

## Corporate Governance Statement *continued*

The Board acknowledges that Messrs Mortimer, Shah and Bruce 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 Board considered various issues that would normally fall within the terms of reference of the various Committees. All members of the Audit Committee are non executive directors. All members of the Remuneration Committee are non executive directors although until 3 November 2008, Mr Sastry Karra, executive director and chief executive, was also a member of the Committee. Both executive and non executive directors are members of Nomination Committee although the majority of committee members are independent non executive directors.

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 UK Auditing Practices Board.

### Nomination Committee

The Nomination Committee comprises two non executive directors – Mr E.P. Mortimer (Chairman) and Mr Pradip Shah – and one executive director, Mr Sastry Karra. 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 were two meetings of Nomination Committee held during 2008 with 100% 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.

During 2008, the Board appointed Mr Ian Bruce as a non executive director based on the recommendation of the Nomination Committee. The Committee was assisted by an external search firm in the selection process and the undertaking of due diligence on prospective candidates.

### Remuneration Committee

Until 3 November 2008, the Company's Remuneration Committee comprised two non executive directors, Mr E.P. Mortimer and Mr Pradip Shah, and one executive director, Mr Sastry Karra. Mr E.P. Mortimer was the Chairman of the Remuneration Committee. On 3 November 2008, Dr Carol Bell joined the Committee, replacing Mr Sastry Karra. In addition, Mr Pradip Shah became Chairman of the Remuneration Committee. Hardy's Remuneration Committee operates within the terms of reference approved by the Board. There were five meetings of the Remuneration Committee held during 2008.

The Remuneration Committee considers remuneration policy, employment terms and remuneration of the executive directors and in future will also review 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 participates 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. During 2008, the Committee retained the services of Mr Simon Patterson of Patterson and Associates who provided consulting services to the Committee with respect to a review of compensation practices of executive and non executive directors.

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 until 3 November 2008 its other members were Mr E. P. Mortimer and Mr Pradip Shah. On 3 November 2008, Mr E. P. Mortimer was replaced by 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 meets at least three times a year. There were three meetings of the Audit Committee in 2008 with 100% attendance by committee members and external auditors. It monitors the controls that are in place to ensure the integrity of the financial information reported to shareholders. The Audit Committee also oversees the relationship with the external auditor, 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 upon 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](http://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. 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 Board considers it necessary to comply with the provisions of Section 1 of the Combined Code and to implement the guidance. 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 2008, the Board reviewed 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.

## Corporate Governance Statement *continued*

### Going Concern

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 access additional financing, if required, over the next twelve months and therefore believe the going concern basis to be appropriate in preparing its annual financial statements.

### Share Options

The 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 tenth 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%, 45% and 70% of the price at which the Hardy IPO was undertaken. In first year of 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.

No options were granted to any directors during 2008. No options were granted to non executive directors during 2006, 2007 or 2008.

In the future, it is intended to grant options under the share option scheme, which will generally vest after three years from date of grant and (due to the nature of the Group's business) will not be subject to any other performance conditions. No options will be granted to non executive directors.

### Non Compliance with Combined Code

The Company did not comply with the Combined Code with the following matters during 2008.

Code Provision	Subject Matter	Discussion
A1.3	Performance appraisal of chairman by non executive directors	A formal performance evaluation was not carried out of the chairman during 2008. Non executive directors are planning for such an appraisal during 2009.
A3.1	Non executive directors meeting independence requirements	Paul Mortimer and Pradip Shah have served for more than nine years. As a result, both directors are subject to annual re-election.  Paul Mortimer, Pradip Shah and Carol Bell were granted share options in 2005 when the Company's ordinary shares were listed on AIM.  The Board has confirmed, notwithstanding the above, that all of the non executive directors are independent.
A6.1	Performance evaluation of the Board, committees and its individual directors	No formal evaluation of the Board, its committees, or individual directors was undertaken during 2008. It is noted that the Company's ordinary shares were listed on the Main Market only in February 2008. The directors fully intend to conduct such evaluations during 2009.
B1.3	Remuneration of 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 Combined Code. During 2008, the Company has changed its policies whereby no share options are granted to non executive directors in the future.