Hardy Oil and Gas plc
Interim Report 2008

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Hardy Oil and Gas plc is an upstream international oil and gas company with interests in India and Nigeria. Its portfolio includes a blend of production, development, appraisal and exploration assets. Hardy's goal is to evaluate and exploit its asset base with a view to creating significant value for its shareholders.

Hardy is incorporated under the laws of the Isle of Man and headquartered in London, UK. Ordinary shares of Hardy were admitted to the Official List and the London Stock Exchange's market for listed securities effective 20 February 2008 under the symbol HDY.

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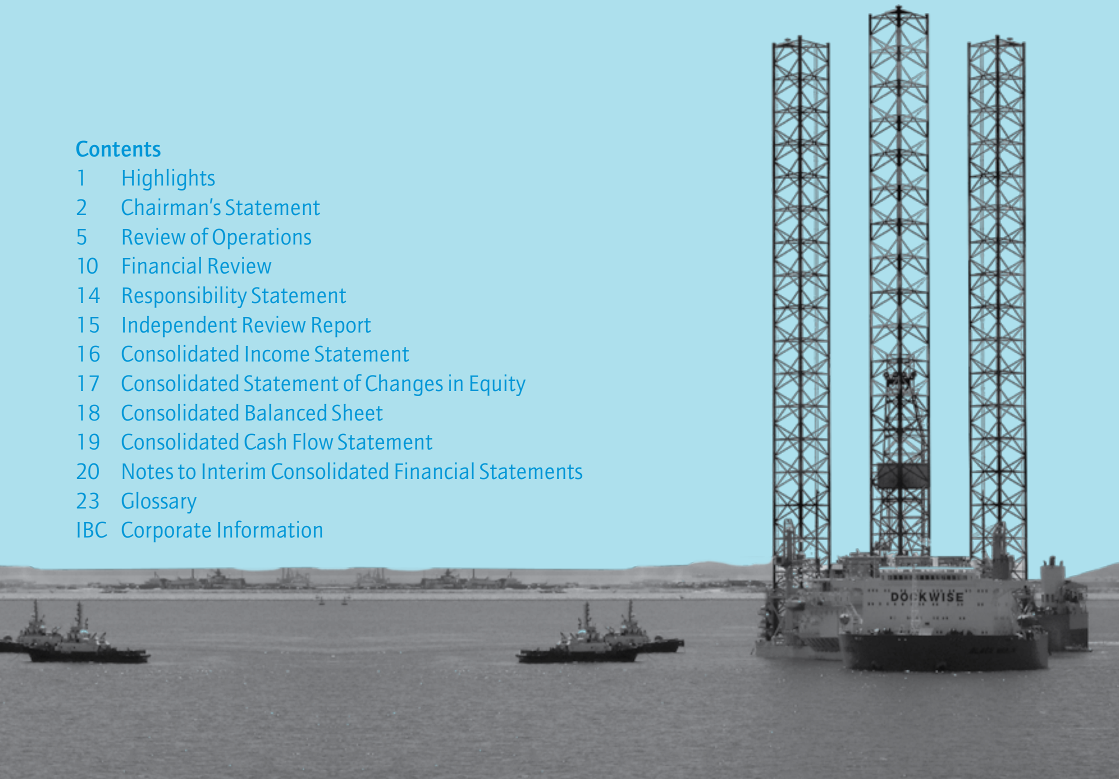


Operational Highlights

- Two gas discoveries on the D3 block (Dhirubhai 39 and 41) in the KG basin
- Acquired 1,166 km^2 of 3D seismic data on the GS-01 block and commenced the drilling of two exploration wells (GS01-S1 plugged and abandoned; GS01-M1 drilling)
- Secured approval of an appraisal programme for the GS01-B1 (Dhirubhai 33) discovery
- Net average daily production of 505 stbd (H1 2007: 890 stbd)
- Secured offshore drilling rig for re-entry of PY3-PD4 well
- Added an onshore petroleum exploration licence in Assam

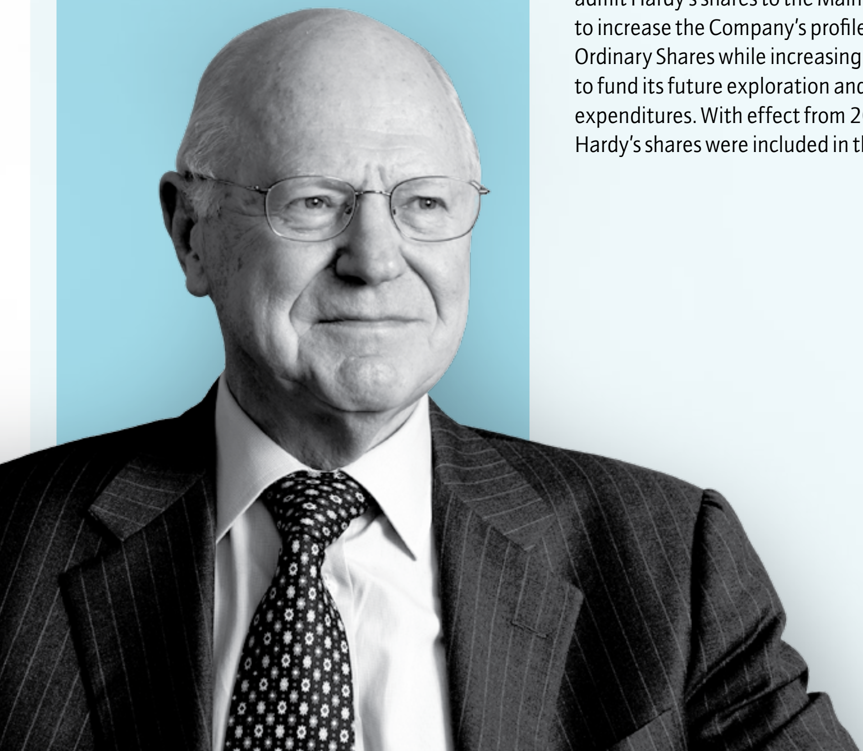
Financial Highlights

- Revenue (after profit oil) increased to $9.9 million (H1 2007: $7.0 million)
- Sales oil of 126,343 stb (H1 2007: 143,982 stb) with an average price of $100.97 per stb (H1 2007: $62.80 per stb)
- Realised a gain on investment of $9.0 million from the sale of 5.06 million HOEC shares
- Net profit increased to $6.2 million (H1 2007: $1.9 million)
- Capital expenditure amounted to $15.1 million principally on the drilling of wells on the D3 and GS-01 blocks and the acquisition of 3D seismic data
- Cash increased to $40.3 million (2007: $31.2 million)

CHAIRMAN'S STATEMENT

"The Company has made significant progress in moving its exploration and development programmes forward."

E. P. Mortimer
Chairman



Overview

The Company's exploration programme had a tremendous start to 2008 with two new discoveries on the D3 block (Dhirubhai 39 and Dhirubhai 41). The Board remained focused on executing the Company's strategy of creating shareholder value through the de-risking of the Company's Indian exploration portfolio, and expanding production from its development assets. The discoveries on the D3 exploration block have significantly de-risked some of the prospects within this block.

Corporate

On 20 February 2008, the Company's shares began trading on the London Stock Exchange's market for listed securities ('Main Market'). The decision to admit Hardy's shares to the Main Market was taken to increase the Company's profile and liquidity of its Ordinary Shares while increasing access to capital to fund its future exploration and development expenditures. With effect from 26 March 2008, Hardy's shares were included in the FTSE 250 Index.

Financial

Revenue (after profit oil) for the six months ended 30 June 2008 amounted to $9.9 million compared with $7.0 million for the same period in 2007. Sales oil of 126,343 stb was realised for the six months ended 30 June 2008 (H1 2007: 143,982 stb); the average price realised was $100.97 per stb (H1 2007: $62.80 per stb)

The Company continued to liquidate its holding in HOEC, selling 5.06 million Ordinary Shares and realised a gain on investment of $9.0 million during the first half of 2008. The Company has subsequently liquidated its remaining holding in HOEC, realising proceeds of $10.3 million.

Net profit increased from $1.9 million in 2007 to $6.2 million in 2008. The Company's fully diluted earnings per share increased to $0.09 in 2008 (H1 2007: $0.03).

Cash flow from operating activities (before changes in non-cash working capital) amounted to $2.0 million in 2008 compared to $4.1 million in 2007. Increased revenue was more than offset by higher operating and general and administrative costs.

Total capital expenditures amounted to $15.1 million, principally on the drilling of two wells on the D3 block, the acquisition of 3D seismic data and partial drilling of one well on the GS-01 block.

During the period Hardy's cash position was augmented by proceeds (net of purchase of shares under a rights issue) from sale of shares of HOEC by $18.3 million.

As a result, Hardy's cash resources increased by $9.1 million to $40.3 million at 30 June 2008; the Company has no long-term debt.

Outlook

Exploration: Our exploration programmes continue to progress as expected with the drilling of four exploration wells (two on the D3 block and two on the GS-01 block), acquisition of 1,166 km^2 of 3D seismic on the GS-01 block, and further interpretation of newly acquired 3D seismic data on the D3 and GS-01 blocks during the first six months of 2008.

Drilling on the D9 block is expected to commence in the fourth quarter of this year where four wells are planned by the end of 2009.

The acquisition of an additional 1,000 km^2 of 3D seismic on the D3 block is expected to commence in the fourth quarter of 2008. Further drilling on D3 of up to four additional wells is expected to commence in the second quarter of 2009.

Today the Company separately announced that the GS01-S1 well was plugged and abandoned. Drilling of the GS01-M1 well is currently in progress.

The acquisition of 2D data on the Assam block will commence shortly.

CHAIRMAN'S STATEMENT (CONTINUED)

"We will continue to focus on implementing our active drilling programme with up to 14 wells scheduled through to the end of 2009."

Appraisal: We are looking forward to the commencement of the appraisal programme for the GS01-B1 gas discovery. Drilling of the GS01-B2 well is expected to commence by the end of 2008.

The CY-OS/2 Ganesha appraisal is also moving forward and we are actively taking steps to secure an appropriate offshore drilling rig for the early part of 2009.

Development: Drilling of the first of three additional infill wells in the PY-3 field is expected to commence in the fourth quarter to enhance production from the field. The Company is working to secure a rig for the remaining two wells in PY-3 expected to be drilled in the second quarter of 2009.

The Company has made progress with its Nigerian assets, with the Atala re-entry programme scheduled for the first quarter of 2009 and oil production from Oza expected to commence by the second quarter of 2009.

The Company has made significant progress in moving its exploration and development programmes forward. We will continue to focus on implementing our active drilling programme with up to 14 wells scheduled through to the end of 2009.

E. P. Mortimer
Chairman
26 August 2008

REVIEW OF OPERATIONS

The Company's operations in India are conducted through its wholly owned subsidiary Hardy Exploration & Production (India) Inc (HEPI). The Company's operations in Nigeria are conducted through its wholly owned subsidiary Hardy Oil Nigeria Limited (HON).

CAUVERY BASIN – Eastern India
Block CY-OS 90/1 (PY-3): Producing Oil Field
(Hardy 18% interest – Operator)

Production

Gross average daily production for the six months ended 30 June 2008 was 2,808 stbd (2007: 4,948 stbd). The decline in production is the result of the shut-in of a well since August 2007 and the natural decline of the PY-3 field. The PY-3 field is currently producing at a daily rate of approximately 2,900 stbd.

The production forecast for 2008 is 2,800 stbd, reflecting the expected continued natural decline of the field. The drilling of a lateral producing well is expected to commence in the fourth quarter of 2008 and an increase in PY-3 production is anticipated in the first quarter of 2009. Forecast rates for 2009 will be dependent on the timing of planned drilling.

In July 2008, water injection was significantly increased through the conversion of the PY3-3RL lateral into an injector. This lateral well ceased production in 2007 due to water encroachment. As of the date of this report, gross water injection rate is approximately 12,000 bwpd. At current production levels the water injection rate significantly exceeds voidage replacement.

Operations

The PY-3 joint venture has agreed to expand the Phase III development programme by incorporating the drilling of an additional lateral well via the re-entry of the producing PY3-PD4 well. The semi-submersible drilling rig 'Actinia' has been contracted for the drilling of the PY3-PD4 re-entry and is expected to arrive on location in the fourth quarter of 2008.

As a result of the conversion of the PY3-3RL well into a water injector, the Phase III development programme now comprises the drilling of two producers and the PY3-PD4 re-entry. In light of the conversion of PY3-3RL to a water injector, the planned water injector envisioned in the original Phase III development programme will no longer proceed.

The PY-3 production facilities are currently contracted through to July 2009. In order to identify a suitable production facility for the operation of the PY-3 field beyond the contracted period to accommodate gas lift facility to improve production, Hardy commissioned a Conceptual Field Design study by a third party. Based on the recommendations obtained from the study, further investigations are in progress to select a suitable production facility for the remainder of the field life.

Background

The PY-3 field is located off the east coast of India, 80 km south of Pondicherry in water depths of between 40 m and 200 m. The licence, which covers 81 km^2, is currently the deepest producing subsea field in India and produces oil of high quality light crude (49° API).

REVIEW OF OPERATIONS (CONTINUED)

The field was developed using floating production facilities and subsea wellheads, a first for an offshore field in India. The facility at PY-3 consists of the floating production unit, 'Tahara', and a 65,000 DWT tanker, 'Endeavor', which acts as a floating storage and offloading unit. There are four sub-sea wells tied back to Tahara.

CAUVERY BASIN – Eastern India
Block CY-OS/2: Exploration
(Hardy 75% interest – Operator)

Operations

As part of the Ganesha appraisal programme, a number of geological and geophysical studies have been undertaken, including the reprocessing of the 3D seismic data covering the block to improve subsurface imaging.

The resulting reprocessing and interpretation assessment has led the operating committee to recommend a revision of the appraisal programme from three firm wells to one firm well and one contingent well. The amended programme is subject to the management committee's approval which is still outstanding. Subject to rig availability, we anticipate drilling to commence in the first quarter of 2009.

The Board is presently considering farming out a portion of its participating interest in the licence.

Background

The CY-OS/2 block is located in the northern part of the Cauvery Basin immediately offshore from Pondicherry and covers approximately 859 km^2. HEPI is the operator of this block.

The CY-OS/2 licence comprises two retained areas. The northern area includes the Ganesha (Fan-A1) discovery. The southern area lies immediately adjacent to the HEPI-operated PY-3 field. The PY-1 gas field lies within the southern part of the acreage and is expected to begin production by the first quarter of 2009. The PY-3 oil field and PY-1 gas field are both contained within the CY-OS/2 licence but have been ring-fenced, each with a separate PSC.

GUJARAT-SAURASHTRA BASIN – Western India
Block GS-OSN-2000/1 (GS-01): Exploration
(Hardy 10% interest)

Operations

The GS-01 management committee recently reviewed and adopted an appraisal programme and budget for the GS01-B1 gas and condensate discovery (Dhirubhai – 33). With an effective term through to May 2010, the appraisal area comprises 5,890 km^2. As announced on 15 May 2007, the GS01-B1 well flow-tested at a rate of 18.6 MMscfd gas with 415 stbd of condensate through a 56/64 " choke at flowing tubing head pressure of 1,346 psi.

As announced on 16 July 2008, the exploratory well GS01-M1 commenced drilling at a water depth of 82 m with the semi-submersible drilling rig 'Actinia'. The well is targeted to drill to 4,326 m TVDRT to explore the hydrocarbon prospectivity of Oligocene reefal carbonates and Eocene platform build-up carbonate bodies. The GS01-M1 well is the fourth exploration well on the GS-01 block and is located within an area covered by 3D seismic data that was acquired in the first quarter of 2008.

The exploratory well GS01-S1 was spudded at a water depth of 80 m with the semi-submersible drilling rig 'C Kirk Rhein' on 27 April 2008. The well was drilled to 3,985 m TVDRT to explore the hydrocarbon prospectivity of Miocene and Oligocene carbonate deposits. No hydrocarbons were found in this well and the GS01-S1 exploration well has been plugged and abandoned.

Background

The GS-01 exploration licence is located in the Gujarat-Saurashtra offshore basin, off the west coast of India, directly adjacent to the prolific Bombay High oil field. The licence encompasses 8,841 km^2, and water depths vary between 80 m and 150 m. The joint venture has previously acquired 1,711 km^2 of 3D seismic data.

KRISHNA GODAVARI BASIN – Eastern India Block KG-DWN-2001/1 (D9): Exploration (Hardy 10% interest)

Operations

The D9 operator, Reliance, has contracted the ultra-deep-water drilling rig 'Deepwater Expedition' which is capable of drilling in water depths in excess of 3,000 m. The rig has arrived in Indian waters and is currently located on the adjacent D6 block.

Drilling on D9 is expected to commence in the fourth quarter of 2008. It is expected that four exploration wells will be drilled by the end of 2009 to meet the Phase I minimum work commitment. Initial exploration drilling will be focused upon amplitude anomalies within four-way structural closures in the Miocene and Pliocene.

Background

The licence encompasses 11,605 km^2 in the Bay of Bengal where water depths vary from 2,300 m to 3,100 m. Phase I requires the drilling of four exploration wells and has a term of four years.

The joint venture has acquired over 4,188 km^2 of 3D seismic and leads at Upper Miocene, Middle Miocene and Oligocene have been identified. These leads are areally large structural closures located toward the relatively shallower-water north-western corner of the concession, for which GIIP of many TCF has been computed by the operator. A fourth lead is a Pleistocene channel in the south eastern part of the block which is in ultra deep water with a prognosticated GIIP of a similar order of magnitude to the other leads.

REVIEW OF OPERATIONS (CONTINUED)

KRISHNA GODAVARI BASIN – Eastern India Block KG-DWN-2003/1 (D3): Exploration (Hardy 10% interest)

Operations

The highlight of Hardy's exploration programme in 2008 has been the two gas discoveries in the D3 block (Dhirubhai 39 and 41). The primary results are listed below:

KGV-D3-A1; On 13 February 2008, the Company announced the first discovery on this licence (Dhirubhai 39). The well was drilled to a depth of 1,937 m MDRT and encountered natural gas between 1,513 m and 1,597 m MDRT with a gross sand thickness of 84 m. One interval was selected for cased hole DST covering 1,565 m to 1,585 m MDRT and produced natural gas at a rate of 38.1 MMscfd through a 120/64 " choke.

KGV-D3-B1; On 1 April 2008, the Company announced a second discovery on the D3 block (Dhirubhai 41). The well encountered good quality reservoirs in the Pleistocene and Miocene formations. MDT tests were conducted over several intervals (1,814 m to 2,101 m MDRT and 2,119 m to 2,463 m MDRT) and confirmed the presence of hydrocarbons.

The evaluation and incorporation of the data recovered from the D3 discoveries noted above is ongoing. The acquisition of a further 1,000 km^2 of 3D seismic data should commence by the fourth quarter of 2008. The Company has planned the drilling of four additional exploration wells commencing in 2009.

Background

The D3 licence encompasses an area of 3,288 km^2, in water depths of 400 m to 2,100 m, and is located approximately 45 km from the east coast. Reliance is the operator.

ASSAM ARAKAN BASIN – North Eastern India Block AS-ONN-2000/1: Exploration (Hardy 10% interest)

Operations

On 2 April 2008, Hardy announced the award of a 10 per cent interest in the exploration licence AS-ONN-2000/1. This is the Company's first onshore block and fourth licence in partnership with Reliance.

The proposed 2008 work programme comprises the reprocessing of the 124 line km (lkm) of existing 2D seismic data and the acquisition of approximately 350 lkm of 2D seismic data. Field operations are expected to commence in the fourth quarter of 2008. This will meet the phase I minimum work programme commitment for the block.

Background

The AS-ONN-2000/1 exploration licence is located in the north eastern state of Assam, India, and north of Brahmaputra River. The exploration licence covers an area of 5,754 km^2 in the districts of Darrang and Sonitpur. The block is in phase I of the three-phase exploration licence. Phase I is over three years and will expire in January 2011.

The topography of the area is primarily a plain of low relief and there is a reasonably established road network across the block.

NIGER DELTA BASIN – Nigeria
Block Oza (OML 11): Development
(Hardy 20% interest)

Operations

Discussions are ongoing with the operator of an adjacent flow station and export facility for the processing and export of Oza crude oil production. Current discussions suggest that the initial work programme will entail the installation of a 10 km multiphase pipeline to SPDC's Isimiri flow station. To comply with the Nigerian government's no-flare initiative, associated gas will need to be exported to an alternative facility with excess gas export capacity.

As announced on 3 April 2008, HON has entered into a farm-out agreement with Emerald Energy Resources Nigeria Limited (Emerald), a well-known local oil and gas company. Under the terms of the farm-out agreement consideration for a 20 per cent interest in Oza, Emerald assumed HON's obligation to fund the initial work programme of the Oza field.

Background

The Oza Field is located on-land in the north western part of OML 11, near Port Harcourt. The concession area is 20 km. The Oza field is subject to a farm-out agreement between NNPC, SPDC and Elf Petroleum Nigeria. The field has cumulatively produced approximately 1.0 MMstb from four zones in three wells. At present, Oza has three suspended wells in the field.

In November 2007, the Oza joint venture successfully executed a flow test of the Oza 4 well. The flow rates averaged approximately 600 stbd of oil with a GOR of 5,466 scf/stb.

NIGER DELTA BASIN – Nigeria
Block Atala (OML 46): Development
(Hardy 20% interest)

Operations

The Atala joint venture has identified and commenced negotiations with a vendor for a swamp barge drilling rig. Contract negotiations are ongoing and the re-entry operation could commence in the first quarter of 2009. HON is working closely with the operator to finalise the re-entry programme and obtain government and community approvals.

Background

Atala is located within OML 46, which is located in a mangrove swamp on the Dodo River, a coastal area of Bayelsa State. The concession area is 34 km^2. Bayelsa Oil Company Limited is the operator with HON as technical partner.

The Atala field was discovered in 1982 with the drilling of the Atala-1 well to a total depth of 4,058 m. Hydrocarbons were encountered and the well was cased but not tested or completed.

FINANCIAL REVIEW

The Company operates the PY-3 field in the Cauvery Basin with an 18 per cent participating interest. Since August 2007, one of the three producing wells in the PY-3 field has been shut-in due to excessive water production. As a result of the shut-in and natural decline, PY-3 field crude oil production was lower by 43 per cent during the six months ended 30 June 2008 from the same period in 2007. Current gross oil production is at a level of approximately 2,900 stbd.

Key Performance Indicators

	Six months ended 30 June 2008	2007
Production (barrels of oil per day – net entitlement basis)	337	682
Average realised price per barrel ($)	100.97	62.80
Average cost per barrel ($)	50.21	13.44
Revenue ($ 000's)	9,898	7,001
Net profit ($ 000's)	6,177	1,923
Cash flow from operations* ($ 000's)	1,970	4,105
Diluted earnings per share ($)	0.09	0.03
Wells drilled	2	2

*Before changes in non-cash working capital

Hardy's net entitlement interest in production is after the Government of India's share of profit oil. Under the terms of the PY-3 PSC, the Government of India's share of profit oil will remain at 40 per cent for the year ending 31 March 2009.

Operating Results

	Six months ended 30 June 2008	2007
Production (stbd)		
Gross	2,808	4,948
Participating interest	505	891
Net entitlement interest	337	682
Sales (stbd)		
Gross	3,857	4,419
Participating interest	694	795
Average realised price ($ per stb)	100.97	62.80

Revenue, after profit oil, increased to $9.9 million in the six months ended 30 June 2008 from $7.0 million in 2007. The average price realised per stb increased significantly to $100.97 during the six months ended 30 June 2008 (H1 2007: $62.80 per stb). Increased revenue in 2008 resulted from the higher realised oil price offset in part by lower sales volumes.

Cost of Sales

Production costs increased by $2.9 million to $4.2 million for the six months ended 30 June 2008 (H1 2007: $1.3 million). The higher costs are the result of a substantial increase in the day rate for the floating processing and storage systems of the PY-3 field. The contract was renegotiated effective July 2007. The increase in operating cost was offset in part by lower depletion and decommissioning costs.

Gross Profit

Gross profit increased slightly to $5.4 million for the six months ended 30 June 2008 (H1 2007: $4.8 million). The increase in gross profit stemmed principally from higher realised oil price despite lower production and higher operating costs.

Administrative Expenses

Administrative expenses increased to $5.2 million for the six months ended 2008 (H1 2007: $2.3 million). The increase principally results from a higher share-based payment expense for the grant of stock options, the cost of the move to the Main Market ($0.7 million) and higher personnel costs.

Operating Profit

As a result, the Company is reporting an operating profit of $0.1 million for the six months ending 30 June 2008 compared with an operating profit of $2.6 million reported for the same period in 2007.

Gain on Sale of Investment

During the interim period the Company sold 5.06 million Ordinary Shares of HOEC for a cash consideration of $19.0 million. As a result, the Company recorded a gain on sale of investment of $9.0 million.

Interest and Investment Income

Investment and other income increased from $0.4 million for the six-month period ended 30 June 2007 to $0.7 million in 2008. The increase was the result of increased deposits in 2008 and the receipt of HOEC dividends compared to 2007.

Taxation

Most of the provision for taxation is with respect to deferred income taxes since the Company's capital expenditure programme is sufficient to shield the Company from a large portion of current tax liabilities. The Company's Indian operations can avail the treaty benefit for the taxes suffered either in India, the UK or the USA and the Company could also benefit from prior year capital losses by way of group relief for the capital gain made in sale of investment in HOEC shares.

Net Profit

As a result, for the six months ended 30 June 2008, net profit increased to $6.2 million (H1 2007: $1.9 million).

Cash Flow from Operating Activities

Cash flow from operating activities, before changes in non-cash working capital, amounted to $2.0 million in 2008 compared with $4.1 million for the same period in 2007. Increased revenues were more than offset by higher operating and administrative expenses.

Capital Expenditures

The Group's capital expenditures amounted to $15.1 million during the six months ended 30 June 2008, compared to $28.1 million incurred for the same period in 2007. Capital expenditures amounting to $6.9 million were incurred on the D3 block with the drilling of the successful KGV-D3-A1 and KGV-D3-B1 wells. The Company expended $6.4 million with respect to its interest in the GS-01 block with the acquisition of 3D seismic data and the drilling of the GS01-S1 well.

FINANCIAL REVIEW (CONTINUED)

Investment in HOEC

In early January 2008, HOEC completed a rights offering with Hardy participating to the extent of its pro rata share, investing an additional $13.2 million.

During 2007, the Company made a strategic decision to liquidate its investment in HOEC. As a result, during December 2007 and during the six months ended 30 June 2008, the Company sold 3,010,000 and 5,060,604 million shares for net cash consideration of $12.5 million and $19.0 million respectively.

In July and August 2008, the Company liquidated the balance of its HOEC shareholding of 3,025,552 shares, for a net cash consideration of approximately $10.3 million. In aggregate, total net proceeds from the liquidation of HOEC amounted to approximately $41.8 million. Total acquisition cost amounted to $18.2 million resulting in a pre-tax gain of approximately $23.6 million as a result of the liquidation.

Investment and Other Income

The Company has raised equity capital during the past three years. Surplus cash is invested in short-term deposits generating investment income on a regular basis. The level of such income and HOEC dividends amounted to $0.7 million compared with $0.5 million for the same period in 2007.

Equity Financings

The Company undertook its initial public offering (IPO) of ordinary shares on 7 June 2005 when its shares commenced trading on AIM. The IPO was successfully completed at a placing price of 144 pence per share, raising net proceeds of $20.8 million.

In 2006 and 2007, the Company also successfully completed an additional equity placement of Ordinary Shares at 276 and 423 pence per share, raising additional proceeds of $24.5 million and $40.2 million respectively. No significant new equity was raised during the six months ended 30 June 2008.

Cash Position

As a result of the liquidation of its investment in HOEC, the Company has been able to maintain a significant amount of cash resources to fund its ongoing capital expenditures and work programmes. Total cash increased from $31.2 million at 31 December 2007 to $40.3 million at 30 June 2008. In addition, cash and cash equivalent was augmented by net proceeds from the liquidation of investment in HOEC by approximately $10.3 million in July and August 2008.

Summary Balance Sheets

Hardy's non-current assets increased from $121.4 million at 31 December 2007 to $129.9 million at 30 June 2008. This resulted from the capital expenditure programme on exploration, principally D3 drilling and GS-01 seismic acquisition, and a reduction in investments from the sale of HOEC shares.

Current assets represent the Group's cash resources, together with trade and other receivables and inventory. At 30 June 2008, of the $44.8 million (2007: $48.4 million) of current assets, $40.3 million was represented by cash, generated principally from an equity issue in June 2007 and proceeds from the sale of investments.

Current liabilities are principally trade and other accounts payable. The level of current liabilities fluctuates significantly depending upon the timing of capital programmes.

At 30 June 2008, the Company was in the process of drilling a well on its GS-01 non-operated block, resulting in an increase in payables. Consequently, the Company has grown its net asset base, from $144.0 million at the end of 2007 to $145.0 million at 30 June 2008.

Liquidity and Capital Resources

Hardy has been funding its cash requirements from internally generated cash flows and equity capital, principally from institutional investors, in each of the years 2005, 2006 and 2007. The Company continues to be an emerging company with limited cash flows and, as a result, has been principally relying upon equity capital markets to build and grow its asset base.

At 30 June 2008, the Company had cash resources of approximately $40.3 million that were available to meet future capital expenditures. In addition, the Company has realised further proceeds from the sale of its remaining shareholdings in HOEC of $10.3 million subsequent to 30 June 2008, which has augmented its cash resources and working capital.

The Company is presently considering farming out a portion of its participating interest of 75 per cent in the CY-OS/2 block. The Company's plans provide for the drilling of one appraisal well on the block and the farm-out is anticipated to contribute towards the Company's commitments with respect to the appraisal programme.

At the present time, the Company does not have any short-term or long-term debt. The Company presently produces from the PY-3 field in India. The Company believes that it may be possible to secure financing on the strength of this producing block in the future.

The Company remains in a strong financial position.

Principal Risks and Uncertainties

The principal risks and uncertainties affecting the business activities of the Group remain those detailed on pages 22 to 25 of the June 2007 Annual report, a copy of which is available on the Company's website at www.hardyoil.com. The Chairman's Statement and Review of Operations in this interim report include comments on the outlook for the Group for the remaining six months of the financial year.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the interim consolidated financial statements have been prepared in accordance with International Accounting Standards 34, Interim Financial Reporting, as adopted by the EU; and
- the Interim report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the set of interim consolidated financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

On behalf of the Board

Dinesh Dattani FCA
Finance Director
22 August 2008

INDEPENDENT REVIEW REPORT TO HARDY OIL AND GAS PLC

Introduction

We have been engaged by the company to review the interim consolidated financial statements in the half yearly management report for the six months ended 30 June 2008 which comprises the consolidated income statement, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half yearly management report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim consolidated financial statements.

Directors' Responsibilities

The half yearly management report is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the half yearly management report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. As disclosed in note 1, the annual consolidated financial statements are prepared in accordance with IFRSs as adopted by the European Union. The interim consolidated financial statements included in this half yearly management report have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the interim consolidated financial statements in the half yearly management report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the United Kingdom. A review of interim consolidated financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements in the half yearly management report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Horwath Clark Whitehill LLP

HORWATH CLARK WHITEHILL LLP
London
22 August 2008

CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June 2008 (Unaudited) US$	Six months ended 30 June 2007 (Unaudited) US$	Year ended 31 December 2007 (Audited) US$
Revenue	**9,898,129**	7,001,426	11,829,554
Cost of sales			
Production costs	**(4,160,338)**	(1,286,640)	(4,216,138)
Depletion	**(394,888)**	(757,854)	(1,344,101)
Decommissioning charge	**(63,771)**	(122,195)	(217,397)
Gross profit	**5,279,132**	4,834,737	6,051,918
Administrative expenses	**(5,206,256)**	(2,259,275)	(6,865,187)
Operating profit (loss)	**72,876**	2,575,462	(813,269)
Gain on sale of investment	**9,032,672**	–	10,243,729
Interest and investment income	**683,803**	434,300	1,381,121
Finance costs	**(62,810)**	(123,411)	(180,400)
Profit on ordinary activities before taxation	**9,726,541**	2,886,351	10,631,181
Tax on profit on ordinary activities	**(3,549,726)**	(963,439)	(2,315,203)
Profit attributable to the equity shareholders of the parent company	**6,176,815**	1,922,912	8,315,978
Earnings per share			
Basic	**0.10**	0.03	0.14
Diluted	**0.09**	0.03	0.13

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June 2008 (Unaudited) US$	Six months ended 30 June 2007 (Unaudited) US$	Year ended 31 December 2007 (Audited) US$
Opening equity	143,995,825	91,401,836	91,401,836
Total gain recognized for the period	6,176,815	1,922,912	8,315,978
Realised gain on sale of investment transferred to income statement	(9,032,672)	–	–
Unrealised valuation gain/(loss) on investment	(119,438)	4,786,353	3,514,603
Deferred tax asset/(liability) on unrealised valuation gain or loss	2,583,722	(1,340,179)	(966,780)
Total recognised gains and (losses)	(391,573)	5,369,086	10,863,801
New shares issued	161,588	39,965,300	40,168,691
Share based payments	1,282,672	507,336	1,561,497
Closing equity	145,048,512	137,243,558	143,995,825

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2008

	30 June 2008 (Unaudited) US$	30 June 2007 (Unaudited) US$	31 December 2007 (Audited) US$
Assets			
Non-current assets			
Intangible assets – exploration	114,237,507	95,325,323	99,284,534
Intangible assets – others	170,415	160,529	246,572
Property, plant and equipment	2,932,756	4,126,904	3,375,463
Investments	9,159,896	18,623,263	15,092,311
Site restoration deposit	3,368,189	3,256,639	3,369,820
	129,868,763	121,492,658	121,368,700
Current assets			
Inventory	2,666,602	2,054,992	2,703,915
Trade and other receivables	1,857,561	6,398,644	14,525,440
Cash and cash equivalents	40,276,235	36,892,735	31,157,048
	44,800,398	45,346,371	48,386,403
Total assets	174,669,161	166,839,029	169,755,103
Liabilities			
Current liabilities			
Trade and other payables	(13,272,140)	(14,526,612)	(9,857,909)
Non-current liabilities			
Provision for decommissioning	(4,500,000)	(4,500,000)	(4,500,000)
Provision for deferred tax	(11,848,509)	(10,568,859)	(11,401,369)
	(16,348,509)	(15,068,859)	(15,901,369)
Total liabilities	(29,620,649)	(29,595,471)	(25,759,278)
Net assets	145,048,512	137,243,558	143,995,825
Equity			
Called-up share capital	622,975	622,292	622,625
Share premium	93,262,817	92,898,521	93,101,579
Shares to be issued	3,784,262	1,447,429	2,501,590
Other reserves	2,344,144	9,810,883	8,912,532
Retained earnings	45,034,314	32,464,433	38,857,499
Total equity	145,048,512	137,243,558	143,995,825

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June 2008 (Unaudited) US$	Six months ended 30 June 2007 (Unaudited) US$	Year ended 31 December 2007 (Audited) US$
Operating activities			
Operating profit	72,876	2,575,462	(813,269)
Depletion and depreciation	550,961	899,619	1,622,030
Decommissioning charge	63,771	122,195	217,397
Share based payments charges	1,282,672	507,336	1,561,497
Cash flow from operations (before non cash working capital changes)	1,970,280	4,104,612	2,587,655
(Increase)/decrease in inventory	37,313	674,772	25,849
Decrease/(increase) in debtors	72,262	(1,835,233)	2,720,211
Increase/(decrease) in creditors	3,630,286	(2,283,195)	(7,178,629)
Cash flow from operating activities	5,710,141	660,956	(1,844,914)
Taxation paid	(728,270)	–	63,235
Net cash from operating activities	4,981,871	660,956	(1,781,679)
Investing activities			
Expenditure on intangible assets – exploration	(14,952,973)	(28,109,042)	(32,068,253)
Expenditure of property, plant and equipment	(20,792)	(11,124)	5,856
Purchase of intangible fixed assets – others	(3,841)	–	(147,297)
Purchase of other fixed assets	(71,236)	(16,854)	(38,753)
Purchase of investment	(13,184,387)	–	–
Sale of investment	31,500,296	–	–
Site restoration deposit	1,631	(471,979)	(585,160)
Net cash (used in) investing activities	3,268,698	(28,608,999)	(32,833,607)
Financing activities			
Interest and investment income	769,840	507,950	1,293,104
Finance costs	(62,810)	(123,411)	(180,400)
Issue of shares	161,588	39,965,300	40,168,691
Net cash from financing activities	868,618	40,349,839	41,281,395
Net increase in cash and cash equivalents	9,119,187	12,401,796	6,666,109
Cash and cash equivalents at the beginning of the period	31,157,048	24,490,939	24,490,939
Cash and cash equivalents at the end of the period	40,276,235	36,892,735	31,157,048

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED 30 JUNE 2008

1. ACCOUNTING POLICIES

Basis of Preparation

These interim consolidated financial statements are for the six months ended 30 June 2008 and have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) adopted for use by the European Union. The accounting policies and methods of computation used in the interim consolidated financial statements are consistent with those used in the Annual Report for 2007 and are expected to be applied for the year ended 31 December 2008.

The interim results for the six months ended 30 June 2008 are not necessarily indicative of the results to be expected for the full year 2008.

2. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit of US$ 6,176,815 (June 2007: US$ 1,922,912) and a weighted average number of ordinary shares of 62,263,771 (June 2007: 57,939,874).

The calculation of diluted earnings per share is based on the profit for the period as for basic earnings per share. The number of shares outstanding, however, is revised to reflect the potential dilution if share options that are outstanding are converted into ordinary shares. The weighted average number of ordinary shares is increased by 4,707,101 (June 2007: 3,247,099) with respect to outstanding share options, resulting in a diluted weighted average number of shares of 66,970,872 (June 2007: 61,186,973).

3. SEGMENT ANALYSIS

The directors do not consider there to be more than one class of business or geographic segment for the purposes of reporting. The Group is engaged in one business activity, the production of and exploration for oil and gas. The revenue, segment result and assets of the geographic segments, other than India, are nil or less than 10% of the total for all segments. Other income relates to technical services to third parties, overhead recovery from joint venture operations and miscellaneous receipts, if any. Revenue arises from 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. GAIN ON SALE OF INVESTMENT

In early January 2008, Hindustan Oil Exploration Company Limited ('HOEC') completed a rights offering with Hardy participating to the extent of its pro rata share investing an additional $13,184,387.

During December 2007, the Company sold 3,010,000 ordinary shares for a net cash consideration of $12,502,931. As a result, the Company recorded a pretax gain on sale of investment of $10,243,729.

In July and August 2008, the Company liquidated the balance of its HOEC shareholding of 3,025,552 shares, for a net cash consideration of approximately $10.3 million. As a result, the Company is anticipating recording a pre-tax gain on sale of investment of approximately $4.3 million.

5. SHARE CAPITAL

The Company has authorised share capital of 200 million US $0.01 ordinary shares.

Changes in issued and fully paid ordinary shares during the six months ended 30 June 2008 are as follows:

	Number of US$0.01 Ordinary Shares	US$
Beginning of the period	62,262,535	622,625
Issued on exercise of stock options	34,996	350
End of period	62,297,531	622,975

6. SHARE OPTIONS

Changes in outstanding share options during the six months ended 30 June 2008 are summarized below:

	Number of options	Weighted average price £
Outstanding at beginning of the period	4,352,099	1.54
Granted during the period	410,000	7.69
Exercised during the period	(34,996)	2.36
Outstanding at the end of period	4,727,103	2.95
Exercisable at the end of period	2,737,021	1.67

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2008 (CONTINUED)

7. CONTINGENT LIABILITIES

Bank guarantees for US$ 3,258,815 have been issued to Government of India as at 30 June 2008. The guarantees were obtained by placing a fixed deposit of Rs 24,049,769 (US$ 560,731) with a bank with the interest rate of 8.25%.

8. APPROVAL OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These interim consolidated financial statements have been approved by the board of directors on 22 August 2008.

GLOSSARY

Definitions & Glossary of terms:

AIM	the Alternative Investment Market operated by the London Stock Exchange
AGIP	Nigerian AGIP Oil Company Limited
Assam block	licence AS-ONN-2000/1
Bayelsa	Bayelsa Oil Company Limited
Board	the Board of Directors of Hardy Oil and Gas plc
the Company	Hardy Oil and Gas plc
CPCL	Chennai Petroleum Corporation Limited
D3	licence KG-DWN-2003/1
D9	licence KG-DWN-2001/1
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
DPR	Nigerian Department of Petroleum Resources
Emerald	Emerald Energy Resources Limited
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.
Group	the Company and its subsidiaries
GS-01	licence GS-OSN-2000/1
Hardy	Hardy Oil and Gas plc
HEPI	Hardy Exploration & Production (India) INC
HOEC	Hindustan Oil Exploration Company Limited
HON	Hardy Oil Nigeria Limited
IFRS	International Financial Reporting Standards
IPO	initial public offering
LSE	London Stock Exchange plc
Main Market	Official List of the London Stock Exchange's market for listed securities
Millenium	Millenium Oil and Gas Company Limited
NELP	New Exploration Licensing Policy of the Ministry of Petroleum and Natural Gas of India
NNPC	Nigerian National petroleum Company
OML	Oil mining licence
ONGC	Oil and Natural Gas Corporation Limited
Ordinary Shares	the ordinary share of US$ 0.01 each in the capital of the Company
P&A	plugged and abandoned
Phase III	the PY-3 development plan comprising the drilling of three further wells
PSC	production sharing contract
PY-3	licence CY-OS-90/1
Reliance	Reliance Industries Limited
SPDC	Shell Petroleum Development Company of Nigeria

GLOSSARY (CONTINUED)

Glossary of terms:

$	United States dollars
2D/3D	two dimensional/three dimensional
2P	proven plus probable
API°	American Petroleum Institute gravity
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
DST	drill stem test
DWT	dead weight tonne
FDP	field development plan
GIIP	gas initially in place
GOR	gas to oil ratio
km	kilometre
km²	kilometre squared
lkm	line kilometre
m	metre
MDRT	measured depth from the rotary table
MDT	modular formation dynamics tester
MMscfd	million standard cubic feet per day
MMstbd	million stock tank barrels per day
Prospective Resources	those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations
psi	pounds per square inch
scf	standard cubic feet
scfd	standard cubic feet per day
stb	stock tank barrel
stbd	stock tank barrel per day
TCF	trillion cubic feet
TVDRT	Total vertical depth from rotary table

CORPORATE INFORMATION

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E. P. Mortimer – Chairman

Sastry Karra – Chief Executive

Yogeshwar Sharma – Chief Operating Officer

Dinesh Dattani – Finance Director

Carol Bell – Senior Non-Executive

Pradip Shah – Non-Executive

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