleum province 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, BP and Hardy hold participating interests of 30 per cent and 10 per cent respectively. To date, four consecutive gas discoveries have been made via the Dhirubhai 39, 41, 44 and 52 (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.

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

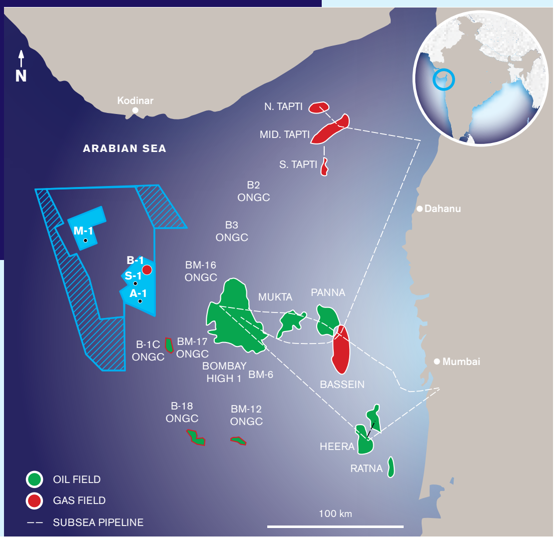
Business Review
Review of Operations continued

Gujarat-Saurashtra offshore basin

GS-01

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

The Dhirubhai 33 natural gas discovery is in close proximity to the industrial state of Gujarat which has an established natural gas infrastructure and robust energy demand growth projections.



Operations

Hardy continued discussions with the operator to facilitate the preparation of a detailed field development plan for the Dhirubhai 33 natural gas discovery. As a result of our efforts the field development plan was submitted to the GOI for review prior to the end of the year. The development plan provides for several dry tree wells, and unmanned platforms, multiphase pipelines to shore and onshore processing and export facilities.

Early in 2013 the Company confirmed that it was in discussions with its partner, Reliance, to increase our participating interest. These discussions are ongoing and we will provide an update once discussions are concluded.

Outlook

The GOI's review of the field development plan is likely to continue through 2013.

Background

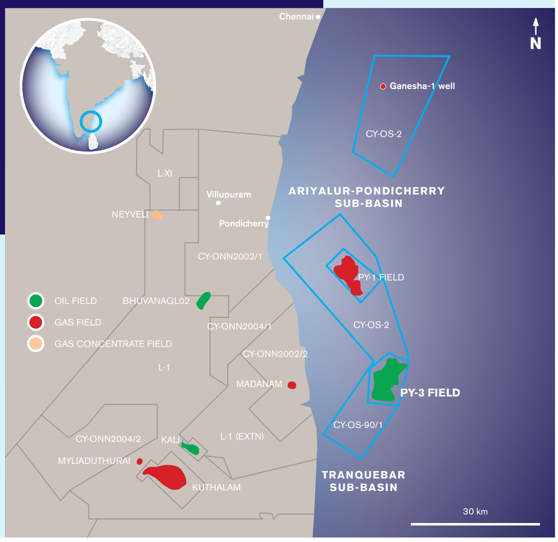
In 2011, the GS-01 joint venture secured the GOI's approval for a DOC proposal for the Dhirubhai 33 discovery (GS01-B1, drilled in 2007) which flow-tested at a rate of 18.6 million standard cubic feet per day (mmscfd) gas with 415 bbld of condensate through a 56/64 inch choke at flowing tubing head pressure of 1,346 pounds per square inch (psi). The GS-01 licence is located in the Gujarat-Saurashtra offshore basin off the west coast of India, northwest of the prolific Bombay High oil field, with water depths varying between 80 m and 150 m. The retained discovery area covers 600 km^2.

Cauvery Basin

PY-3

Block CY-OS 90/1
Oil Field (shut-in July 2011)
(Hardy 18 per cent interest – Operator)

As operator of the PY-3 field Hardy implemented key enhanced recovery techniques that have significantly increased the estimated recoverable volumes and extended the life of the field. Following the drilling of new wells the field could produce for a further ten years.



As previously announced, the PY-3 field remained shut-in throughout the year and no production was realised by the Company. We continued to work closely with partners and government authorities to plan for the timely recommencement of production. We have held a number of constructive meetings with partners and the India upstream oil and gas regulator Directorate General of Hydrocarbons (DGH). As a result we have agreed to a timeline to submit a comprehensive full field development plan early in 2013.

Outlook

Assuming timely approvals from partners, a comprehensive full field development plan is to be submitted for the GOI's review and approval by the end of the second quarter of 2013. Once the revised plan is approved, we intend to initiate a tendering process for the required production facility and drilling services. Based on current assumptions, production could recommence in the first half of 2014. The field's existing well is capable of producing at a gross daily rate of over 3,000 bbld and with future planned wells, the field has the potential to reach 8,000 bbld.

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).

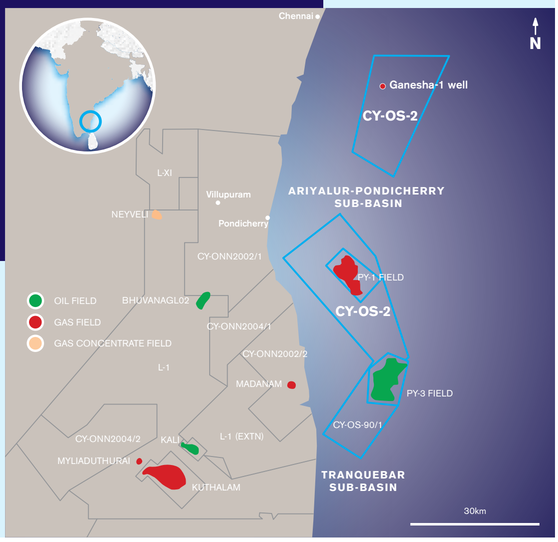
Business Review
Review of Operations continued

Cauvery Basin

CY-OS/2

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

Following the restoration of the block, Hardy (as operator) will complete the appraisal of the Ganesha-1 natural gas discovery. The Ganesha-1 discovery is in close proximity of Hardy's PY-3 oil field.



Operations

The formal dispute resolution process, to extend the expiry date of the CY-OS/2 licence, progressed throughout the year. On 4 February 2013 the Company announced that the joint venture was successful in obtaining an extension of the CY-OS/2 licence. A brief summary of the Hon'ble Tribunal's award is provided below:

Dispute

Hardy, along with Gas Authority of India Limited (GAIL) and Oil and Natural Gas Corporation (ONGC), are a party and operator to a PSC for the CY-OS/2 block. Hardy holds 75 per cent participating interest[1] in the block. Hardy and GAIL declared a gas discovery on 8 January 2007 which discovery qualified as non-associated natural gas (NANG) under the terms of the PSC. The GOI's, Ministry of Petroleum and Natural Gas (MOPNG) however, stated that the discovery being oil and the commerciality of the block not having been declared within 24 months from the date of the notification of the discovery, the block stood relinquished. Hardy had disputed the characterisation of the discovery as oil and the consequential relinquishment.

Hon'ble Tribunal

This dispute was referred to arbitration under the PSC to a tribunal consisting of three arbitrators who were former Chief Justices of India. The Hon'ble Tribunal passed the award on 2 February 2013 at Kuala Lumpur, Malaysia.

Award summary

The Hon'ble Tribunal has awarded and directed as follows:

a) the Ganesha-1 discovery made by Hardy and GAIL is NANG;
b) the order of relinquishment by the MOPNG was illegal, being on the erroneous impression that the discovery was oil;
c) that the parties shall be immediately relegated to the position in which they stood prior to the order of relinquishment and the block shall be restored to Hardy and GAIL;

d) Hardy shall be entitled to a period of three years from the date on which the block is restored to it, to carry out further appraisal;
e) MOPNG shall pay to Hardy and GAIL interest at the simple rate of nine per cent per annum on the amount of Rs.5.0 billion spent by them on the block, from the date of relinquishment till the date on which the block is restored (approximately $24.6 million net to Hardy).

Outlook

Once the MOPNG has restored the licence to the CY-OS/2 joint venture, Hardy will recommence work on the appraisal of the Ganesha-1 natural gas discovery.

Background

Hardy is the operator of the CY-OS/2 exploration block and holds a 75 per cent participating interest[1], through its wholly owned subsidiary Hardy Exploration & Production (India) Inc and GAIL holds the remaining 25 per cent participating interest. The block is located in the northern part of the Cauvery Basin immediately offshore from Pondicherry, India and covers approximately 859 km^2. The licence comprises of two retained areas with the Ganesha-1 natural gas discovery located in the northern area, which comprises an area of approximately 300 km^2.

Ganesha-1

The natural gas discovery Ganesha-1, announced in January 2007, was drilled to a depth of 4,089 m, encountering sandstone reservoir within the Cretaceous section. The well flow tested at a peak rate of 10.7 mmscfd. The Company published a CPR, prepared by Gaffney, Cline & Associates, dated March 2011, which estimates gross 2C Contingent Resources of approximately 130 billion cubic feet (bcf).

Krishna Godavari Basin

D9

Block KG-DWN-2001/1
Relinquished in 2012
(Hardy 10 per cent interest)

Operations

The D9 joint venture elected to surrender the off-shore exploration block in the Krishna Godavari Basin. Following the integration of all geoscientific data and the results of the three exploration wells, including the KG-D9-A2 natural gas discovery, the block's hydrocarbon potential was deemed low. The MOPNG of the GOI has subsequently been notified of the joint venture's election to relinquish the block and payment has been made toward the unfinished minimum work programme.

1 In the event of a declaration of commerciality, the Government of India's nominee is entitled to assume a 30 per cent participating interest in the block. As a result, Hardy's participating interest would be 52.5 per cent.

Business Review
Financial Review

Overview

During 2012, the Company recorded an operating loss of $13.2 million and exited the year with cash and short-term investments of $29.1 million with no debt. The Company currently plans to drill up to two exploration wells in 2013 which will be funded from existing cash resources.

Results for the year

The Company recorded a total comprehensive loss of $11.1 million for the year ended 31 December 2012. No dividends were paid or declared during the period.

As a result of the extended shut-in of the PY-3 oil field no revenue from production was realised in 2012 compared to $11.3 million revenue in 2011. The average sales price realised in 2011 was $110.54 per barrel.

Cost of sales

Production cost amounted to $0.3 million for the 12 months ended 31 December 2012. The cost is attributed to support services required during the shut-in of the PY-3 field.

Unsuccessful exploration costs

In April 2012 the Company surrendered its 10 per cent interest in the D9 exploration licence resulting in an unsuccessful exploration charge of $5.4 million for the 12 months ended 31 December 2012 (2011: $3.4 million).

Administrative expenses

Administrative expense was $7.5 million compared to $6.9 million for the same period in 2011. As part of the Company's strategic review we have moved our corporate office to Aberdeen, Scotland from London and reduced staff in the UK and India. These initiatives have reduced our underlying overhead expenditures leading into 2013.

Operating loss

The Company is reporting an operating loss of $13.2 million for the 12 months ended 31 December 2012 compared with a loss of $4.7 million for the same period in 2011.

Investment and other income

Investment and other income increased to $0.8 million for the 12 months ended 31 December 2012 compared to $0.4 million in 2011. The increase is mainly due to $0.3 million interest received on tax refunds.

Taxation

No current tax was payable for the 12 months ended 31 December 2012. The Company has recorded a current tax credit of $0.2 million and deferred tax credit of $1.4 million against the pre-tax loss of $12.7 million for the year ended 31 December 2012. This compared to current tax credit of $ 1.3 million and deferred tax credit of $1.3 million for the same period in 2011.

Total comprehensive loss

The Company recorded total comprehensive loss of $11.1 million for the year ended 31 December 2012 compared to a total comprehensive loss of $1.9 million for the same period in 2011.

Cash flow from operating activities

The Company's cash outflow from operating activities was $7.1 million for the year ended 31 December 2012 compared with cash outflow from operating activities of $3.4 million for the same period in 2011.

Capital expenditure

The Group's capital expenditure during the 12 months ended 31 December 2012 amounted to $1.5 million compared to $6.5 million incurred for the same period in 2011. Capital expenditure was primarily associated with the compensation paid to the GOI towards the unfinished minimum work programme for the surrendered D9 exploration block. This capital expenditure was subsequently written-off.

"The Company currently plans to drill up to two exploration wells in 2013 which will be funded from existing cash resources."

Cash and short-term investments

The Company has cash and short-term investments of $29.1 million on 31 December 2012 compared to $36.5 million on 31 December 2011. The Company has no debt.

Summary statement of financial position

The Company's non-current assets decreased from $97.3 million at 31 December 2011 to $95.1 million at 31 December 2012. This decrease is principally due to the write-off of the unsuccessful exploration cost of block D9 net of the deferred tax credit. Current assets represent the Group's cash resources, trade and other receivables and inventories which have decreased from $39.7 million as at 31 December 2011 to $32.5 million as at 31 December 2012. Current liabilities are principally trade and other account payables which remained unchanged at $6.1 million at the end of 2012. The Group has considered a contingent asset of $24.6 million on the interest cost awarded by the arbitration tribunal for the block CY-OS/2 (note 15).

Dividend

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

Accounting policies

The Company's significant accounting policies and details of the significant judgements and critical accounting estimates are disclosed within the notes to the financial statements. In 2011 the Company 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. The Company has not made any material changes to its accounting policies in the year ended 31 December 2012.

Liquidity risk management and going concern

The Company closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including changes in timing of developments and cost overruns of our exploration activity. At 31 December 2012, the Company had liquid resources of approximately $29.1 million, in the form of cash and short-term investments, which is available to meet ongoing capital, operating and administrative expenditures. The Company's forecasts, taking into account reasonably possible changes as described above, show that the Company will have sufficient financial resources for the 12 months from the date of approval of the 2012 Annual Report and Accounts. At the present time, the Company does not have any debt.

2013 principal risks and uncertainties

The Board identifies the key risks for the Company and monitors mitigation plans and performance on a regular basis. The Company has identified its principal risks for the next 12 months as being:

- Strategic risk – Asset portfolio over-weighted to long-cycle appraisal and development; sub-commercial exploration results
- Financial risk – Absence of stakeholder approvals for proposed development and appraisal programmes; liquidated damages for incomplete minimum work programmes
- Operational risk – A loss of well control could occur during offshore drilling operations; securing timely approval for a PY-3 full field development plan; lack of control of timing of exploration drilling; staff retention
- Compliance – Deteriorating stakeholder sentiment; changing regulatory and political environment in India

Discussed in more detail on pages 26 and 27.

Business Review
Corporate Social Responsibility

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

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 Company 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.

Governance

Managing our business ethically and with integrity

Code of Business Conduct

Introduction

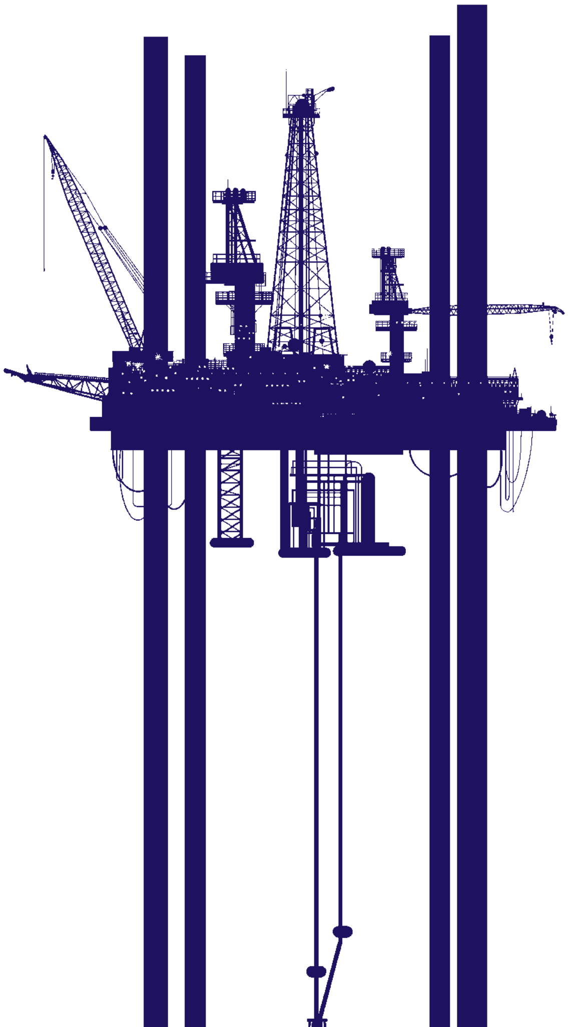
The Board recently adopted a Code of Business Conduct (the Code) and was introduced to all staff by the Chief Executive Officer, Ian MacKenzie, in January 2013. Our reputation with our investors, partners and those communities of which we are part is based on our collective behaviour. The Board expects every employee and all those who work on the Group's behalf to exercise good judgement while carrying out our business activities. Everyone working for Hardy is personally responsible for following the Code and ensuring that we conduct our business safely and in a fair, honest and ethical manner. A copy of the Code can be found on the Company website www. hardyoil.com

Compliance awareness

As part of the introduction process employees and contract staff were invited to attend meetings with the Chief Executive Officer and reviewed and discussed the Code in detail and questions answered to ensure the Code is embedded through the business. The Company intends to follow-up with further reviews throughout the year.

Raising concerns

Hardy employees and contractors are encouraged to promptly report any concerns they have about the Company's business practices or where someone is concerned or suspects that the Code has been breached. Where staff do not feel comfortable reporting concerns to their line manager or executive they have been invited to contact the Senior Non-Executive Director directly through a confidential email address. The Board will not tolerate retaliation against an individual reporting in good faith.



Health, safety and environment (HSE) activities

Keeping our people safe and minimising our environmental footprint

The Board has tailored the Group's 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 Company's HSE policy was reviewed and amended in late 2012 and subsequently presented to all staff in 2013.

The central HSE Committee and Environment Management Committees normally meet on a monthly basis to assess and monitor compliance. As a result of the shut-in of the PY-3 oil field, the meetings ceased in March 2012.

Past practices

The Company has regularly undertaken internal and external HSE audits, including pre-mobilisation HSE audit of rigs and vessels. The Company has also undertaken periodical environmental marine monitoring around the PY-3 production facilities and around the drilling locations. Prompt compliance with applicable regulations by the Group has been recognised by concerned agencies. No such studies were undertaken in 2012.

Regulatory compliance

Engagement of, and compliance with, ministerial and regulatory bodies such as OISD, DGH, MOEF, DGMS, ODAG, Coast Guard, Navy, TMB and others have been maintained via submitting necessary reports as required and addressing queries promptly. Hardy participates in different meetings convened by these agencies.

2012 HSE performance

The PY-3 field remained shut-in throughout 2012. The floating production unit (FPU), Tahara, and floating storage and offloading vessel (FSO) have been out of contract since 2011. Citing safety reasons the PY-3 joint venture continued to provide the FPU and FSO with support services such as stand-by offshore supply vessel (OSV) and helicopter facilities. As operator, Hardy has had no direct contact with the owner of the FPU or FSO in 2012 and terminated support services in March 2012.

We are pleased to report that there were no recordable injuries for PY-3 oil field support services through to termination of contract services. As such there is no change to our HSE record for 2012.

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. In 2011 the PY-3 field has been suspended in accordance with international industry standard.

Safety performance at a glance

Facility	Date of last lost time accident (LTA)	Accident free days since last LTA (as on 20/03/2012)
OSV – Tanzanite	Nil	839 (Since charter)
OSV – Ocean Jade	Nil	798 (Since charter)
Bell 412 Helicopter	Nil	1057 (Since charter)

Accident statistics at a glance

	2012	2011	2010
Lost time accidents	**0**	0	1
Non lost time accidents	**0**	2	6
Total recordable injuries	**0**	2	7
Non injurious accidents	**0**	4	4
No loss incidents	**0**	2	3
Environmental incidents	**0**	0	0
Total accidents/incidents	**0**	8	14

Business Review
Corporate Social Responsibility continued

Our people
Being a rewarding, challenging and pleasant place to work

The Board is appreciative of the continued professionalism and commitment that our employees have demonstrated during a year of transition and uncertainty. Following the Company's strategic review the decision was taken to undertake cost reducing measures which resulted in the regrettable reduction of staff in some areas.

Local content
India has an extensive pool of upstream oil and gas professionals. As a result we have been fortunate to assemble and maintain 100 per cent local content of our India-based professionals and staff.

Management have now put in place concrete plans for each of the Company's assets and our India team will continue to be instrumental in driving the core of our business. We expect to realise a number of key objectives in 2013 and intend to enhance our technical, operational and management competencies in due course. Management have set ambitious targets which will require Hardy employees to maintain their high level of proficiency and strive for excellence.

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

Outlook
The Board believes that prevention of accidents and 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.

"I would like to acknowledge the high level of professionalism, commitment and patience demonstrated by our employees during a year of transition and uncertainty."

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, pro-actively mitigate. The Board is provided with 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 includes acquiring additional oil and gas properties principally in India. 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

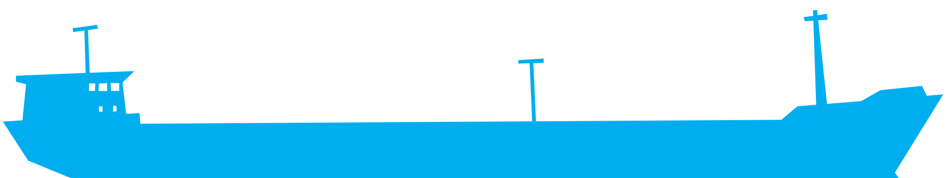
Any volatility and future decreases in international crude oil prices or India-natural gas prices could materially and adversely affect the Group's business, prospects, financial condition and results of operations. Other major financial risks facing the Company are: inability to access debt and/or equity 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 production facilities or other technical difficulties, lack of access to key infrastructure, adverse weather conditions, environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, unusual or unexpected geological formations, explosions and other acts of God are inherent to the business.

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.



Business Review
Principal Risks For 2013

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 identified principle risks and uncertainties for 2013 and has established clear policies and responsibilities to mitigate their possible negative impact to the business, a summary of which is provided below:

Risk or uncertainty	Mitigating action
Strategic	**Ineffective or poorly executed strategy fails to create stakeholder value or fails to meet stakeholder expectations.**
Asset portfolio over-weighted to long-cycle appraisal and development 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.
Sub-commercial exploration results	Effective portfolio management comprised 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.
Financial	**Asset performance and excessive leverage results in the Group being unable to meet its financial obligations as and when they are due.**
Absence of stakeholder approval for proposed development and appraisal programmes	Regular and proactive communication with stakeholders to identify and maintain an understanding of key agendas and constraints. Maintain sufficient working capital to account for extended delays and maintain tight controls on overhead inflation.
Liquidated damages for incomplete minimum work programmes	The Company has minimum work commitments on its exploration assets. The GS-01 block has reached the end of its exploration phase with outstanding MWP commitment and D3 MWP has yet to be completed. The Company makes provisions when the amount is ascertained by the operator of the licence.

Risk or uncertainty	Mitigating action
Operational	**Operational event impacting staff, contractors, communities or the environment leading to loss of reputation and/or revenue.**
Loss of well control could occur during offshore drilling operations	The Company's planned work programme for 2013 involves the drilling of up to 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.
Lack of control on timing of exploration on D3	Proactive communication with partners 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.
Securing timely approval for a PY-3 full field development plan	Proactive communication with partners to address individual interests and agendas. Clearly formulate and articulate mutual beneficial proposals. Mitigate expenditures prior to budget approvals.
Loss of key staff and succession planning	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. Structure performance-based remuneration practices and promote a positive and rewarding work environment.
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.
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
Board of Directors

Alasdair Locke *(aged 59)*
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, and Chairman of Ceramic Fuel Cells Limited. 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 55)*
Chief Executive

Mr MacKenzie has a proven track record of knowledge, experience and achievement of high performance in the management of oil and gas operations, technical support functions and major design and construction projects developed through 30 years in the oil and gas industry.

Mr MacKenzie was a group director and member of the executive team of KCA DEUTAG Drilling as well as a director of group subsidiaries including chairman of the main Norwegian operating entity KCA DEUTAG Norge A/S. Mr MacKenzie gained an honours degree in Engineering Science from Aberdeen University and a Postgraduate Diploma in Offshore Engineering from Robert Gordon University, Aberdeen. He also has formal qualifications in Finance & Accounts. He is a Chartered Mechanical Engineer; FEANI registered European Engineer, member of the Institution of Mechanical Engineers, Energy Institute, Society of Petroleum Engineers, Institute of Directors and a past External Examiner in the RGU Oil & Gas MSc course.

Peter Milne *(aged 58)*
Senior 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 320 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 Deloittes in 1977 and was an executive director of Abbot Group plc (a former FTSE 250 company) and KCA DEUTAG Drilling Group up until 2010.

Pradip Shah *(aged 60)*
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.

Yogeshwar Sharma *(aged 61)*
Non-Executive Director

Mr Sharma was Chief Executive Officer until 16 May 2012 at which time he was appointed as a Non-Executive Director. 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 also a non-executive director of Longreach Oil and Gas Ventures Limited, a Toronto Stock Exchange listed company.

Senior executives

Ramasamy Jeevanandam
Chief Financial Officer – HEPI

Mr Jeevanandam has over 30 years of 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 Global Management Accountant (USA), Chartered Financial Analyst (India), Qualified Cost Accountant and Company Secretary from the Institute of Cost Accountants of India and the Institute of Company Secretaries of India and holds a postgraduate degree in Commerce and a degree in Law 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 an Executive Officer of the Company in 2011.

Governance

Governance Report

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 UK Code). The Code is publically available on the Financial Reporting Council's website at www.frc.org.uk. In compliance with the UK Code, this report describes the manner in which the Company has applied the main principles of governance set out in the UK Code and provides an explanation where the Board has chosen to not comply.

The Company is a small cap upstream oil and gas company with a modest resource base. The Company has a clear mandate to optimise the allocation of limited resources to support its exploration programme and development plans. 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 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 2012. Disclosures below include matters where Hardy has not fully complied during 2012.

Leadership

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

The role of the Board

The Board sets the Group's strategy, ensuring that the necessary resources are in place to achieve the agreed strategic priorities, and reviews management and financial performance. It is accountable to shareholders for the creation and delivery of 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.

Board meetings

The core activities of the Board are carried out in scheduled meetings of the Board and its Committees. These meetings are timed to link to key events in the Company's corporate calendar and regular reviews of the business are conducted. Additional meetings and conference calls are arranged to consider matters which require decisions outside the scheduled meetings. During 2012, the Board met on six occasions. 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.

Outside the scheduled meetings of the Board, the Chairman and Chief Executive Officer maintain frequent contact with the other Directors to discuss any issues of concern they may have relating to the Company or their areas of responsibility, and to keep them fully briefed on the Company's operations.

Matters reserved specifically for the Board

The Board has a formal schedule of matters reserved that can only be decided by the Board. The key matters reserved are the consideration and approval of:

- the Group's overall strategy;
- financial statements and dividend policy;
- management structure including succession planning, appointments and remuneration (supported by the Nomination Committee);
- material acquisitions and 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; and
- corporate policies.

Subject to those reserved matters, the Board delegates authority for the management of the business primarily to the Executive Director and members of the Company's Senior Executive team. Certain other matters are delegated to the Board committees, namely the Audit, Remuneration and Nominations Committees.

Summary of the Board's work in the year

During 2012, the Board considered all relevant matters within its remit, but focused in particular on the following key issues:

- strategy and management with a particular focus on the optimisation of the Company's India-focused portfolio;
- financial management;
- regulatory/compliance;
- environment, health and safety;
- appointment and succession planning – this is dealt with more fully in the Nomination Committee's report on pages 44 and 45; and
- stakeholder relations.

Attendance at meetings:

Member	Through 2012	Meetings attended
Alasdair Locke (Chairman)	from 12 January 2012	6 of 6
Carol Bell	to 16 May 2012	3 of 3
Ian Bruce	to 16 May 2012	2 of 3
Ian MacKenzie	from 1 March 2012	5 of 5
Peter Milne	from 1 March 2012	5 of 5
Paul Mortimer	to 16 May 2012	2 of 3
Pradip Shah	continuous	6 of 6
Yogeshwar Sharma	continuous	6 of 6

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

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

The Chairman
On appointment as Chairman on 16 January 2012, Alasdair Locke met the independence criteria set out in the Code.

Non-Executive Directors
The Non-Executive Directors bring a broad range of business and commercial experience to the Company and have a particular responsibility to challenge independently and constructively the performance of the Executive management and to monitor the performance of the management team in the delivery of the agreed objectives and targets. As part of this responsibility, the Non-Executive Directors meet at least twice a year without the Executive Directors present. Separately, the Chairman and Chief Executive Officer hold informal meetings with the Non-Executive Directors to discuss current issues affecting the Company.

As Senior Independent Non-Executive Director, Peter Milne is available to meet shareholders if they have concerns that cannot be resolved through discussion with the Chairman, Chief Executive Officer or for which such contact is inappropriate. Efforts are made to ensure that the Non-Executive Directors are briefed on the more technical and operational aspects of our activities.

Non-Executive Directors are initially appointed for a term of three years, which may, subject to satisfactory performance and re-election by shareholders, be extended by mutual agreement. Pradip Shah and Yogeshwar Sharma have been members of the Board for over nine years. As a result they are subject to re-election on an annual basis.

Delegations of authority
Board Committees
The Board has delegated matters to three committees, namely the Audit, Remuneration, and Nomination Committees. The memberships, roles and activities of these committees are detailed in separate reports: the Audit Committee on pages 35 and 36, the Nomination Committee on pages 44 and 45, and the Remuneration Committee on pages 37 to 43. Each committee reports to the Board and the issues considered at meetings of the committees are provided by the respective committee chairmen. The terms of reference of each committee are reviewed by the Board every other year.

In January 2013 the Board agreed to form a Risk Committee and appointed Ian MacKenzie (chair), Alasdair Locke and Peter Milne as members. The Risk Committee's terms of reference will be available on the Company's website.

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 Executive Committee meets on an informal basis at least once a month. The Committee currently comprises the Chief Executive Officer, the Chief Financial Officer (of HEPI) and the Treasurer & Corporate Affairs Executive.

Other governance matters
All of the Directors are aware that independent professional advice is available to each Director in order to properly discharge their duties as a Director. In addition, each Director and Board committee has access to the advice of the Company Secretary.

The Company Secretary
The Company Secretary is Richard Vanderplank who is retained on a consultancy basis. He is available to Directors and responsible for the Board complying with Isle of Man procedures. He is supported by the Treasurer & Corporate Affairs Executive in the provision of company secretarial services to the Company.

Effectiveness
The Board currently comprises of a Non-Executive Chairman, Chief Executive Officer, and three independent Non-Executive Directors. Biographical details of the Board members are set out on page 28 and 29 of this report.

The Directors are of the view that the Board and its committees consist of Directors with an appropriate balance of skills, experience, independence and diverse backgrounds to enable them to discharge their duties and responsibilities effectively.

Changes to the Board
The following changes in Board composition were made during the year:
- On 16 January 2012, the Board approved the appointment of Alasdair Locke as Non-Executive Director and Chairman of the Board.
- On 1 March 2012, the Board approved the appointment of Ian MacKenzie as Executive Director and became Chief Executive Officer effective 16 May 2012.
- On 1 March 2012, the Board approved the appointment of Peter Milne as a Non-Executive Director.
- On 16 May 2012, Yogeshwar Sharma stepped down as Chief Executive Officer and the Board confirmed his re-appointment as a Non-Executive Director.
- On 16 May 2012, Carol Bell, Ian Bruce and Paul Mortimer ceased to be Directors of the Company.

At the Company's AGM held on 16 May 2012, shareholders elected Alasdair Locke, Ian MacKenzie, and Peter Milne to the Board. In addition Pradip Shah and Yogeshwar Sharma were re-elected as Non-Executive Directors.

Independence
The Non-Executive Directors bring a broad range of business and commercial experience to the Company. The Board considers Alasdair Locke, Peter Milne and Pradip Shah to be independent Directors in character and judgement.

Pradip Shah has served as a Director for a period of more than nine years. He has also been awarded 260,233 employee stock 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. He is based in India

Governance
Governance report continued

and is actively involved in many business endeavours, holding executive and non-executive roles across a diverse range of industries and is well established within India's commerce and political communities. Notwithstanding Pradip Shah's tenure and option holdings, 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. The appointment of a new Chief Executive Officer, in 2012, has reinforced the Board's view of his independence.

Yogeshwar Sharma has served as an Executive Director of Hardy for more than nine years. He was the Company's Chief Executive Officer from 4 March 2010 to 16 May 2012. He has previously been granted 1,280,700 options to purchase Ordinary Shares in the Company (details of the awards are provided on page 40). Such options were issued as part of his remuneration package as an Executive Director of the Company. The Board considers Yogeshwar Sharma a significant member of the Board, providing: upstream oil and gas technical expertise; strong relationships in, and an in-depth perspective of, the India commercial and geopolitical environment; and, as a founder of the Company, possesses significant knowledge of the history of Hardy. Due to his recent tenure as an Executive Officer and interest in Hardy share options, the Board does not consider Yogeshwar Sharma to be an independent Director.

Appointments
The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and making recommendations to the Board with regards to any required changes.

Commitments
All Directors have disclosed any significant commitments to the Board and confirmed that they have sufficient time to discharge their duties.

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. In 2012, 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 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 2013. In summary, it was felt that the Board was functioning well and that all the Directors feel proud to be part of Hardy's team.

Re-election
The Board has agreed that Pradip Shah and Yogeshwar Sharma will stand for re-election at the Company's 2013 AGM. The Directors' position is subject to satisfactory performance of their responsibilities and is subject to reappointment by shareholders at the Annual General Meeting. The Board of Directors is pleased with the attendance of all Directors at Board and committee meetings, despite significant travel and time requirements. The Board of Directors is also satisfied with the participation by all the Directors in formulating corporate strategies and for their engagement in meaningful dialogue and discussions at Board and committee meetings.

Accountability
The Board is committed to providing shareholders with a clear assessment of the Group's position and prospects. This is achieved through this report and as required other periodic financial and trading statements.

The arrangements established by the Board for the application of risk management and internal control principles are detailed on pages 25 to 27. The Board has delegated to the Audit Committee oversight of the relationship with the Company's auditors as outlined in the Audit Committee report on page 35.

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 sections 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.

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.

The Audit Committee regularly reviews and reports to the Board on the effectiveness of the system of internal control. 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 external 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.

Business model

Hardy creates value through the exploration of undiscovered hydrocarbons. In order to explore we must first be granted a licence by the governments 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.

Remuneration

The Board has delegated to the Remuneration Committee responsibility for agreeing the remuneration policy for the Chairman, Chief Executive Officer and senior executives. The Directors' Remuneration Report on pages 37 and 43 contains full details of the role and activities of the Remuneration Committee.

Shareholder relations

Communication and dialogue

Open and transparent communication with shareholders is given high priority and there is regular dialogue with institutional investors, 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 Executive Director 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 2012 Annual General Meeting of shareholders, most Directors were present, including the Chairman. Peter Milne currently serves as the Senior Independent Non-Executive Director of the Company and is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman or Executive Director. Meetings are also held with the corporate governance representatives of institutional investors when requested.

Annual General Meeting

At every AGM individual shareholders are given the opportunity to put questions to the Chairman, 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.

Governance
Governance Report continued

Non-compliance with the UK Corporate Governance Code

The Company did not comply with the UK Corporate Governance Code in the following matters during 2012:

Code provision	Subject matter	Discussion
B.1.1	Non-Executive Directors meeting independence requirements	Pradip Shah has served on the Board for more than nine years. He was also granted share options in 2005 when the Company's Ordinary Shares were listed on AIM. Notwithstanding the above, Pradip's actions in 2012 demonstrated independent character and judgement and having regard for the Company's appointment of a new Chief Executive Officer the Board considers Pradip Shah independent. The Board considers Yogeshwar Sharma an instrumental member of the Board, providing: upstream oil and gas technical expertise; strong relationships in, and an in-depth perspective of, the India commercial and geopolitical environment; and, as a founder of the Company, significant knowledge of the Company's history. Due to his recent tenure as an Executive Officer and his interest in share options, the Board does not consider Yogeshwar Sharma to be independent. The Board confirms, notwithstanding the above, that it considers Pradip Shah as an independent Director.
B.2.4	Use of an external search consultancy or open advertising	Appointment of Non-Executive Director – With the expected departure of the Audit Committee chair, the primary recruitment criteria for a non-executive candidate was current and relevant financial expertise and significant industry experience. Mr Locke put forward Peter Milne, a strong candidate that met the Board's identified criteria. As a result the Board deemed the expense of securing an external consultant inappropriate.
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 UK Code. 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 is a small cap upstream oil and gas company with a modest resource base. 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 enhancing the Company's corporate governance policies and practices deemed appropriate for the size and maturity of the organisation.

Alasdair Locke
Chairman
6 March 2013

Governance
Audit Committee Report

The Audit Committee comprises of three Non-Executive Directors and oversees the Company's financial reporting and internal controls, and provides a formal reporting link with the external auditors. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half-yearly reports remains with the Board.

Main responsibilities

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

- monitoring the integrity of the financial statements and formal announcements relating to the Company's financial performance;
- reviewing 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;
- ensuring that effective whistle-blowing, anti-fraud and bribery procedures are in place;
- considering the Company's internal audit requirements and make recommendations to the Board;
- overseeing the Board's relationship with the external auditors and, where appropriate, the selection of new external auditors;
- 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; and
- ensuring compliance with legal requirements, accounting standards and the Listing Rules and the Disclosure and Transparency Rules.

The Audit Committee terms of reference can be accessed via the Company's website www.hardyoil.com. Following a review, the Board approved the amendment of the Audit Committee's terms of reference in January 2013. The Committee fully discharged its responsibilities during the year.

Governance

The UK Code requires that at least one member of the Audit Committee has recent and relevant financial experience. Mr Milne, who has been the Chairman of the Audit Committee from 16 May 2012, has been a Chartered Accountant for 35 years and has over 30 years of oil and gas sector experience. He was until 2010 the Finance Director of Abbot Group plc, the largest UK headquartered drilling contractor, with turnover of more than £1 billion, operations in 20 countries and employing over 8,000 people. Pradip Shah, who was a member of the Audit Committee throughout the year, is also a Chartered Accountant. As a result the Board is satisfied that the Audit Committee has recent and relevant financial experience.

Members of the Audit Committee are appointed by the Board and all of its members are considered to be independent.

The Company's external auditors are Crowe Clark Whitehill LLP and the Audit Committee closely monitor the level of audit and non-audit services they provide to the Group. In 2012 Crowe Clark Whitehill LLP did not provide non-audit services to the Company.

In 2012 the Chief Financial Officer (of Hardy Exploration & Production (India) Inc) and the Treasurer were invited to attend each meeting of the Audit Committee. The external auditors have unrestricted access to the Audit Committee Chairman. During the 2012 audit process, the Audit Committee Chairman met with the audit engagement partner from Crowe Clark Whitehill LLP, without the presence of management.

Meetings

In 2012, the Audit Committee met on three occasions. Meetings are scheduled to allow sufficient time to enable full discussion of key topics. Some or all Executive Directors attend meetings of the Audit Committee by invitation. The attendance of members at the Audit Committee meetings held in 2012 was as follows:

Committee member	Member through 2012	Meetings attended
Peter Milne (Chairman[1])	from 5 March 2012	3 of 3
Dr Carol Bell (Chairman)	to 16 May 2012	2 of 2
Ian Bruce	to 16 May 2012	2 of 2
Pradip Shah	continuous	3 of 3
Yogeshwar Sharma	from 16 May 2012	1 of 1

1 Mr Milne was appointed Chairman of the Audit Committee on 16 May 2012.

The key work undertaken by the Audit 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.
- During the audit process the Audit Committee considered the most appropriate treatment and disclosure of any new or judgemental matters identified during the audit of the full-year accounts or half-yearly review, as well as any other recommendations of observation made by the external auditor.

Audit planning and update on relevant accounting developments

- The Company prepares financial statements under International Financial Reporting Standards (IFRS).
- The Audit Committee continued to review the appropriateness of the Company's accounting policies and was satisfied that the policies adopted by management are currently appropriate.
- The Audit Committee approved the scope of the work to be undertaken by the external 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 management 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 management provided clear updates of risk and uncertainties facing the Company and accompanying actions to mitigate such risk.
- 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 Audit Committee recommended that the Board modify its reported key performance indicators for 2012.

Governance
Audit Committee Report continued

Review of the Company's Code of Business Conduct

- In line with best practice and to ensure that Hardy works to the highest ethical standard, in early 2013 the Company adopted a Code of Business Conduct which provides clear guidance for ethical behaviour and decision making as well as whistle-blowing and anti-bribery procedures and practices. The Code of Business Conduct was introduced to all employees in the first quarter of 2013 and a copy is available on the Company's website www.hardyoil.com. The Committee considers the whistle-blowing procedure to be appropriate for the size and scale of the Company.

Review the Audit Committee terms of reference

- The Audit Committee reviewed its terms of reference during the year. As a result of the review the Audit Committee recommended that the Board adopt several amendments to comply with current ISCA guidelines and the UK Corporate Governance Code. Key amendments were:
  - 9.3 – added a committee duty to review and monitor the Company's compliance, whistle-blower and fraud policies and practices;
  - 9.6 – added a committee duty to advise the Board as to whether the Company's Annual Report and Accounts provide a fair and balanced representation of the Company.
- A copy of the revised terms of reference can be found on the Company's website www.hardyoil.com.

Review of the effectiveness of the Audit Committee

- During the year the Board completed a review of its effectiveness which included the assessment of the Audit Committee. The review was coordinated by the Chairman of the Audit Committee and Treasurer. As a result the Audit Committee was considered to be operating effectively and in accordance with the UK Corporate Governance Code.

Internal controls

- As part of my induction in 2012, I undertook a comprehensive review of the Company's internal control and risk management policies and practices. The Company's established procedures to provide internal financial control are considered appropriate for a company of Hardy's size and current activities. The procedures include controls over expenditure, regular reconciliations and management accounts. Most of the assets are owned jointly with others and as a result budgets and expenditures are subject to rigorous reviews and approvals. External project audits, of jointly held assets, take place with respect to capital and operating expenditures on a regular basis.

The UK Code states that the Audit Committee should have primary responsibility for making a recommendation on the appointment, re-appointment or removal of the external auditors. On the basis of the review of external audit effectiveness, the Committee recommends to the Board that it recommends to shareholders the re-appointment of the auditors at the Company's 2013 Annual General Meeting.

Peter Milne
Chairman of the Audit Committee
6 March 2013

Governance
Directors' Remuneration Report

On behalf of the Board, I am pleased to present a report on Directors' remuneration for 2012, for which we will be seeking approval from shareholders at our Annual General Meeting.

The Committee is aware of the sensitive nature of executive remuneration and regularly considers the guidelines on executive remuneration set out by the Association of British Insurers and discusses remuneration practice with major shareholders.

The Committee has noted feedback from various shareholder interest groups regarding the Company's previous remuneration practices. Based on the Committee's recommendations, the Board has adopted a simple and effective incentive arrangement. The Committee believes the current incentive arrangement adopted best serves the mission that management is charged with, which is focused on creating shareholder value.

On behalf of the Board I would like to thank shareholders for their continued support. Should any shareholder wish to contact me in connection with the Company's senior executive remuneration policy, please email me at investor.relations@hardyoil.com.

Pradip Shah
Chairman of the Remuneration Committee
6 March 2013

Introduction

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 Remuneration Committee

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

Hardy's Remuneration Committee operates within the terms of reference approved by the Board. The Remuneration Committee reviewed its terms of reference during the year. As a result of the review the Remuneration Committee recommended that the Board adopt several amendments to comply with current ISCA guidelines and the UK Corporate Governance Code. The key amendments were:

- Duties – Clauses 9.3 to 9.7 – several clauses were amended clarifying the Remuneration Committee's responsibilities to monitor internal and external remuneration trends, full authority to commission remuneration consultants and determine individual remuneration packages for the Chairman, Executive Director and other senior executives;
- other matters regarding: access to resources; timely training; consideration of law and regulations; and periodic review of committee performance.

A copy of the revised terms of reference can be found on the Company's website www.hardyoil.com.

Committee's main responsibilities

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

Governance
Directors' Remuneration Report continued

The Remuneration Committee met four times in 2012. The attendance of members at the Remuneration Committee meetings held in 2012 was as follows:

Committee member	Member throughout 2012	Meetings attended
Pradip Shah (Chairman)	Continuous	4 of 4
Carol Bell	to 16 May 2012	2 of 2
Alasdair Locke	from 16 May 2012	2 of 2
Peter Milne	from 16 May 2012	2 of 2
Paul Mortimer	to 16 May 2012	2 of 2

Committee evaluation
The performance of the Remuneration Committee was evaluated as part of the Board evaluation which was completed in 2013. The review was coordinated by the Chairman of the Audit Committee and Treasurer. As a result the Remuneration Committee was considered to be operating effectively.

Committee advisers
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 advisers were retained by the Remuneration Committee during 2012.

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

Statement of Hardy's policy on Directors' remuneration
The Company's policy is to maintain levels of remuneration so as to attract, motivate, and retain Executive Directors and senior executives of the highest calibre who can contribute their experience to deliver industry leading performance with the Company's operations. The remuneration package for Executive Directors and senior executives comprises of base salary, annual bonus, taxable benefits, pension payments and participation in the Company's share incentive arrangements.

A meaningful proportion of executive and senior managements' 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 executives and makes recommendations to the Board of Directors on the overall remuneration packages for the executives.

Remuneration components
Base salaries
The base salaries are reviewed annually. No changes to base salaries were made in 2012. Ian MacKenzie joined Hardy on 1 February 2012 and became a board member on 1 March 2012. Senior executive remuneration was last reviewed in 2011.

Pension and other benefits
The Company provides for pension contributions to the Executive Director's personal pension plan as well as life, long-term disability and medical insurance.

Annual bonus
Although the Company has a policy of awarding cash bonuses, no such awards have been made to the Executive Director or senior executives in 2012. In the future, the Remuneration Committee will consider recommending the total amount available for annual bonuses having regard to the cash requirements 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. Each year, transparent objectives are to be set for each participant.

Share incentive arrangements
The Company has adopted a policy of granting stock option awards on an annual basis although stock option awards are not 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. The Board has adopted a simple and effective incentive arrangement which it believes best serves the mission that management is charged with, which is to get a higher share price for all shareholders. Pradip Shah received his awards at the time the company was listed

Unapproved share options
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 was 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 initial public offering (IPO) was undertaken. In the first year of the performance period, one third of the options would become exercisable at or after 12 months following the date of grant. One third of the options would become exercisable at or after 24 months following the date of grant. The remaining one third of the options would 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 five 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).

ExSOP scheme

The ExSOP scheme is an executive shared ownership plan. Under the terms of the ExSOP certain employees and/or executive Directors may be invited to acquire (for a nominal payment), jointly with the trustee of an employee trust, the beneficial interest in a number of shares upon the terms of a joint ownership agreement (JOA). Under a JOA, the employee/director will benefit from any growth in value of the jointly owned shares from the time of the award in excess of a "carrying cost" fixed by the Committee in respect of each award. Arrangements on similar terms may be put in place for Non-Executive Directors. The ExSOP was considered and approved by Shareholders at the Company's 2012 Annual General Meeting. To date no awards have been made under the ExSOP scheme.

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 Director outside the framework of the Remuneration Committee and approved by the Board of Directors. The fees paid are set at a level to attract individuals with the necessary experience and ability to make a significant contribution to the 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. Alasdair Locke received an additional annual fee of £64,000 to reflect his additional responsibilities as Chairman of the Board. Peter Milne received an additional £14,000 to reflect his additional responsibilities as Chairman of the Audit Committee and Senior Independent Non-Executive Director. Each Non-Executive Director is also entitled to the reimbursement of necessary travel and other expenses.

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 Alasdair Locke and Peter Milne following their appointments. The shares were allotted to them in March 2012. 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

Pradip Shah and Yogeshwar Sharma have previously been granted options to purchase Ordinary Shares of Hardy. No options have been granted to Non-Executive Directors since 2005. Yogeshwar Sharma received his awards as part of his remuneration package as an executive of Hardy. Pradip Shah received his awards before the company was listed.

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.

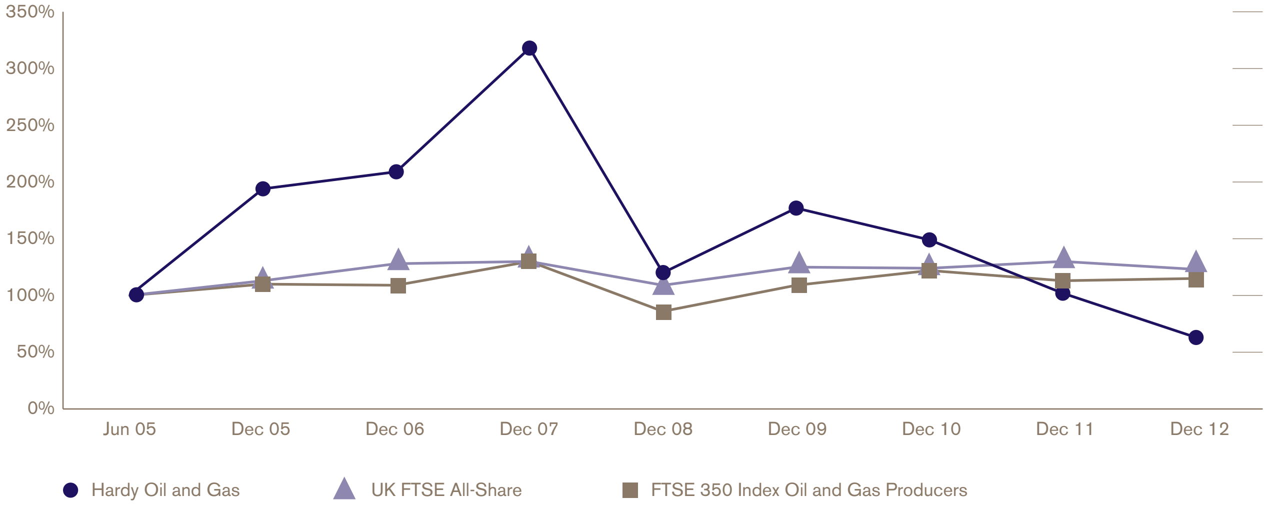
Chairman's additional remuneration

Alasdair 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. In line with Alasdair Locke's appointment letter, upon the appointment of Ian MacKenzie as Chief Executive Officer, Alasdair Locke was awarded restricted shares equivalent to £50,000.

Governance
Directors' Remuneration 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 Gas Producers Index.

Shareholders return and index performance
5 June 2005 – 31 December 2012



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 Director's employment with immediate effect by making a payment which does not exceed: a lump sum equal to basic salary, pension entitlement and other benefits at the rate prevailing at the date of termination for a period which does not exceed 12 months; and a bonus to the extent earned and awarded by the Company at the date of termination 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.

Chief Executive
Ian MacKenzie entered into a service agreement with the Company, effective 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. On appointment, Ian MacKenzie received an award of 750,000 share options in accordance with the Company's Unapproved Share Option Scheme.

The service contract of Ian MacKenzie is on an evergreen basis until terminated by not less than twelve 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 stepped down from his role as Chief Executive Officer effective 16 May 2012 and his service contract with the Company was terminated. Effective 16 May 2012 Yogeshwar Sharma entered into a service agreement with the Company as a Non-Executive Director.

The services of Paul Mortimer, Dr Carol Bell and Ian Bruce were, and Pradip Shah, Alasdair Locke, Peter Milne and Yogeshwar Sharma are, as Non-Executive Directors, provided under the terms of agreements with the Company dated as follows:

Non-Executive Director	Year of appointment	Number of years completed	Date of current engagement letter	Standing down date
Carol Bell	2005	6	16 December 2005	16 May 2012
Ian Bruce	2008	3	24 October 2008	16 May 2012
Alasdair Locke	2012	1	12 January 2012	–
Peter Milne	2012	1	29 February 2012	–
Paul Mortimer	1998	13	2 June 2005	16 May 2012
Pradip Shah	1999	13	2 June 2005	
Yogeshwar Sharma	1997	15	16 May 2012	–

These appointments are subject to termination upon at least three months' notice.

The Directors who held office at 31 December 2012 and who had beneficial interests in the Ordinary Shares of the Company are summarised as follows:

		As at 31 December	
Name of Director	Position	**2012**	2011
Alasdair Locke[1]	Non-Executive Chairman	**829,227**	
Peter Milne[1]	Senior Non-Executive Director	**30,000**	
Ian MacKenzie	Chief Executive Officer	**250,000**	
Pradip Shah[1]	Non-Executive Director	**679,347**	673,541
Yogeshwar Sharma	Non-Executive Director	**4,158,135**	4,158,135

1 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.

Information subject to audit

Directors' emoluments and compensation

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

	2012					
Name of Director	Salaries/fees	Restricted shares	Bonuses	Benefits	Total	2011 Total
Carol Bell[1]	**21,732**	**14,423**	**–**	**–**	**36,155**	70,960
Ian Bruce[1]	**21,732**	**14,423**	**–**	**–**	**36,155**	70,960
Alasdair Locke[2,3]	**158,173**	**452,963**	**–**	**–**	**611,136**	–
Ian MacKenzie[4]	**328,340**	**–**	**–**	**30,767**	**359,107**	–
Peter Milne[5]	**69,025**	**74,524**	**–**	**–**	**143,549**	–
Paul Mortimer[1]	**28,977**	**19,232**	**–**	**–**	**48,209**	94,616
Pradip Shah	**57,182**	**14,423**	**–**	**–**	**71,605**	70,960
Yogeshwar Sharma[6,7,8]	**562,580**	**–**	**–**	**11,906**	**574,486**	342,713

1 Carol Bell, Ian Bruce and Paul Mortimer ceased to be Directors effective 16 May 2012.
2 Upon his appointment Alastair Locke was awarded restricted shares amounting to $372,621.
3 Upon the appointment of Ian MacKenzie, Alasdair Locke was awarded restricted shares amounting to $80,342.
4 Ian Mackenzie's benefits included pension contribution and life and medical insurance.
5 Upon his appointment Peter Milne was awarded restricted shares amounting to $74,524.
6 Yogeshwar Sharma's benefits included pension contribution and medical insurance.
7 In 2012 Yogeshwar Sharma received a payment of $348,938 in connection with the cessation of his employment as Chief Executive Officer.
8 Yogeshwar Sharma became a Non-Executive Director effective 16 May 2012 and subsequently received fees amounting to $35,703.

None of the remuneration paid was subject to performance conditions. No bonuses were paid to any of the Executive Directors from 2009 to 2012.

Governance
Directors' Remuneration Report continued

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 2012:

Director	Beginning of 2012	Granted during 2012	Forfeited during 2012	End of 2012	Date of grant	Vested at end of 2012	Expiry date	Exercise price per share (£)
Carol Bell	**260,233**	–	**260,233**	–	7 Jun 05	–	6 Jun 15	2.860
Ian MacKenzie	–	**750,000**	–	**750,000**	14 Mar 12	–	13 Mar 22	1.546
Paul Mortimer	**260,233**	–	**260,233**	–	7 Jun 05	–	6 Jun 15	1.440
Pradip Shah	**260,233**	–	–	**260,233**	7 Jun 05	**260,233**	6 Jun 15	1.440
Yogeshwar Sharma	**780,700**		–	**780,700**	7 Jun 05	**780,700**	6 Jun 15	1.440
	300,000		–	**300,000**	2 Jul 07	**300,000**	1 Jul 17	4.310
	200,000		–	**200,000**	11 Oct 10	–	10 Oct 20	2.116
Total	**2,061,399**	**750,000**	**520,466**	**2,290,933**				

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 five 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). Ian MacKenzie's 750,000 share options awarded in 2012 are subject to the conditions outlined above.

No share options were exercised by any of the Directors of the Company during 2012.

On 31 December 2012, the market price of an Ordinary Share of Hardy was £0.90 per share. The highest and lowest market price of an Ordinary Share of Hardy during 2012 was £1.848 and £0.843 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.

In the event that a Director is not 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

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 Nomination Committee had an active 2012 with the significant restructuring of the Board. Carol Bell, Ian Bruce and Paul Mortimer advised their intention to not put themselves forward for re-election and would retire following the Company's AGM in May 2012. Accordingly, the Nomination Committee recommended to the Board for the appointment of Alasdair Locke as Non-Executive Chairman, the appointment of Peter Milne, as Non-Executive Director and Ian MacKenzie as Chief Executive Officer.

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

Main responsibilities
In 2013 the Nomination Committee reviewed its terms of reference and recommended that the Board adopt several changes which were approved by the Board in January 2013. A copy of the Nomination Committee's terms of reference can be found on the Company's website www.hardyoil.com.

The main duties of the Nomination Committee are summarised below:
– review the structure, size and composition of the Board and make recommendations to the Board with regard to any changes;
– succession planning for Directors and other senior executives;
– identifying and nominating, for Board approval, candidates to fill Board vacancies as and when required;
– reviewing annually the time commitment required of Non-Executive Directors; and
– making recommendations to the Board regarding membership of the Audit and Remuneration Committee in consultation with the Chairman of each Committee.

Committee membership
The Nomination Committee currently comprises of four Non-Executive Directors with Alasdair Locke as Chairman. The Nomination Committee met twice in 2012. Mr Locke was appointed Chairman of the committee following the retirement of Ian Bruce. As part of a restructuring of all three Board committees, the Board approved the appointment of three Non-Executive Directors including the Chairman of the Board.

The membership and attendance of members at Committee meetings held in 2012 are provided below:

Committee member	Member through 2012	Meetings attended
Alasdair Locke (Chairman)	from 16 May 2012	1 of 1
Ian Bruce (Chairman)	to 16 May 2012	1 of 1
Peter Milne	from 16 May 2012	1 of 1
Dr Carol Bell	to 16 May 2012	1 of 1
Pradip Shah	continuous	2 of 2
Yogeshwar Sharma	from 16 May 2012	1 of 1

Committee activities during 2012 and subsequent to year end
Chair succession
Paul Mortimer had advised the Board in 2011 that he intended to retire as Chairman. Accordingly, the Nomination Committee considered the balance of skills, knowledge and experience on the Board and prepared job specifications and estimated time commitments. Following a comprehensive recruitment process, which included the appointment of an external consultant and consultation with major shareholders, the Nomination Committee made a recommendation to the Board that Alasdair Locke be appointed to the Board as Chairman with effect of 16 January 2012. The recommendation was approved by the Board on 16 January 2012.

Chief Executive succession
In late 2011 Yogeshwar Sharma advised the Board of 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. Subsequently Alasdair Locke, Chairman of the Board, put forward a candidate for the Nomination Committee's consideration. Members of the Nomination Committee undertook a number of interviews with the candidate, resulting in the Nomination Committee recommending to the Board the appointment of Ian MacKenzie as Chief Executive Officer.

Board refreshment
In 2012 Carol Bell, Ian Bruce and Paul Mortimer advised the Board that they would not be putting themselves forward for re-election at the Company's 2012 Annual General Meeting scheduled for 16 May 2012.

Accordingly, the Nomination Committee evaluated the skills and experience of the outgoing non-executives, the Committee's review noted that Carol Bell, senior non-executive and Chair of the Audit Committee, and Ian Bruce, Chair of the Nomination Committee and member of the Audit Committee, had extensive relevant financial experience and expertise. It was agreed that a primary requirement of potential candidates would be current and relevant financial experience and expertise.

Having consideration for the pending loss of Board members with current and relevant financial experience and expertise, Alasdair Locke put forward a non-executive candidate for the Nomination Committee to consider. The Nomination Committee interviewed the candidate put forward by Alasdair Locke and subsequently recommended to the Board for the appointment of Peter Milne as Non-Executive Director. The Board accepted the Nomination Committee's recommendation and Peter Milne was appointed as a Non-Executive Director to the board which took effective on 1 March 2012.

Board Committee membership
The Nomination Committee is responsible for nominating appropriate individuals for membership of the Board's Committees. Following the refreshment of the Board a number of changes were made to the composition of the Board Committees to ensure that they are comprised of individuals with necessary skills, knowledge and experience.

Review terms of reference
The Nomination Committee reviewed its terms of reference during the year. As a result of the review the Nomination Committee recommended that the Board adopt several amendments to comply with current ISCA guidelines and the UK Corporate Governance Code. The key amendments were:
- Duties – Clauses 9.5 to 9.10 – several clauses were amended regarding guidelines for identification and appointment of Directors;
- Other matters regarding: access to resources; timely training; consideration of law as and regulations; and periodic review of committee performance.

A copy of the revised terms of reference can be found on the Company's website www.hardyoil.com.

Committee evaluation
The performance of the Nomination Committee was evaluated as part of the Board evaluation which was completed in 2013. The review was coordinated by the Chairman of the Audit Committee with the assistance of the Company Treasurer. As a result the Nomination Committee was considered to be operating effectively.

Alasdair Locke
Chairman of the Nomination Committee
6 March 2013

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 2012. These will be presented before the shareholders at the Annual General Meeting scheduled to be held on 9 May 2013.

Business review and future developments

Hardy is an international upstream oil and gas company focused in India. The Company is incorporated in the Isle of Man and its registered office is Fort Anne, Douglas, Isle of Man, IM1 5PD. Hardy's objective is to be a leading independent exploration and production company in India and deliver consistent step change growth in shareholder value through the exploration of potential commercial hydrocarbon accumulations. A full review of the Company's activities during 2012 and plans for 2013 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 2012 were:

Board member	Position	Throughout 2012	Committee member
Carol Bell	Senior Non-Executive Director	to 16 May 2012	– Audit (Chairman) – Remuneration
Ian Bruce	Non-Executive Director	to 16 May 2012	– Audit – Nomination (Chairman)
Alasdair Locke	Non-Executive Chairman	from 16 January 2012	– Remuneration – Nomination (Chairman)
Ian MacKenzie	Chief Executive Officer Executive Director	from 16 May 2012 from 1 March 2012	
Peter Milne	Senior Non-Executive Director Non-Executive Director	from 16 May 2012 from 1 March 2012	– Audit (Chairman) – Remuneration – Nomination
Paul Mortimer	Non-Executive Chairman	to 16 January 2012	– Remuneration – Nomination
	Non-Executive Director	to 16 May 2012	– Remuneration – Nomination
Pradip Shah	Non-Executive Director	continuous	– Remuneration (Chairman) – Audit – Nomination
Yogeshwar Sharma	Chief Executive Officer Non-Executive Director	to 16 May 2012 from 16 May 2012	– Audit – Nomination

Indemnity provision for Directors

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

Results and dividends

The Group is reporting a total comprehensive loss of $11,069,191 for 2012 compared to a comprehensive loss of $1,877,954 for 2011. The Directors do not recommend the payment of a dividend for 2012.

Election and re-election of Directors

At the next Annual General Meeting of the Company, to be held on 9 May 2013, Yogeshwar Sharma and Pradip Shah will offer themselves for re-election as Non-Executive Directors. Biographical details for Mr Yogeshwar Sharma and Mr Pradip Shah 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.

Ian 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.

Pradip Shah and Yogeshwar 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.

Pradip Shah chairs the Company's Remuneration Committee and is a member of the Audit and Nomination Committees. Yogeshwar Sharma is a member of the Audit and Nomination Committees.

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 2012 and at the date of this report, there were 73,032,706 and 73,032,706 Ordinary Shares of Hardy respectively that were issued and fully paid. Major interests in share capital of the Company, in excess of three per cent, as of the date of this report are as follows:

Shareholding	Number of Ordinary Shares held	Per cent
Lloyds TSB Group plc.	11,363,500	15.56%
Universities Superannuation Scheme Limited	6,174,638	8.45%
Seren Capital Management Limited	5,617,418	7.69%
Aegon Asset Management	5,538,544	7.58%
Yogeshwar Sharma	4,158,135	5.69%
Aequitas Investments Limited	3,928,866	5.38%
Henderson Global Investors	3,653,457	5.00%
Standard Life Investments Ltd	3,111,312	4.26%
NFU Mutual Insurance Society Limited	2,713,479	3.72%
Gadus SE	2,554,829	3.50%
John Grahame Whateley	2,438,169	3.34%
Total	**51,252,347**	**70.18%**

Annual General Meeting

The Company's next Annual General Meeting will be held at Skene House, Rosemount Viaduct, Aberdeen AB25 1NX, Scotland, on 9 May 2013 at 11.00 BST. The notice of meeting and the explanatory circular to shareholders setting out business to be conducted at the Annual General Meeting accompanies this Annual Report. The notice includes an item of special business which is explained by the Chairman in his letter contained in the circular. The item of special business concerns the disapplication of the pre-emption rights set out in article 5.1 of the Company's Articles of Association.

Statement of Directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and 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 2012, 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.

Governance
Directors' Report continued

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.

Directors' 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, Annual Report and incorporate statements includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

Internal control and risk management systems

The Board has the ultimate responsibility for the Group's internal control and risk management systems. The Audit Committee monitors internal controls and risk management systems on an annual basis.

The Group has established a system of control and risk management involving an appropriate degree of oversight by senior management in each of the business units in which it operates.

Charitable and political donations

During 2012, the Company made no payments to charitable institutions or political associations.

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 2012

On 2 February 2013, the Hon'ble Tribunal issued an award regarding a dispute involving the Company. The details of the award are disclosed in note 15 to the consolidated financial statements. There have not been any other material events that have occurred since 31 December 2012 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 2012 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.

In addition, we read all the financial and non-financial information in the Chairman's Statement, Directors' Report (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) and the unaudited sections of the Directors' Remuneration Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2012 and of the Group's profit 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.

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.

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.

Matthew Stallabrass
Responsible Individual
For and on behalf of:
Crowe Clark Whitehill LLP
Recognised Auditor
London
6 March 2013

Financial Statement
Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

	Notes	2012 US$	2011 US$
Continuing operations			
Revenue	3	**–**	11,279,596
Cost of sales			
Production costs	4	**(277,100)**	(4,045,717)
Unsuccessful exploration costs	15	**(5,358,471)**	(3,432,734)
Depletion		**–**	(1,377,228)
Decommissioning charge		**–**	(210,303)
Gross (loss) profit		**(5,635,571)**	2,213,614
Administrative expenses		**(7,516,316)**	(6,877,035)
Operating loss	5	**(13,151,887)**	(4,663,421)
Interest and investment income	10	**848,850**	445,026
Finance costs	11	**(361,224)**	(382,569)
Loss before taxation		**(12,664,261)**	(4,600,964)
Taxation	12	**1,595,070**	2,723,010
Total comprehensive loss for the year attributable to owners of the parent		**(11,069,191)**	(1,877,954)
Loss per share			
Basic and diluted	13	**(0.15)**	(0.03)
Comprehensive loss per share			
Basic and diluted	13	**(0.15)**	(0.03)

Financial Statement

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital US$	Share premium US$	Shares to be issued US$	Retained earnings US$	Total US$
At 1 January 2011	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
Changes in equity for the year 2012					
Total comprehensive loss for the year	**–**	**–**	**–**	**(11,069,191)**	**(11,069,191)**
Share-based payment	**–**	**5,654**	**757,785**	**–**	**763,439**
Adjustment of lapsed vested options			**(415,566)**	**415,566**	**–**
Share options exercised	**100**	**22,600**	**–**	**–**	**22,700**
Restricted shares issued	**2,375**	**587,613**	**–**	**–**	**589,988**
At 31 December 2012	**730,327**	**120,611,951**	**4,598,745**	**(9,517,575)**	**116,423,448**

Financial Statement
Consolidated Statement of Financial Position
As at 31 December 2012

	Notes	2012 US$	2011 US$
Assets			
Non-current assets			
Property, plant and equipment	14	**5,947,203**	5,886,118
Intangible assets – exploration	15	**77,818,796**	81,701,488
Intangible assets – others	16	**4,536**	10,380
Site restoration deposits	23	**3,970,628**	3,737,505
Deferred tax asset	12	**7,385,911**	6,001,302
Total non-current assets		**95,127,074**	97,336,793
Current assets			
Inventories	18	**2,024,502**	2,068,524
Trade and other receivables	19	**1,410,976**	1,129,872
Short-term investments	20	**26,032,807**	29,693,968
Cash and cash equivalents	25	**3,052,150**	6,804,018
Total current assets		**32,520,435**	39,696,382
Total assets		**127,647,509**	137,033,175
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	21	**730,327**	727,852
Share premium		**120,611,951**	119,996,084
Shares to be issued		**4,598,745**	4,256,526
Retained (loss) earnings		**(9,517,575)**	1,136,050
Total equity		**116,423,448**	126,116,512
Non-current liabilities			
Provision for decommissioning	23	**5,152,050**	4,815,000
Current liabilities			
Trade and other payables	24	**6,072,011**	6,101,663
Total current liabilities		**6,072,011**	6,101,663
Total liabilities		**11,224,061**	10,916,663
Total equity and liabilities		**127,647,509**	137,033,175

Approved and authorised for issue by the Board of Directors on 6 March 2013.

Alastair Locke
Non-Executive Chairman

Ian MacKenzie
Chief Executive Officer

Financial Statement

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 US$	2011 US$
Operating activities			
Cash flow (used in) operating activities	6	**(7,059,025)**	(3,441,912)
Taxation refund/(paid)		**606,926**	(52,751)
Net cash (used in) operating activities		**(6,452,099)**	(3,494,663)
Investing activities			
Expenditure on property, plant and equipment		**–**	727,734
Expenditure on intangible assets – exploration		**(1,475,779)**	(7,301)
Purchase of other fixed assets		**(108,165)**	(6,339)
Site restoration deposit		**(233,123)**	347,425
Short-term investments		**3,661,161**	(1,544,472)
Net cash from (used in) investing activities		**1,844,094**	(482,953)
Financing activities			
Interest and investment income		**857,611**	457,579
Financial costs		**(24,174)**	(67,569)
Issue of shares		**22,700**	2,016,236
Net cash from financing activities		**856,137**	2,406,246
Net decrease in cash and cash equivalents		**(3,751,868)**	(1,571,370)
Cash and cash equivalents at the beginning of the year		**6,804,018**	8,375,388
Cash and cash equivalents at the end of the year	25	**3,052,150**	6,804,018

Financial Statement
Notes to the Consolidated Financial Statements
For the year ended 31 December 2012

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 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 in the past generated working capital from its production activities and successfully raised finance to provide additional funding for its ongoing exploration and development programmes. The Directors, 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, having reviewed the Group's ongoing activities including its future intentions in respect of the drilling of exploration wells, having regard to the Group's existing working capital position and its ability to potentially raise finance, if required, 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 these financial statements.

c) Basis of preparation
Hardy prepares its financial statements in accordance with applicable International Financial Reporting Standards (IFRSs) 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 9 – Financial instruments

Issued and EU adopted
IFRS 1 Amendments – Severe hyper inflation and removal of fixed dates for first time adoption
IFRS 7 – (amended) – Financial instruments disclosures
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
IAS 32 – (amended) – Financial instruments presentation
IFRIC 20 – Stripping costs in the production Phase of a surface mine

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) 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.

e) Basis of consolidation
The consolidated financial statement includes 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 interest under the proportional consolidation method.

f) 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 a part of profit sharing) and the 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.

1. Accounting policies continued

g) 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 production 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.

h) Oil and gas assets

i) Exploration and evaluation assets

Hardy has adopted the successful efforts based accounting policy for its oil and gas assets.

Costs incurred prior to acquiring the legal rights to explore an area are expensed immediately in the income statement.

Expenditure incurred in connection with and directly attributable to the acquisition, exploration and appraisal of oil and gas assets are capitalised for each licence granted 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 capital intangible exploration and appraisal costs are transferred into a cost centre within the property, plant and equipment – development assets after testing for impairment, if any. Where exploration well results indicate the presence of hydrocarbons which are ultimately not considered commercially viable, all related costs will be written-off to the income statement.

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 is estimated and considered as an asset and liability. The decommissioning cost is included within the cost of property, plant and equipment-development assets. Any revision in the estimated cost of decommissioning which alters the provisions required also adjusted in the cost of asset. The amortisation of the asset, calculated on a unit of production basis based on proved reserves, is shown as "Decommissioning charge" in the Statement of Comprehensive Income and unwinding of the discount on the provision is included in the finance costs.

iv) Disposal of assets

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

i) 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 on 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.

Financial Statement
Notes to the Consolidated Financial Statements continued
For the year ended 31 December 2012

1. Accounting policies continued
j) 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

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

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

Amortisation charges included within the administrative expenses.

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

m) 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.

n) 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.

o) 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.

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

q) Taxation
The tax expense represents the sum of current tax and deferred tax.

Current tax is based on the taxable profit of the year. Taxable profit differs from net profit as reported in the Statement of Comprehensive Income as it excludes certain item of income or expenses that are taxable or deductible in years other than the current year and it further excludes items that are never taxable or deductible. The current tax liability is calculated using the tax rates that have been enacted or substantially enacted by the year end date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred 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.

1. Accounting policies continued

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 at the year end date.

r) 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 differences arising out of actual payments/realisations and from the year end restatement are reflected in the Statement of Comprehensive Income.

Rates of exchanges were as follows:

	31 December 2012	31 December 2011
£ to US$	**1.62**	1.55
US$ to Indian Rupees	**55.01**	53.24

s) 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.

t) 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 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. In case of lapsed vested options, the amount recognised in the shares to be issued is adjusted to the retained earnings as a reserve movement.

u) Contingent assets

Contingent assets are disclosed but not recognised where the receipt of income is probable but not virtually certain. The asset and related income is only then recognised in the period when the change occurs and the receipt becomes virtually certain.

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

Hardy has been awarded costs and interest after the conclusion of the arbitration on the CY-OS/2 block, in which it holds a 75 per cent participating interest. Hardy's share of these awards totals approximately $24.8 million and has been disclosed as a contingent asset. This is regarded as a significant area of judgement and full details are disclosed in note 15 to these financial statements.

ii) Decommissioning

The liability for decommissioning is reviewed based on the updated current cost estimates of the decommissioning, which is predominated by the charter hire charges of drill ship and supply boats. 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. Further details are contained in note 23.

iii) Deferred tax asset

The deferred tax asset will be realised with the recommencement of production from PY-3 field and also from the production of oil and gas from those areas which are available for commercial development. Further details are contained in note 12.

Financial Statement
Notes to the Consolidated Financial Statements continued
For the year ended 31 December 2012

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.

	2012 US$			
	India	**UK**	**Inter-segment elimination**	**Total**
Revenue				
Other income	–	–	–	–
Operating loss	**(9,223,442)**	**(3,928,445)**	–	**(13,151,887)**
Interest income	**754,707**	**94,143**	–	**848,850**
Interest on inter-corporate loan	–	**1,121,145**	**(1,121,145)**	–
Finance costs	**(361,224)**	–	–	**(361,224)**
Interest on inter-corporate loan	**(1,121,145)**	–	**1,121,145**	–
Loss before taxation	**(9,951,104)**	**(2,713,157)**	–	**(12,664,261)**
Taxation	**793,183**	**801,887**	–	**1,595,070**
Loss for the year	**(9,157,921)**	**(1,911,270)**	–	**(11,069,191)**
Segment assets	**102,570,256**	**25,077,253**	–	**127,647,509**
Inter corporate loan	–	**100,661,878**	**(100,661,878)**	–
Segment liabilities	**(11,003,670)**	**(220,391)**	–	**(11,224,061)**
Inter-corporate borrowings	**(100,661,878)**	–	**100,661,878**	–
Capital expenditure	**1,475,779**	**108,165**	–	**1,583,944**
Unsuccessful exploration costs	**(5,358,471)**	–	–	**(5,358,471)**
Depreciation, depletion and amortisation	**(17,828)**	**(35,096)**	–	**(52,924)**

	2011 US$			
	India	UK	Inter-segment elimination	Total
Revenue				
Oil sales	15,796,702	–	–	15,769,702
Profit oil to government	(4,732,595)	–	–	(4,732,595)
Management fees	–	180,000	(180,000)	–
Management fees	(180,000)		180,000	–
Other income	46,038	169,451	–	215,489
	10,930,145	349,451	–	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)	–
Interest on inter-corporate loan	(1,119,894)		1,119,894	–
Finance costs	(382,569)	–	–	(382,569)
Loss before taxation	(4,022,505)	(578,459)	–	(4,600,964)
Taxation	2,709,935	13,075	–	2,723,010
Loss for the year	(1,312,570)	(565,384)	–	(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

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.

4. Cost of sales

Production cost included in the cost of sales consists of:

	2012 US$	2011 US$
Opening stock of crude oil	–	389,801
Cost of crude oil produced	277,100	3,655,916
Closing stock of crude oil	–	–
Production cost	277,100	4,045,717

5. Operating loss

Operating loss is stated after charging:

	2012 US$	2011 US$
Unsuccessful exploration costs	5,358,471	3,432,734
Depletion charge of property, plant and equipment – producing	–	1,377,228
Decommissioning charge of property, plant and equipment – producing	–	210,303
Depreciation charge of property, plant and equipment – others	52,924	50,893
Provision for irrecoverable costs	1,073,402	2,333,148
Movement in inventory of oil	–	389,801
Operating lease costs		
– Plant and machinery	–	2,207,631
– Land and buildings	358,631	440,732
External auditors' remuneration		
– Fees payable to the Company's auditors for the audit of the Company's annual accounts	72,655	61,910
– Fees payable to the Company's auditors and its associates for other services	–	–
– Audit-related assurance services	13,103	13,021
Exchange loss	142,373	910,641

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 (loss) of continuing operations to operating cash flows

	2012 US$	2011 US$
Operating loss	(13,151,887)	(4,663,421)
Unsuccessful exploration costs	5,358,471	3,432,734
Depletion and depreciation	52,924	1,428,121
Decommissioning charge	–	210,303
Share-based payments	972,464	(1,269,420)
	(6,768,028)	(861,683)
Decrease in inventory	44,022	430,667
(Increase)/decrease in trade and other receivables	(305,367)	4,223,777
(Decrease) in trade and other payables	(29,652)	(7,234,673)
Cash (used in) operating activities	(7,059,025)	(3,441,912)

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7. Staff costs

	2012 US$	2011 US$
Wages and salaries	**2,363,548**	3,003,506
Social security costs	**269,081**	292,388
Share-based payments charge	**419,254**	(1,291,699)
	3,051,883	2,004,195

Staffs costs, including Executive Directors' salaries, fees, benefits and share-based payments, 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:

	2012	2011
Management and administration	**17**	19
Operations	**12**	18
	29	37

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 2012 and 2023 at prices of £1.19 to £7.69 per Ordinary Share.

Hardy has an unapproved share option scheme for the Directors and employees of the Group. Options are exercisable at the quoted market prices of the Company's shares on the date of grant. The vesting period is three years with a stipulation that the options are granted in proportion to the period of employment after the grant subject to a minimum of one year, or, with respect to options from 2010 onwards, the period is three years. 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:

	2012		2011	
	Number of options	Weighted average price	Number of options	Weighted average price
Outstanding at beginning of the year	**3,393,399**	**£2.64**	4,453,399	£2.80
Granted during the year	**800,000**	**£1.52**	–	–
Forfeited/lapsed during the year	**(556,466)**	**£2.15**	(1,035,000)	£3.85
Exercised during the year	**(10,000)**	**£1.44**	(25,000)	£1.44
Outstanding at the end of the year	**3,626,933**	**£2.47**	3,393,399	£2.64
Exercisable at the end of the year	**2,147,933**	**£2.94**	2,708,399	£2.77

The aggregate of the estimated fair values of the options granted and outstanding as at 31 December 2012 is US$6,235,811. The inputs into the binomial model for computation of value of options are as follows:

Share price at grant date	Varies from £1.19 to £7.69
Option exercise price at grant date	Varies from £1.19 to £7.69
Expected volatility	8%–40%
Expected life	6–8 years from grant date
Risk free rate	0.5%–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 price (WAEP) as follows:

8. Share-based payments continued

	2012		2011	
	Number	**WAEP**	Number	WAEP
2005–2016	**1,240,933**	**£1.51**	1,771,399	£1.68
2006–2017	**30,000**	**£3.02**	30,000	£3.02
2007–2018	**600,000**	**£3.70**	630,000	£3.67
2008–2019	**277,000**	**£7.69**	277,000	£7.69
2010–2021	**679,000**	**£2.12**	685,000	£2.12
2012–2023	**800,000**	**£1.52**	–	–

On 14 March 2012, the Company issued 182,342 restricted Ordinary Shares having a face value of US$0.01 per share and an aggregate market value of US$452,963 (£282,630) to Mr Alasdair Locke and issued 30,000 restricted Ordinary Shares having a face value of US$0.01 per share and an aggregate market value of US$74,524 (£46,500) to Mr Peter Milne upon their appointments as a Non-Executive Directors. The cost of issuing such shares is charged to the Statement of Comprehensive Income over a three-year period from the date of issue. During 2012, an amount of US$146,524 has been expensed with the remaining amount of US$ 380,963 transferred to prepayments.

The Group has expensed a net amount of US$972,464 in the current year (2011: US$1,269,420) towards equity-settled share-based payments. Equity shares to be issued are re-valued at the exchange rate as at 31 December 2012. The revaluation loss for the year 2012 is US$252,665 (2011: US$411,475). The value of shares to be issued as at 31 December 2012 is US$4,598,745 (2011: US$4,256,526).

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. Director's emoluments are included within the remuneration of the key management personnel in note 31.

10. Interest and investment income

	2012 US$	2011 US$
Bank interest	**525,481**	409,180
Other interest income	**273,243**	–
Dividend	**50,126**	35,846
	848,850	445,026

11. Finance costs

	2012 US$	2011 US$
Bank guarantee charges	**24,174**	67,569
Other finance costs	**337,050**	315,000
	361,224	382,569

12. Taxation

a) Analysis of taxation (credit) for the year

	2012 US$	2011 US$
Current tax charge		
UK corporation tax	**–**	–
Foreign tax – India	**(180,912)**	–
Minimum alternate tax	**(29,549)**	(1,359,390)
Foreign tax – USA	**–**	–
Total current tax (credit)	**(210,461)**	(1,359,390)
Deferred tax (credit)	**(1,384,609)**	(1,363,620)
Taxation (credit)	**(1,595,070)**	(2,723,010)

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12. **Taxation** continued

	2012 US$	2011 US$
Deferred tax (credit) charge	**–**	–
Origination and reversal of temporary differences	**(1,384,609)**	(1,363,620)

Deferred tax analysis:

	2012 US$	2011 US$
Difference between accumulated depletion, depreciation and amortisation and capital allowances	**3,909,448**	2,811,865
Other temporary differences	**3,476,463**	3,189,437
Deferred tax asset	**7,385,911**	6,001,302

b) Factors affecting tax charge for the year

	2012 US$	2011 US$
Loss before taxation from continuing operations	**(12,664,261)**	(4,600,964)
Profit before taxation multiplied by the rate of tax in UK of 23%	**–**	–
Foreign tax on overseas income – current year	**–**	–

Indian operations of the Group are subject to a tax rate of 42.024 per cent which is higher than UK and US corporations tax rates. To the extent that the Indian profits are taxable in the US and/or the UK, those territories should provide relief for Indian taxes paid, principally under the provisions of double taxation agreements. 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$11,069,191 for the year 2012 (2011: US$1,877,954) on a weighted average of 72,984,352 Ordinary Shares for the year 2012 (2011: 72,531,961). No diluted loss per share is calculated.

Comprehensive loss per share is calculated on a loss of US$11,069,191 for the year 2012 (2011: US$1,877,954) on a weighted average of 72,984,352 Ordinary Shares for the year 2012 (2011: 72,531,961).

No diluted loss per share on loss attributable to parent company for the year 2012 and 2011 is calculated.

14. Property, plant and equipment

Oil and gas assets represents interest in producing oil and gas assets falling under the India cost pool. Other fixed assets consist of office furniture, computers, workstations and office equipment.

	Oil and gas assets US$	Other fixed assets US$	Total US$
Cost			
At 1 January 2011	35,726,109	2,175,100	37,901,209
Additions	(201,713)	6,339	(195,374)
Deletions	–	(78,823)	(78,823)
At 1 January 2012	**35,524,396**	**2,102,616**	**37,627,012**
Additions	**–**	**108,165**	**108,165**
Deletions	**–**	**(426,891)**	**(426,891)**
At 31 December 2012	**35,524,396**	**1,783,890**	**37,308,286**
Depletion, depreciation and amortisation			
At 1 January 2011	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 1 January 2012	**29,684,318**	**2,056,576**	**31,740,894**
Charge for the year	**–**	**47,080**	**47,080**
Deletions	**–**	**(426,891)**	**(426,891)**
At 31 December 2012	**29,684,318**	**1,676,765**	**31,361,083**
Net book value at 31 December 2012	**5,840,078**	**107,125**	**5,947,203**
Net book value at 31 December 2011	5,840,078	46,040	5,886,118

Oil and gas asset have not been used since 31 July 2011 and would be used as soon as the associated facilities required for production is secured.

15. Intangible assets – exploration

	India US$
Costs and net book value	
At 1 January 2011	85,126,921
Additions	6,503,223
Reversal of charges	(6,495,922)
Unsuccessful exploration costs	(3,432,734)
At 1 January 2012	**81,701,488**
Additions	**1,475,779**
Unsuccessful exploration cost	**(5,358,471)**
At 31 December 2012	**77,818,796**

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

The arbitrators ruled on 2 February 2013 that the discovery was a gas discovery and consequently that the order for the relinquishment of the block was illegal. The arbitrators have ordered the Government of India to restore the block to Hardy and its partners and to allow them a period of three years from the date of restoration to complete the appraisal programme. In addition, the arbitrators awarded costs of $0.2 million and interest on the exploration expenditure incurred to date. Hardy's 75 per cent share of the interest awarded is approximately $24.6 million. As the award was only received in February 2013 and as the Government of India has not yet indicated to Hardy the acceptance of the arbitration award, the above amounts will be accounted for when their receipt is virtually certain and therefore it is currently treated as a contingent asset.

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15. Intangible assets – exploration continued
The details of the intangible assets stated above are as follows:

	US$
Exploration expenditure – block CY-OS/2	**51,023,493**
Exploration expenditure – block KG-DWN-2003/1 (D3)	**21,746,583**
Exploration expenditure – block GS-OSN	**5,048,720**
Total	**77,818,796**

16. Intangible assets – others

	US$
Cost	
At 1 January 2011	508,728
Additions	–
At 1 January 2012	**508,728**
Additions	**–**
At 31 December 2012	**508,728**
Accumulated depreciation	
At 1 January 2011	492,289
Charge for the year	6,059
At 1 January 2012	**498,348**
Charge for the year	**5,844**
At 31 December 2012	**504,192**
Net book value as at 31 December 2012	**4,536**
Net book value as at 31 December 2011	10,380

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 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. Inventory

	2012 US$	2011 US$
Drilling and production stores and spares	**2,024,502**	2,068,524
	2,024,502	2,068,524

19. Trade and other receivables

	2012 US$	2011 US$
Other receivables	**1,024,510**	1,080,222
Prepayments and accrued income	**386,466**	49,650
	1,410,976	1,129,872

20. Short-term investments

	2012 US$	2011 US$
HSBC US$ Liquidity Fund Class-A	**25,999,256**	27,505,453
HSBC £ Liquidity Fund Class-A	**33,551**	2,188,515
	26,032,807	29,693,968

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 $0.01 Ordinary Shares	US$
Authorised Ordinary Shares		
At 1 January 2012	200,000,000	2,000,000
At 31 December 2012	**200,000,000**	**2,000,000**
Allotted, issued and fully paid Ordinary Shares		
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 1 January 2012	**72,785,204**	**727,852**
Share options exercised during the year	**10,000**	**100**
Restricted shares issued during the year	**237,502**	**2,375**
At 31 December 2012	**73,032,706**	**730,327**

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 2011	4,500,000
Change in decommissioning estimate	315,000
At 1 January 2012	**4,815,000**
Change in decommissioning estimate	**337,050**
At 31 December 2012	**5,152,050**

The provision has been made by estimating the decommissioning cost at the current prices using existing technology. The inflation at 5.6 per cent and discount rates at 4.75 per cent applied have been based on suitable current market information. Decommissioning costs are expected to be incurred between 2020 and 2025.

An amount of Rs.218,424,223 (US$3,970,628) 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

	2012 US$	2011 US$
Trade payables	**4,889,918**	4,606,945
Other payables	**179,782**	259,671
Accruals	**1,002,311**	1,235,047
	6,072,011	6,101,663

Trade and other payable 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.

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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's treasury functions are responsible for managing fund requirements and investments which include banking, cash flow management, interest and foreign exchange exposure to ensure adequate liquidity at all times to meet cash requirements.

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

Hardy's main financial risks are foreign currency risk, liquidity risk, 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 the 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 days 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 terms deposits and graded commercial papers of not less than AA or equivalent.

The Board will continue to assess the strategies for managing credit risk and is satisfied with the existing policies 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 debit 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 2012.

25. Financial risk management continued

Maturity of non-current financial liabilities

The maturity of non-current financial liabilities as at 31 December 2012 and 31 December 2011 is as follows:

	2012 US$	2011 US$
In more than two years but not more than five years	–	–
In more than five years	5,152,050	4,815,000

The Group does not have any fixed maturity or interest bearing financial liabilities as at 31 December 2012 or 31 December 2011.

Interest rate risk profile of financial assets

The interest rate risk profile of the financial assets of the Group as at 31 December 2012 is as follows:

	Fixed rate financial asset US$	Floating rate financial asset US$	Financial asset – no interest is earned US$	Total US$
US dollar	–	763,901	325,937	1,089,838
Pound sterling	–	210	31,809	32,019
Indian rupee	1,836,567	–	93,726	1,930,293
Cash and cash equivalents	1,836,567	764,111	451,472	3,052,150

An amount of Rs.218,424,223 (US$3,970,628) 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$26,007 for every one per cent change in interest rate. 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 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 rate. 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 2012 are as follows:

	Indian rupees US$	Pound sterling US$	Total US$
US$	5,900,921	65,570	5,966,491

An amount of US$135,749 was recognised as foreign exchange loss on account of exchange rate fluctuations on bank balances and investments made in currencies other than US dollars for the year 2012.

Exchange gain will increase by US$60,261 for every one per cent appreciation of Indian rupee and sterling and loss of US$59,081 for every one per cent depreciation of Indian rupee and sterling.

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25. Financial risk management continued
The currency exposures of the foreign currency monetary assets denominated in currencies other than US dollars of the Group as at 31 December 2011 are as follows:

	Indian rupees 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 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.

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 2012 US$**	**Fair value 2012 US$**	Book value 2011 US$	Fair value 2011 US$
Short-term investments	**26,032,807**	**26,032,807**	29,693,968	29,693,968
Cash and short-term deposits	**3,052,150**	**3,052,150**	6,804,018	6,804,018
Trade and other receivables	**1,410,976**	**1,410,976**	1,129,872	1,129,872
Site restoration deposit	**3,970,628**	**3,970,628**	3,737,505	3,737,505
	34,466,561	**34,466,561**	41,365,363	41,365,363

Financial liabilities

Primary financial instruments	**Book value 2012 US$**	**Fair value 2012 US$**	Book value 2011 US$	Fair value 2011 US$
Accounts payable	**(6,072,011)**	**(6,072,011)**	(6,101,663)	(6,101,663)
Provisions for decommissioning	**(5,152,050)**	**(5,152,050)**	(4,815,000)	(4,815,000)
	(11,224,061)	**(11,224,061)**	(10,916,663)	(10,916,663)

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

27. Capital commitments

	2012 US$	2011 US$
Oil and gas expenditure	**–**	–

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:

	2012 US$	2011 US$
Land and buildings:		
One year	**110,595**	168,584
Two to five years	**71,348**	–
After five years	**–**	–
Other:		
One year	**11,158**	2,617
Two to five years	**18,937**	–
After five years	**–**	–

30. Contingent liabilities

Bank guarantees for US$1,693,545 have been issued to Government of India. The guarantees were obtained by placing a fixed deposit of Rs.101,029,531 (US$1,836,567) in the bank with the interest rate of nine 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 the guarantees for US$1,693,545 as at 31 December 2012 issued under a facility with a bank for the Group's share of minimum work programme commitments for the year to 31 March 2013. The details of the bank guarantees provided are as follows:

PSC	Guarantee Number	US$
KG-DWN-2003/1	ILG011/42465/07	1,693,545

In addition, the parent company guarantees the Group's obligation 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, including its subsidiary undertaking, of the Group is as follows:

	2012 US$	2011 US$
Short-term employee benefits	**1,342,576**	1,759,491
Share-based payments	**443,918**	204,806
	1,786,494	1,964,297

Key management personnel include the Directors and the executive officers of the Group as set out in the overview of the Board of Directors in the Business Review. Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report which forms part of the Group's 2012 Annual Report.

Financial Statement
Parent Company Statement of Changes in Equity
For the year ended 31 December 2012

	Share capital US$	Share premium US$	Shares to be issued US$	Retained earnings US$	Total US$
At 1 January 2011	**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
Changes in equity for the year 2012					
Total comprehensive loss for the year	**–**	**–**	**–**	**(1,911,270)**	**(1,911,270)**
Share-based payment	**–**	**5,654**	**342,219**	**415,566**	**763,439**
Share option exercised	**100**	**22,600**	**–**	**–**	**22,700**
Restricted shares issued	**2,375**	**587,613**	**–**	**–**	**589,988**
At 31 December 2012	**730,327**	**120,611,951**	**4,598,745**	**5,527,928**	**131,468,951**

Financial Statement
Parent Company Statement of Financial Position
For the year ended 31 December 2012

	Notes	2012 US$	2011 US$
Assets			
Non-current assets			
Property, plant and equipment	9	**96,381**	23,312
Intangible assets – others	10	**–**	–
Investments	11	**106,612,089**	99,695,643
Total non-current assets		**106,708,470**	99,718,955
Current assets			
Trade and other receivables	12	**470,121**	62,272
Short-term investments	13	**26,032,807**	29,693,968
Cash and cash equivalents	17	**271,065**	5,098,350
Total current assets		**26,773,993**	34,854,590
Total assets		**133,482,463**	134,573,545
Equity and liabilities			
Equity attributable to the owners			
Equity			
Called-up share capital	14	**730,327**	727,852
Share premium		**120,611,951**	119,996,084
Shares to be issued		**4,598,745**	4,256,526
Retained earnings		**5,527,928**	7,023,632
Total equity		**131,468,951**	132,004,094
Non-current liabilities			
Provision for deferred tax	15	**1,793,121**	2,414,096
Current liabilities			
Trade and other payables	16	**220,391**	155,355
Total liabilities		**2,013,512**	2,569,451
Total equity and liabilities		**133,482,463**	134,573,545

Approved and authorised for issue by the Board of Directors on 6 March 2013.

Financial Statement
Parent Company Statement of Cash Flows

For the year ended 31 December 2012

	Notes	2012 US$	2011 US$
Operating activities			
Cash flow (used in) operating activities	4	**(2,994,271)**	(2,484,496)
Tax refund		**180,912**	–
Net cash (used in) operating activities		**(2,813,359)**	(2,484,496)
Investing activities			
Purchase of other property, plant and equipment		**(108,165)**	(4,044)
Short-term investments		**3,661,161**	(1,544,472)
Net cash (used in) from investing activities		**3,552,996**	(1,548,516)
Financing activities			
Interest and investment income		**1,229,552**	1,192,860
Inter-corporate loan		**(6,819,174)**	587,047
Issue of shares		**22,700**	2,016,236
Net cash (used in) from financing activities		**(5,566,922)**	3,796,143
Net (decrease) increase in cash and cash equivalents		**(4,827,285)**	(236,869)
Cash and cash equivalents at the beginning of the year		**5,098,350**	5,335,219
Cash and cash equivalent at the end of the year		**271,065**	5,098,350

Financial Statement

Notes to the Parent Company Financial Statements

For the year ended 31 December 2012

1. Accounting policies

The company follows the accounting policies of the Group.

2. Revenue

	2012 US$	2011 US$
Overhead recovery	–	169,451
Management fees from subsidiary	–	180,000
	–	349,451

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$1,191,225 (2011: US$565,384).

4. Reconciliation of operating loss to operating cash flows

	2012 US$	2011 US$
Operating loss	(3,928,445)	(1,776,722)
Depreciation	35,096	29,199
Share-based payments	875,192	(994,571)
	(3,018,157)	(2,742,094)
(Increase)/decrease in trade and other receivables	(41,150)	369,533
(Increase)/decrease in trade and other payables	65,036	(111,935)
Cash flow (used in) operating activities	(2,994,271)	(2,484,496)

5. Staff costs

	2012 US$	2011 US$
Wages and salaries	1,313,786	1,347,594
Social security costs	172,131	155,140
Share-based payments	321,982	(1,016,850)
	1,807,899	485,884

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:

	2012	2011
Management and administration	6	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 2012 is US$10,000 (2011: US$10,000).

Financial Statement
Notes to the Parent Company Financial Statements continued
For the year ended 31 December 2012

8. Interest and investment income

	2012 US$	2011 US$
Bank interest	**2,348**	45,523
Interest on inter-corporate loan	**1,121,145**	1,119,894
Other interest	**41,669**	–
Dividend	**50,126**	35,846
	1,215,288	1,198,263

9. Property, plant and equipment

	Total US$
Cost	
At 1 January 2011	368,334
Additions	4,044
At 1 January 2012	**372,378**
Additions	**108,165**
Deletion	**(266,766)**
At 31 December 2012	**213,777**
Depreciation	
At 1 January 2011	319,867
Charge for the year	29,199
At 1 January 2012	**349,066**
Charge for the year	**35,096**
Deletion	**(266,766)**
At 31 December 2012	**117,396**
Net book value at 31 December 2012	**96,381**
Net book value at 31 December 2011	23,312

10. Intangible assets – others

	Total US$
Cost	
At 1 January 2011	131,250
At 1 January 2012	**131,250**
At 31 December 2012	**131,250**
Accumulated depreciation	
At 1 January 2011	131,250
Charge for the period	–
At 1 January 2012	**131,250**
Charge for the period	**–**
At 31 December 2012	**131,250**
Net book value at 31 December 2012	**–**
Net book value at 31 December 2011	–

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

11. Investment

	Shares in subsidiary US$	Loan to subsidiary US$
Carrying value at 1 January 2011	6,127,788	94,429,751
Additional investment during the year	(274,849)	(587,047)
Carrying value at 1 January 2012	**5,852,939**	**93,842,704**
Additional investment during the year	**97,272**	**6,819,174**
Carrying value at 31 December 2012	**5,950,211**	**100,661,878**

Shares in subsidiary represent the investment made as at 31 December 2012 in Hardy Exploration & Production (India) Inc, the wholly owned subsidiary of Hardy Oil and Gas plc. Full details of this subsidiary are given in note 17 of the consolidated financial statements.

Loan to subsidiary at 31 December 2012 consists of US$100,661,878 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 one per cent.

12. Trade and other receivables

	2012 US$	2011 US$
Other receivables	**89,158**	48,008
Prepayments and accrued income	**–**	14,264
Prepaid expenses – share-based payments	**380,963**	–
	470,121	62,272

13. Short-term investments

	2012 US$	2011 US$
HSBC US$ Liquidity Fund Class-A	**25,999,256**	27,505,453
HSBC £ Liquidity Fund Class-A	**33,551**	2,188,515
	26,032,807	29,693,968

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 2012 and 2011.

14. Share capital

	Number $0.01 Ordinary Shares '000	US$
Authorised Ordinary Shares		
At 1 January 2011	200,000	2,000,000
At 1 January 2012	**200,000**	**2,000,000**
At 31 December 2012	**200,000**	**2,000,000**
Allotted, issued and fully paid Ordinary Shares		
At 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 1 January 2012	**72,785,204**	**727,852**
Share options exercised during the year	**10,000**	**100**
Restricted shares issued	**237,502**	**2,375**
At 31 December 2012	**73,032,706**	**730,327**

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

Financial Statement
Notes to the Parent Company Financial Statements continued
For the year ended 31 December 2012

15. Deferred taxation
Deferred tax analysis:

	2012 US$	2011 US$
Differences between accumulated depreciation and capital allowances	**55,214**	57,391
Other temporary differences	**802,555**	1,187,956
Group relief availed	**(2,650,890)**	(3,659,443)
Deferred tax (liability)	**(1,793,121)**	(2,414,096)

16. Trade and other payables

	2012 US$	2011 US$
Trade payables	**155,719**	92,200
Accruals	**64,672**	63,155
	220,391	155,355

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 2012 is as follows:

	Fixed rate financial asset US$	Floating rate financial asset US$	Financial asset – no interest is earned US$	Total US$
US dollar	**–**	**–**	**243,710**	**243,710**
Pound sterling	**–**	**210**	**27,145**	**27,355**
Cash and cash equivalents	**–**	**210**	**270,855**	**271,065**

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 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	–	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.

Currency exposures
The currency exposures of the monetary assets denominated in currencies other than US dollars of the Company are as follows:

	Pound sterling in equivalent US$	
	2012	2011
US$	**60,906**	2,268,318

Foreign exchange gain recognised on account of exchange rate for the year 2012 is US$49,057 (2011: Loss US$4,637).

18. Financial instruments

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

Financial assets

Primary financial instruments	Book value 2012 US$	Fair value 2012 US$	Book value 2011 US$	Fair value 2011 US$
Short-term investments	**26,032,807**	**26,032,807**	29,693,968	29,693,968
Cash and short-term deposits	**271,055**	**271,055**	5,098,350	5,098,350
Trade and other receivables	**470,121**	**470,121**	62,272	62,272
	26,773,993	**26,773,993**	34,854,590	34,854,590

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

Financial liabilities

Primary financial instruments	Book value 2012 US$	Fair value 2012 US$	Book value 2011 US$	Fair value 2011 US$
Accounts payable	**(220,391)**	**(220,391)**	(155,355)	(155,355)

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:

	2012 US$	2011 US$
Land and buildings		
One year	**43,654**	70,199
Two to five years	**71,348**	–

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 subsidiary companies at year end dates:

	2012 US$	2011 US$
Amount owned from subsidiary undertakings	**100,661,878**	93,842,704

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:

	2012 US$	2011 US$
Parent company fees to joint venture operations of subsidiary	**–**	169,451
Management fees	**–**	180,000
Inter-company interest income	**1,121,145**	1,119,894

The interest income is based on market rates.

Notes

Notes

Company Information
Reserves and Resources

Due to limited drilling activity in 2012 and the uncertainty surrounding the recommencement of production in the PY-3 asset, the Company has taken the decision to postpone the updating of a competent person's report (CPR) until further data is acquired. 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 2012 was 129 MBbl.

				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

Net Best Estimate Risked Prospective Resources are 494 BCF

Risked Prospective Resources (Best Estimate)[1, 2]				31 December 2010 Gross	Net
CY-OS/2 [3, 4]	Prospects	Gas	BCF	113	84
GS-01	Prospects	Gas	BCF	142	14
D3	Prospects and Leads	Gas	BCF	3,959	396
Total Risked Prospective Resources (Best Estimate)[1, 2]		**Gas**	**BCF**	**4,214**	**494**

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

bbl:	barrel
bbld:	barrel per day
Board:	The Board of Directors of Hardy Oil and Gas plc
BP:	BP plc
the Code:	Hardy's Code of Business Conduct adopted January 2013
the Company:	Hardy Oil and Gas plc
CPCL:	Chennai Petroleum Company Limited, formerly known as Madras Refinery Limited
CPR:	Competent persons 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
FDP:	Field development plan
FPU:	Floating Production Unit
FSO:	Floating storage and offloading vessel
GAIL:	Gas Authority of India Limited
Ganesha:	Gas discovery on Fan-A1 well located in CY-OS/2
GCA:	Gaffney, Cline & Associates Ltd
the Group:	The Company and its subsidiaries
GS-01:	Licence GS-OSN-2000/1 awarded under NELP II
Hardy:	Hardy Oil and Gas plc
HEPI:	Hardy Exploration & Production (India) Inc.
HOA:	Hardy Oil (Africa) Limited
HOEC:	Hindustan Oil Exploration Company Limited
HON:	Hardy Oil Nigeria Limited
HSE:	Health, safety and environment
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
London Stock Exchange:	London Stock Exchange plc
LTA:	Lost time accident
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
MOPNG:	Ministry of Petroleum and Natural Gas
NELP:	New Exploration Licensing Policy of the Ministry of Petroleum and Natural Gas of India
ONGC:	Oil and Natural Gas Corporation Limited
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
OSV:	Offshore Support Vessel
PSC:	Production sharing contract
PY-3:	Licence CY-OS-90/1
Reliance:	Reliance Industries Limited
UK:	United Kingdom
The UK Code:	UK Code of Conduct 2010
US:	United States of America

$:	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
DOC:	declaration of commerciality
DST:	Drill stem test
JOA:	joint operating agreement
km:	Kilometre
km^2:	Kilometre squared
lkm:	Line kilometre
m:	Metre
MDT:	Modular formation dynamics tester
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
PSDM:	Pre-stack depth migration
psi:	Pounds per square inch
scf:	Standard cubic feet
scfd:	Standard cubic feet per day
TCF:	Trillion cubic feet
TVD:	Total vertical depth
TVDRT:	Total vertical depth from rotary table

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