

Introduction

Hardy Oil and Gas plc is incorporated in the Isle of Man. The Company is not subject to any corporate governance regime in its place of incorporation. The Company substantially complies with the Combined Code on Corporate Governance and supports high standards of corporate governance.

Although Hardy is a publicly listed company and has been listed on the London Stock Exchange's main market for listed securities since February 2008, the Company continues to be an explorer with limited cash flows and a modest employee base of approximately 50 people. The Company has a clear mandate to optimise the allocation of limited resources to support its exploration programme. As such, the Company strives to maintain a balance between conservation of limited resources and maintaining robust corporate governance practices. As the Company evolves the Board is committed to address specific Combined Code deficiencies and enhance 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 2010. Disclosures below include matters where Hardy has not fully complied during 2010 and its plans for compliance during 2011.

Board of Directors

Composition

The Company's Board presently has six directors, comprised of two Executive Directors and four Non-Executive Directors.

Each of the existing executive directors has extensive knowledge of the oil and gas industry with combined experience in excess of 60 years. The Non-Executive Directors have either held senior appointments in oil and gas companies, companies with interests in the energy sector or have significant corporate and financial experience and bring a broad range of business and commercial experience to the Board. The Board believes that its composition is suitable for operating an effective publicly traded international junior oil and gas company.

Role and Operations of the Board

The Board is accountable to the shareholders for the creation of long-term shareholder value and delivery of strong, sustainable operating and financial performance. In order to accomplish its objectives, the Board directs and monitors the Group's affairs on an ongoing basis. It provides the Company with its overall strategic direction, ensures that the Company has the necessary financial and human resources in place, monitors performance of the Company and its management and adheres to strong corporate governance practices.

Board and Committee Meetings

Set out below is a table showing attendance at Board and committee meetings by the directors during 2010.

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Paul Mortimer	13/13		4/4	1/1
Yogeshwar Sharma	13/13			
Dinesh Dattani	13/13			
Carol Bell	13/13	3/3	4/4	
Sastry Karra	10/12			1/1
Pradip Shah	12/13	3/3	4/4	1/1
Ian Bruce	13/13	3/3		

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

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

During the second half of 2009, the Non-Executive Chairman introduced a process whereby all of the Non-Executive Directors, including the Chairman, meet without the Executive Directors present, generally at the end of every Board meeting. Matters arising out of such discussions are communicated to the Executive Directors as appropriate.

Information Flow

The Chairman establishes the agenda for each Board meeting. Business set out on Board agendas is discussed at each meeting with sufficient information provided to all the directors. Board meeting agendas and supporting information are circulated to each director prior to each meeting. Directors are provided sufficient information on the basis of which to discuss relevant matters in order to allow directors to be appropriately informed and able to make informed decisions.

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

Independent Professional Advice

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

Matters Specifically Reserved by the Board

A formal schedule of matters is reserved for consideration by the Board. The matters reserved include management structure including appointments and remuneration, consideration of strategic policies and corporate direction, approval of annual and interim results, acquisitions and disposals, material contracts, major capital expenditure projects and budgets, approval of capital structure, debt and equity financing, dividends, and other matters. Subject to those reserved matters, the Board delegates authority for the management of the business primarily to the executive directors and certain other matters are delegated to the Board committees, namely the Audit, Remuneration and Nominations Committees.

Performance Evaluation

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

Each director's position is subject to satisfactory performance of their responsibilities and is subject to reappointment by shareholders at the Annual General Meeting. The Board of Directors is pleased with the attendance of all directors at Board and committee meetings, despite significant travel and time requirements. The Board of Directors is also satisfied with the participation by all the directors in formulating corporate strategies and for their engagement in meaningful dialogue and discussions at Board and committee meetings.

Chairman and Chief Executive Officer

There is a clear division of duties and responsibilities between the Non-Executive Chairman and the Chief Executive Officer of the Company. The Chairman provides leadership to the Board and ensures its effectiveness of its role and setting the agenda. The Chairman is also responsible in ensuring that the Board is provided with accurate, timely, and clear information in relation to the Group and its business. He is in regular communication with each of the Executive and Non-Executive Directors on an ongoing basis. The Chief Executive Officer is responsible for the running of the organisation and the execution of the Company's strategies, goals and objectives. The roles of Chairman and Chief Executive Officer are exercised by different individuals.

Mr Paul Mortimer is the Non-Executive Chairman of the Company. In addition to Hardy, he is also a director of two oil and gas royalty funds, Gemini Oil & Gas Limited and Gemini Oil & Gas Management Limited.

Non-Executive Directors

The Board has determined that Mr Paul Mortimer (Chairman), Mr Pradip Shah, Dr Carol Bell and Mr Ian Bruce are independent Non-Executive Directors.

The Board considers that independence is a matter of judgment and believes that the Non-Executive Directors should be free from any business or other relationships that could materially interfere in the exercise of their independent judgement. It is the Board's policy to provide its Non-Executive Directors fair remuneration for the contribution they make with respect to the business and affairs of the Company and the responsibilities they undertake in performing their duties as Non-Executive Directors. Each of Messrs Mortimer and Shah was granted 260,333 options to purchase Ordinary Shares in the Company on the admission of Ordinary Shares of the Company on AIM in June 2005. Dr Bell was granted a similar award on her appointment as a Non-Executive Director in December 2005. The Board has dispensed with the grant of stock options to the Non-Executive Directors since 2006. In addition, the Non-Executive Directors are entitled to an award of restricted shares on an annual basis.

Each of Messrs Mortimer and Shah has served as a Non-Executive Director for a period of more than nine years. All of the Non-Executive Directors continue to provide invaluable services to the Board, its committees and to the Company.

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

Notwithstanding Non-Executive Directors' interest in Ordinary Shares or options of the Company, or their long standing service as directors of the Company, the Board considers that their independence is not prejudiced or compromised as a result of such positions.

Board Committees

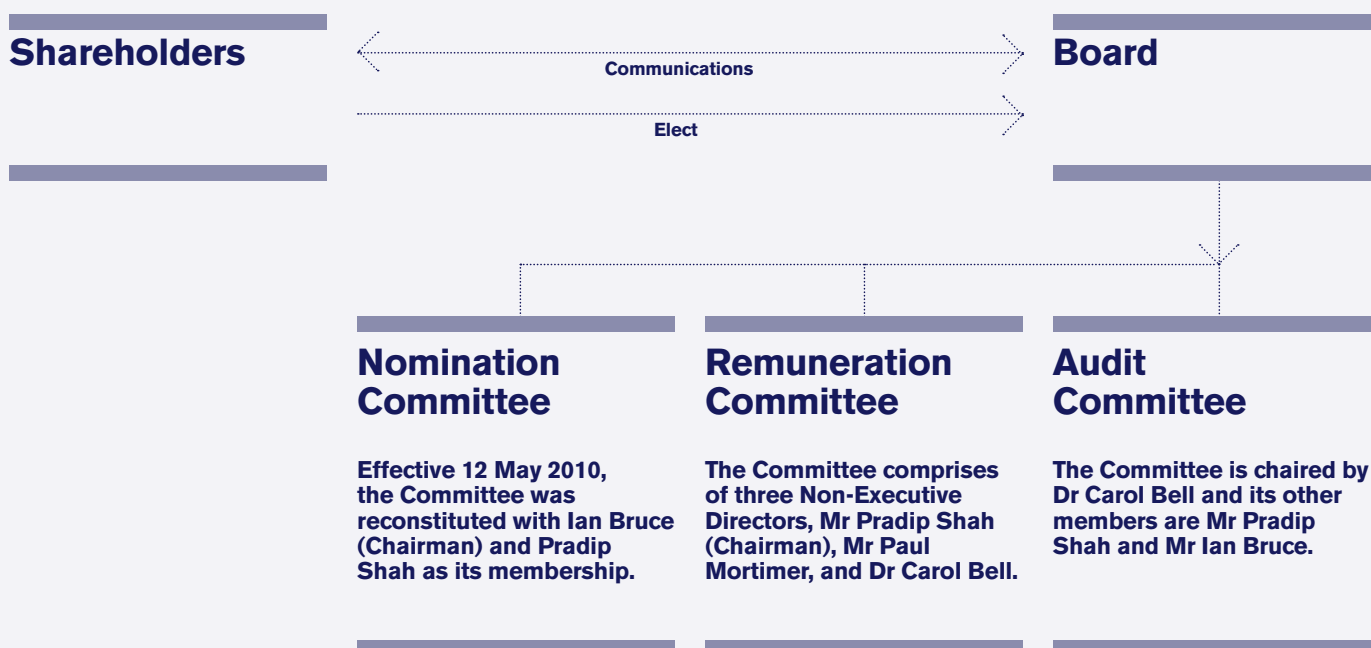
The Board has established Audit, Remuneration and Nomination Committees, each of which has terms of reference (approved by the Board) setting out its authority and duties. The terms of reference for Audit, Remuneration and Nomination Committees can be found on the Company's website.

The Board considered various issues that would normally fall within the terms of reference of the various committees. All members of the Audit Committee, the Remuneration Committee and Nomination Committee are Non-Executive Directors.

Board Committees continued

The Nomination Committee and Remuneration Committee meet as and when required, but at least once a year. The Audit Committee meets at least three times a year to review, among other things, financial reporting with respect to interim and annual results and for audit planning purposes. The Company's auditors attend at least two of these meetings to discuss any audit related issues and to review formally with committee members reports issued to the Company by the auditors. The Audit Committee ensures that any non-audit services conform to the ethical standards for auditors issued by the Auditing Practices Board of the UK Financial Reporting Council.

Governance Structure



Nomination Committee

The Company's Nomination Committee comprised three Non-Executive Directors – Mr Paul Mortimer (Chairman), Mr Pradip Shah and Mr Sastry Karra. Effective 12 May 2010, the Committee was reconstituted with Ian Bruce (Chairman) and Pradip Shah as its membership. The Nomination Committee considers the structure, size and composition of the Board, retirements, replacements and appointments of additional directors, reviews succession plans for the directors and makes recommendations to the Board on membership of the Board, its committees and other matters within its remit.

There was one meeting of the Nomination Committee held during 2010 with 100 per cent attendance by the committee members. Any new appointments to the Board are considered by the Nomination Committee and made after Board approval. Following appointment, a new director is given a detailed presentation of the activities of the Company. If an appointment is made without using an external search agency or open advertisement, the entire Board selects a new director.

Remuneration Committee

The Company's Remuneration Committee comprises of three Non-Executive Directors, Mr Pradip Shah (Chairman), Mr Paul Mortimer, and Dr Carol Bell. Hardy's Remuneration Committee operates within the terms of reference approved by the Board. There were four meetings of the Remuneration Committee held during 2010 with 100 per cent attendance.

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 makes recommendations to the Board on the overall remuneration packages for executive directors in order to attract, retain and motivate high quality executives capable of achieving the Group's objectives. The Remuneration Committee also reviews proposals for the share option plans and other incentive plans, makes recommendations for the grant of awards under such plans as well as approving the terms of any performance related pay schemes.

None of the directors participate in any discussion or votes on any proposal relating to his or her own remuneration. The Board's policy is to remunerate the Group's senior executives fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel. The Remuneration Committee, while considering remuneration packages of Hardy executives, has reviewed the policies of comparable groups in the industry. The remuneration of the Non-Executive Directors is determined by the Chairman and the executive directors outside the framework of the Remuneration Committee.

Audit Committee

The Audit Committee is chaired by Dr Carol Bell and its other members are Mr Pradip Shah and Mr Ian Bruce. All of the committee members are independent Non-Executive Directors. Dr Carol Bell, Mr Pradip Shah and Mr Ian Bruce have extensive corporate, financing and banking experience. The Board is satisfied that the Audit Committee has recent and relevant financial experience. The Audit Committee is responsible for a wide range of financial matters and met three times during 2010 with 100 per cent

attendance by committee members with external auditors attending two of the three meetings. It monitors the controls that are in place to ensure the integrity of the financial information reported to shareholders. In addition, it oversees an effective system of risk management within the Company.

The Audit Committee also oversees the relationship with the external auditors, reviews the scope and results of audits and provides a forum for reporting by the Group's auditors. The Company has a policy in place for the award of non-audit services provided by external auditors, which requires approval of the Audit Committee. The Audit Committee ensures that the independence and objectivity of the external auditors is safeguarded when securing non-audit services from the auditors. The Audit Committee also focuses on compliance with legal requirements, accounting standards and the Listing Rules and the Disclosure and Transparency Rules and ensures that an effective system of internal control and risk management systems are maintained. The ultimate responsibility for reviewing and approving the Annual Report and Accounts and the half yearly reports remains with the Board. Some or all executive directors attend meetings of the Audit Committee by invitation.

Shareholder Relations

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

The Chairman and all executive directors are available to meet with institutional shareholders to discuss any issues and gain an understanding of the Company's business, its strategies and governance. At the 2010 Annual General Meeting of shareholders, all of the directors were present. Dr Carol Bell serves in the capacity as the Senior Independent Non-Executive Director of the Company and is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman or executive directors.

Internal Controls

The Board of Directors reviews the effectiveness of the Company's system of internal controls in line with the requirement of the Combined Code. The internal control system is designed to manage the risk of failure to achieve its business objectives. This covers internal financial and operational controls, compliances and risk management. The Company has necessary procedures in place for the year under review and up to the date of approval of the Annual Report and Accounts. The directors acknowledge their responsibility for the Company's system of internal controls and for reviewing its effectiveness. The Board confirms the need for an ongoing process for identification, evaluation and management of significant risks faced by the Company. A risk assessment for each project is carried out by a team consisting of the executive directors and senior management before making any commitments. This team meets as and when required. Internal and external risks, including exploration and development risks, regulatory and compliance obligations under various production sharing contracts, economics including oil price, interest rate and currency exposure, as well as natural catastrophes are continuously assessed.

During 2010, the Audit Committee reviewed and reported to the Board the effectiveness of the system of internal control through detailed consideration of the financial control procedures in place. Given the size of the Company, the relative simplicity of the systems and the close involvement of senior management, the Board considers that there is no current requirement for an internal audit function. The procedures that have been established to provide internal financial control are considered appropriate for a company of its size and include controls over expenditure, regular reconciliations and management accounts. Most of the assets are owned jointly with others, budgets and expenditures are rigorously reviewed and approvals as well as project audits take place with respect to capital and operating expenditures on a regular basis.

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

Going Concern

The Company's business activities, together with factors likely to affect its future operations, financial position, and liquidity position are set out in the Chairman's Statement, Chief Executive Officer's Statement, Review of Operations, Financial Review, and the Risks and Uncertainties section of the Annual Report. In addition, note 26 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.

Share Options

The executive directors believe that equity incentives are and will continue to be an important means of retaining, attracting and motivating directors, senior management and key employees. Accordingly, in June 2005, the Board adopted the share option scheme entitling the Company to award options to directors and employees. The Company's share option scheme has been

considered and approved by the shareholders in 2006. Options are not granted at a discount to the market value. Under the scheme, options are exercisable between the first and 10th anniversaries of the date of grant. Options granted in June 2005 were subject to performance conditions whereby the share price of Hardy would need to rise by 20 per cent, 45 per cent and 70 per cent of the price at which the Hardy IPO was undertaken. In the first year of the performance period, one third of the options will become exercisable at or after 12 months following the date of grant. One third of the options will become exercisable at or after 24 months following the date of grant. The remaining one third of the options will become exercisable at or after 36 months following the date of grant. All of such performance conditions have been met.

All options granted in 2010 and subsequent years, will generally vest between the third and fifth anniversary of the date of grant (the "Vesting Period") subject to the satisfaction of a Performance Condition. The Performance Condition shall be satisfied where at any time during the Vesting Period, the volume weighted average market price of an Ordinary Share for any ten consecutive London Stock Exchange trading days is equal to or greater than the Ordinary Share price of the Company on the date of grant as increased by compounded growth of 5 per cent per annum in the share price as at the end of such ten day period. In the event that the Performance Condition is not satisfied by the fifth anniversary of the date of grant, the options shall lapse. Options will vest immediately upon the occurrence of a Rule 8 Event under the unapproved share option scheme (relating to change of control etc).

No options were granted to Non-Executive Directors since 2005.

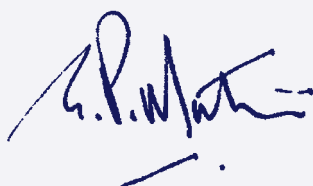
Non Compliance with Combined Code

The Company did not comply with the Combined Code with the following matters during 2010.

Code Provision	Subject Matter	Discussion
A3.1	Non-Executive Directors meeting independence requirements	<p>Paul Mortimer and Pradip Shah have served for more than nine years. As a result, under the Company's policy, both directors are subject to annual re-election.</p> <p>Paul Mortimer, Pradip Shah and Carol Bell were granted share options in 2005 when the Company's Ordinary Shares were listed on AIM.</p> <p>The Board has confirmed, notwithstanding the above, that all of the Non-Executive Directors are independent.</p>
B1.3	Remuneration of Non-Executive Directors should not include share options	<p>Share options were granted in 2005 to Non-Executive Directors when the Company was listed on AIM and not subject to Combined Code.</p> <p>The Company has changed its policies whereby no share options are granted to Non-Executive Directors since 2005.</p>

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 are independent and provide valuable advice and counsel in furthering the business objectives of the Company.

Although Hardy is a publicly listed company and has been listed on the London Stock Exchange's main market for listed securities since February 2008, the Company continues to be an early stage exploration company with limited cash flows and a modest employee base of approximately 50 people. The Company has a clear mandate to optimise the allocation of limited resources to support its exciting exploration programme. As such, the Company strives to maintain a balance between conservation of limited resources and maintaining robust corporate governance practices. As the Company evolves the Board is committed to address specific Combined Code deficiencies and enhance the Company's corporate governance policies and practices deemed appropriate for the size and maturity of the organisation.



Paul Mortimer
 Chairman
 15 March 2011