



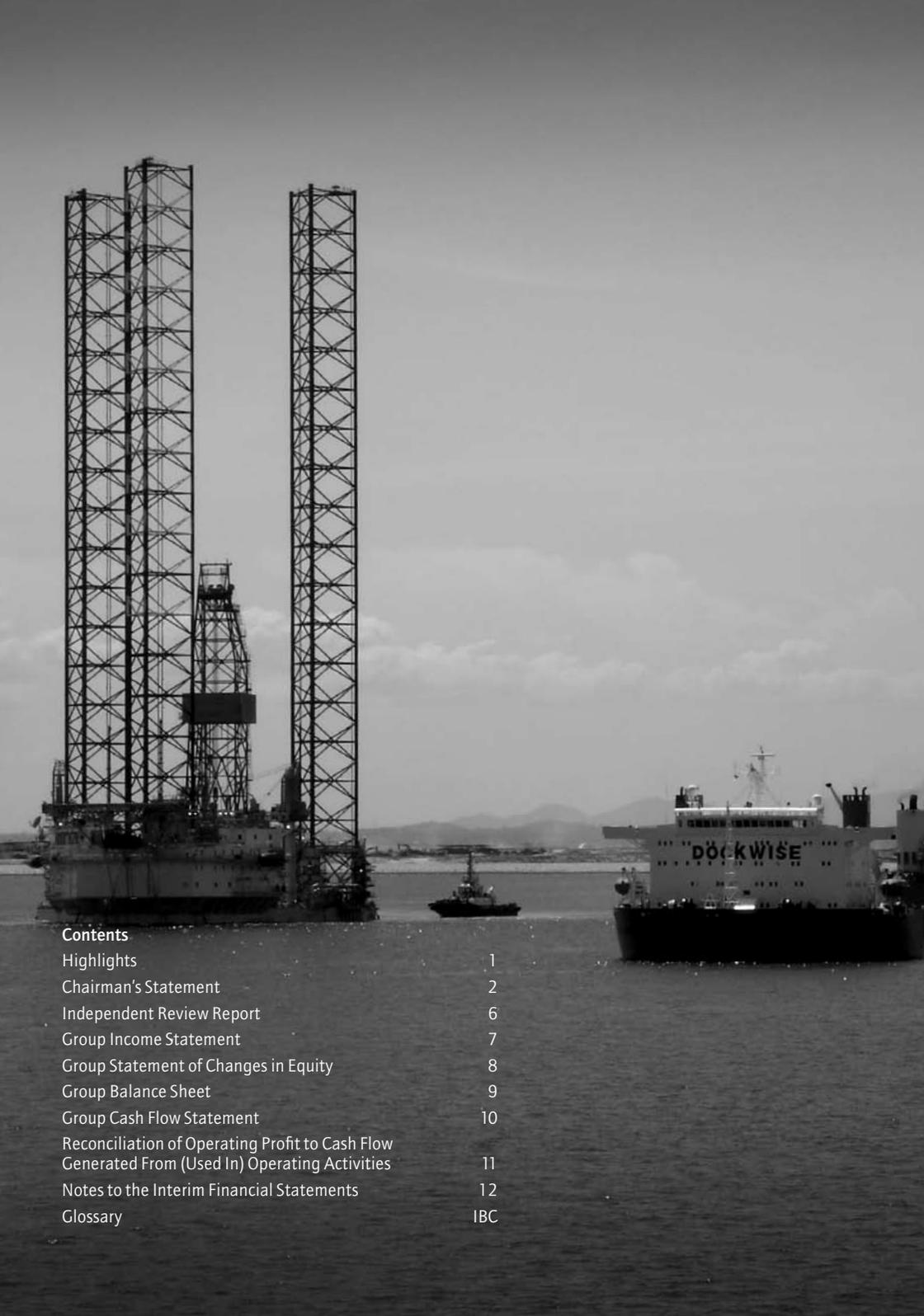
+explore

+enhance

+execute



Hardy Oil and Gas plc
Interim Report 2007



Contents

Highlights	1
Chairman's Statement	2
Independent Review Report	6
Group Income Statement	7
Group Statement of Changes in Equity	8
Group Balance Sheet	9
Group Cash Flow Statement	10
Reconciliation of Operating Profit to Cash Flow Generated From (Used In) Operating Activities	11
Notes to the Interim Financial Statements	12
Glossary	IBC

“Hardy has enjoyed a tremendous start to 2007, with discoveries on two of our four exploration blocks in India. Hardy’s team is fully focused on implementing the Hardy-operated CY-OS/2 appraisal and PY-3 development drilling programmes comprising five wells. In addition, during 2008, our exploration programme will accelerate as we expect to drill on all three of our non-operated exploration blocks in India.”

Sastry Karra
Chief Executive

Operational Highlights

- + **CY-OS/2 (75%)**: Discovery of hydrocarbons in the FanA-1 well (January 2007) on the Hardy-operated exploration block located in the Cauvery basin
- + **CY-OS/2**: Approval by joint venture management committee of the appraisal programme for the Fan A-1 discovery, comprising 3D seismic reprocessing and the drilling of three additional wells within two years
- + **GS-01 (10%)**: Discovery of hydrocarbons in the GS-01-B1 well (March 2007) on the GS-01 exploration block located in the Gujarat-Saurashtra Basin
- + **D9 (10%)**: First well scheduled to commence drilling in the second quarter of 2008 on the D9 block located in the KG basin
- + **D3 (10%)**: Completion of Phase I (c.1,200km²) of a two-phase 3D seismic acquisition programme on the D3 exploration block located in the KG basin
- + **PY-3 (18%)**: Gross average daily oil production of 4,948 stock tank barrels per day (stb/d) (net: 890stb/d) compared to 5,913stb/d for H1 2006 (net: 1,064stb/d). Production level currently at 3,400stb/d due to the shut-in of the PY3-3RL well (10 August 2007)

Financial Highlights

- + Revenue \$7.0 million (H1 2007) compared to \$11.9 million (H1 2006). Revenue was impacted by lower sales volumes, prices and an increase in the (GOI) government’s share of profit oil
- + Gross daily average sales of 801stb/d compared to 1,061stb/d for the same period in 2006
- + Realisation of an average crude oil sales price of \$62.8/stb (H1 2006: \$65.3/stb)
- + Net profit \$1.9 million (H1 2007) compared to \$5.4 million (H1 2006) for the same period in 2006; the reduction principally resulting from lower revenues
- + Capital expenditures \$28.1 million (H1 2007) compared to \$7.3 million (H1 2006) incurred during the same period last year
- + Equity issued in June 2007 with net proceeds of \$40.0 million
- + Cash and cash equivalent at 30 June 2007 was \$36.9 million

Corporate

- + Strengthening of the board with the appointment of Mr Dinesh Dattani as Finance Director
- + Adoption of IFRS effective 1 January 2007 with retrospective application

Chairman's Statement



The first half of 2007 has been a busy and exciting time for Hardy, with the discovery of hydrocarbons in the Fan A-1 (CY-OS/2 block) and B-1 (GS-01 block). This is an encouraging start to Hardy's exploration drilling programme and highlights the potential of our exploration portfolio.

The Company has been focused on interpreting the results from the Hardy-operated Fan A-1 (CY-OS/2 block) well and the development of a comprehensive appraisal programme. As announced on 10 August 2007, the management committee of the CY-OS/2 joint venture has committed to a three-well programme to appraise the potential commerciality of the Fan A-1 discovery.

In June 2007, Hardy successfully raised an additional \$40.0 million to meet its ongoing exploration expenditure requirements through an equity issue which was well supported by existing and new institutional shareholders. As a result, Hardy is financially well positioned to commence its active programme through the balance of 2007 and 2008 on all of its blocks.

Revenue and net profit of the Group declined from the previous period, resulting principally from a reduction in Hardy's net average daily production from 1,064stb/d to 890stb/d and an increase in the Government of India (GOI)'s share of profit oil.

Hardy has also strengthened its board with the appointment of Dinesh Dattani as the Company's Finance Director. Mr Dattani has significant upstream oil and gas industry experience with publicly listed companies and we are delighted that he has joined our team.

Financial Review

The Company has adopted International Financial Reporting Standards (IFRS). On 20 September 2007, the Company published its restated financial information for the year ended 31 December 2006 and six months ended 30 June 2006, its revised accounting policies under IFRS and comparison of results under IFRS with UK GAAP.

The interim financial statements results for the six months ended 30 June 2007, including comparatives, have been prepared using IFRS.

Revenues for the six months ended 30 June 2007 amounted to \$7.0 million compared to \$11.9 million for the same period last year. As indicated above, this resulted from a higher GOI share of profit oil, lower production volumes and a lower crude oil price. The volume-weighted average price achieved for our crude sales for this period was \$62.8/stb compared to a price of \$65.3/stb for the same period in 2006.

Production, depletion and decommission costs essentially remained at the same level as last year. Administrative costs decreased to \$2.3 million from \$3.3 million, principally resulting from overhead recovery from the CY-OS/2 exploration programme and the absence of legal costs that were incurred in 2006.

The Group recorded a net profit of \$1.9 million compared to \$5.4 million on revenue of \$11.9 million for the same period last year.

The Group's capital expenditures amounted to \$28.1 million compared to \$7.3 million incurred during the same period last year. Capital expenditures were primarily attributable to the drilling of the successful Fan A-1 (CY-OS/2 block) well, the drilling of the B-1 (GS-01 block) discovery well and seismic acquisition on the D3 exploration block.

In June 2007, the Company placed 4,964,540 new ordinary shares at a price of £4.23, raising gross net proceeds of \$40.0 million.

As a result, the Company increased its cash position from \$24.5 million at the end of 2006 to \$36.9 million at 30 June 2007. Hardy is financially well positioned to commence its active programme during the balance of 2007 and 2008 on all of its blocks.

Operational Review

CAUVERY BASIN – Eastern India

PY-3: Oil production from the PY-3 field during the period averaged 4,948stb/d (2006: 5,913stb/d), a 16.3% decrease from the same period in 2006. Net production to Hardy was 890stb/d compared to 1,064stb/d for the same period in 2006.

As previously reported, the decrease in average production is attributed to natural decline in the field.

As announced on 10 August 2007, due to excessive water entering the PY3-3RL well in the PY-3 field, the well has been shut-in. The reduction in production has been in the order of 1,100stb/d, resulting in current production of approximately 3,400stb/d. The Company does not expect production to recover until the implementation of the planned Phase III development drilling programme scheduled in 2008. The programme includes the drilling of one development well and one water injection well, upgrading of water injection facilities, and installation of various flow lines and equipment.

During the period, Hardy negotiated an extension to the operating contract for the PY-3 production facilities for a further two year period, effective from 01 August 2007.

The PY-3 field is located off the east coast of India, approximately 80km south of Pondicherry in the Cauvery basin. The PY-3 block covers an area of 81 square kilometres (km²) with water depths ranging from 40 to 200 metres (m). Hardy has an 18% interest in PY-3.

CY-OS/2: In January 2007, the Company announced the discovery of hydrocarbons in the Fan A-1 well. The Fan A-1 well was drilled to test two potential targets within the Cretaceous formation. While the

well encountered good quality sands and presence of hydrocarbons in both of these intervals, a full well test was not completed. Another intermediate zone, located between the two prognosed main targets, was successfully tested and flowed at an initial rate of 10 million standard cubic feet per day (MMSCFD). The well has been recognised as a discovery by the Directorate General of Hydrocarbons (India) (DGH).

On 10 August 2007, Hardy announced that the management committee of the joint venture had agreed to proceed with a three-well appraisal programme. The objective of the programme is to evaluate the potential commerciality of the discovery.

As Operator of the field, incorporating drilling results into our geological and geophysical (G&G) interpretation model and securing the appropriate drilling equipment will dominate the team's focus over the remainder of the year. The timing of drilling will be dependent on securing a suitable drilling rig; however, the programme is anticipated to start in the later part of 2008.

This 859km² block is located in the northern part of the Cauvery basin immediately offshore from Pondicherry. Hardy holds a 75% interest in the block and is the Operator. Upon declaration of commerciality, Oil and Natural Gas Corporation Ltd (ONGC), an India state company, has an option to assume a 30% interest in the block.

GUJARAT-SOURASHTRA BASIN – Western India

GS-01: On 15 May 2007, Hardy announced the discovery of hydrocarbons in the GS-01-B1 well. The exploration well was drilled to a depth of 2,282m measured depth from the rotary table (MDRT) and encountered natural gas and condensate within the mid Miocene Limestone over an interval from 1,988 to 2,052m MDRT.

Two intervals selected for cased hole drill stem testing (DST), were 1,988 to 1,993m and 2,019 to 2,038m MDRT respectively. The test produced natural gas at a rate of 18.6MMSCFD together with 415stb/d of

condensate through a 56/64" choke with a flowing tubing head pressure of 1,346psi.

Early indications are very encouraging; however, the potential extent and commerciality of the above discovery is yet to be established. Analysis of the well results is ongoing.

The proposed programme for 2008 comprises the acquisition of an additional 1,000km² of 3D seismic and the drilling of three further wells which will meet the Phase I work commitment for the exploration block.

This GS-01 block covers an area of 8,841km² and is located in the shallow waters of the Gujarat-Saurashtra basin on the west coast of India. Reliance is the Operator of this block, holding a 90% interest. Hardy holds the remaining 10% interest.

KRISHNA GODAVARI (KG) BASIN – Eastern India

D9: As previously reported, the drilling of the initial well (A-1) is scheduled to commence in the second quarter of 2008. The Operator has submitted a request for quote (RFQ) for a deepwater drilling rig capable of operating in greater than 2,000m water depth. Bids are currently being evaluated by the Operator.

This 11,850km² block is located in the highly prospective KG basin off the eastern coast of India. Hardy holds a 10% interest in the block with the Operator Reliance Industries Limited (Reliance) holding 90%.

D3: An extensive 3D acquisition programme was initiated at the beginning of the year. Phase I of a two-phase acquisition programme has been completed, with processing of the data expected to continue into 2008. Phase II of the seismic acquisition programme is expected to start in the third quarter of 2008.

Approximately 300km² of the block is covered by previously acquired 3D seismic and several leads on the block are being assessed. We anticipate that, upon completion of processing and interpretation

of the Phase I, 3D seismic programme, drilling of a well may commence in the later part of 2008.

The 3,288km² block is Hardy's second block within the KG basin, holding a 10% interest, with Reliance holding a 90% interest.

NIGER DELTA BASIN – Nigeria

OZA: During the period, the Operator of the Oza field initiated field operations involving clearing and securing the existing well sites. Following the recent federal elections, Hardy and the Operator have initiated the planned well testing programme.

An initial slick-line survey has been carried out which confirmed positive wellhead pressures and verified the integrity of the existing well bores. Bottom hole static reservoir and temperatures as well as several bottom hole crude samples were obtained. Wellheads have been refurbished in preparation for the planned flow testing programme later this year.

Discussions have also progressed with the adjacent facility owners to identify the optimal development plan. Subject to test results, installation of an export pipeline may commence by the second quarter of 2008.

Located within the Niger Delta, the Oza block has three completed oil wells across approximately 20km². Hardy, as the technical partner, holds a 40% interest in the block with the Operator, Millenium Oil and Gas Company Ltd, holding the remaining 60% interest.

ATALA: Located in the mangrove swamps of the Niger Delta, Atala encompasses approximately 34km² and has one standing well. The block is operated by Bayelsa Oil Company Limited and Hardy is the technical partner, holding a 20% interest in the block.

The Operator has been actively taking steps to source an appropriate swamp barge drilling rig for an appraisal programme comprising the re-entry and testing of the existing well.

The Operator is also associated with a consortium of other independent operators seeking suitable equipment for the collective drilling programmes. Future activity will result upon securing an appropriate rig for this prospective area.

OTHER

Hardy holds a strategic 8.5% equity interest in Hindustan Oil Exploration Company (HOEC), a Company with oil and gas interests in India. As of 30 June 2007, the market value of Hardy's interest in HOEC was \$18.6 million.

During the period, HOEC drilled several exploration and development wells with varying results. HOEC's primary activity involved the development of its PY-1 asset, located directly adjacent to Hardy's PY-3 field, where HOEC successfully drilled one development well and secured a natural gas sales agreement with PPN Power Generating Company Private Limited.

Outlook

Looking forward, Hardy will continue to assess investment opportunities that will complement the Company's asset portfolio. The Company's main focus remains in India where it has assembled an exceptional exploration and production team.

Preparatory work in connection with the listing of Hardy's ordinary shares on the Official List of the UK Listing Authority is continuing.

The Company expects to maintain the current PY-3 field gross daily production level of 3,400stb/d through the remainder of 2007.

The implementation of the CY-OS/2 appraisal drilling programme and PY-3 Phase III development programme will dominate Hardy's focus throughout the remainder of 2007. Hardy is looking forward to a number of specific initiatives for 2008:

- + **PY-3 Phase III:** Implement the Phase III development plan with the drilling of one development well and a water injection well to extend the field life, and potentially add recoverable reserves
- + **CY-OS/2:** Upon securing an appropriate rig, commence appraisal drilling in the later part of 2008
- + **GS-01:** Initiate acquisition of an additional 1,000km² of 3D seismic in the first quarter of 2008 and commence drilling of three additional wells in the second quarter of 2008
- + **D9:** Commence drilling by the end of the second quarter in 2008
- + **D3:** Processing and interpretation of the newly acquired Phase I 3D seismic data, with the possibility of commencement of drilling by the third quarter of 2008
- + **Oza:** Initiate well testing prior to year-end. Subject to a successful test, sustainable production may begin by the second quarter of 2008.

We have strengthened our board with the addition of Mr Dattani as Finance Director and I am pleased to report that your Company is in excellent shape, with the entire team focused on implementing the Company's substantial exploration and appraisal programme.

We look forward to keeping you apprised of our progress.



E. Paul Mortimer
Chairman
24 September 2007

Independent Review Report

to Hardy Oil and Gas plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2007, which comprise the group income statement, the group balance sheet, the group cash flow statement, and notes to the interim financial statements. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Rules of the Alternative Investment Market of the London Stock Exchange, which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board of the Financial Reporting Council for use in the United Kingdom. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2007.

Horwath Clark Whitehill LLP
Chartered Accountants
21 September 2007

Group Income Statement for the six months ended 30 June 2007

	Notes	Six months ended 30 June 2007 US\$	Six months ended 30 June 2006 US\$	Year ended 31 December 2006 US\$
Revenue		7,001,426	11,878,101	21,316,935
Cost of sales				
Production costs		(1,286,640)	(1,504,090)	(2,999,086)
Depletion		(757,854)	(492,099)	(1,887,911)
Decommissioning charge		(122,195)	(167,158)	(304,899)
Gross profit		4,834,737	9,714,754	16,125,039
Other operating income		–	–	1,000,000
Administrative expenses		(2,259,275)	(3,270,458)	(5,700,416)
Operating profit		2,575,462	6,444,296	11,424,623
Interest and investment income		434,300	1,041,584	2,288,954
Finance costs		(123,411)	(148,341)	(275,428)
Profit on ordinary activities before taxation		2,886,351	7,337,539	13,438,149
Tax on profit on ordinary activities		(963,439)	(1,972,611)	(3,205,381)
Profit attributable to the equity shareholders of the parent company		1,922,912	5,364,928	10,232,768
Earnings per share – basic	1	0.03	0.10	0.18
Earnings per share – diluted	2	0.03	0.09	0.17

Notes

1. The basic earnings per share is calculated on a profit of US\$1,922,912 (2006: US\$5,364,928) on a weighted average of 57,115,977 (2006: 56,101,126) ordinary shares.
2. The diluted earnings per share is calculated on a profit of US\$1,922,912 (2006: US\$5,364,928) on a weighted average of 57,115,977 (2006: 56,101,126) ordinary shares and the dilutive potential ordinary shares of 3,247,099 (2006: 2,799,099) relating to share options.
3. Comparative amounts have been restated due to changes in accounting policies arising from the implementation of IFRS.

Group Statement of Changes in Equity

	Six months ended 30 June 2007 US\$	Six months ended 30 June 2006 US\$	Year ended 31 December 2006 US\$
Opening equity	91,401,836	60,897,060	60,929,902
Total recognised gains for the period	1,922,912	5,364,928	10,232,768
Valuation gain/(loss) transferred to equity	4,786,353	(5,495,897)	(6,910,256)
Deferred tax asset/(liability) on valuation gain or loss	(1,340,179)	1,538,851	1,934,872
Issue of shares	39,965,300	24,522,656	24,527,092
Shares to be issued	507,336	301,107	687,459
Closing equity attributable to the Company's equity holders	137,243,558	87,128,705	91,401,836

Group Balance Sheet

at 30 June 2007

	30 June 2007 US\$	30 June 2006 US\$	31 December 2006 US\$
Assets			
Non-current assets			
Intangible assets – exploration	95,325,323	23,452,406	67,216,281
Property, plant and equipment	4,126,904	6,502,907	5,064,070
Intangible assets – others	160,529	286,573	217,198
Investment	18,623,263	12,472,355	13,836,910
Site restoration deposit	3,256,639	2,663,394	2,784,660
	121,492,658	45,377,635	89,119,119
Current assets			
Inventories	2,054,992	1,334,890	2,729,764
Trade and other receivables	6,398,644	6,857,942	4,637,062
Cash and cash equivalent	36,892,735	51,838,403	24,490,939
	45,346,371	60,031,235	31,857,765
Total assets	166,839,029	105,408,870	120,976,884
Liabilities			
Current liabilities			
Trade and other payables	(14,526,612)	(7,162,777)	(16,809,807)
	(14,526,612)	(7,162,777)	(16,809,807)
Non-current liabilities			
Provisions for liabilities and charges	(4,500,000)	(4,500,000)	(4,500,000)
Provision for deferred tax	(10,568,859)	(6,617,388)	(8,265,241)
	(15,068,859)	(11,117,388)	(12,765,241)
Total liabilities	(29,595,471)	(18,280,165)	(29,575,048)
Net assets	137,243,558	87,128,705	91,401,836
Equity			
Called-up share capital	622,292	572,513	572,530
Share premium account	92,898,521	52,978,564	52,982,983
Shares to be issued	1,447,429	301,107	940,093
Other reserves	9,810,883	7,383,048	6,364,709
Retained earnings	32,464,433	25,893,473	30,541,521
Total equity	137,243,558	87,128,705	91,401,836

Group Cash Flow Statement

for the six months ended 30 June 2007

	Six months ended 30 June 2007 US\$	Six months ended 30 June 2006 US\$	Year ended 31 December 2006 US\$
Operating activities			
Cash generated from (used in) operating activities	660,956	5,494,305	23,942,864
Taxation paid	–	(97,312)	(143,280)
Net cash generated from (used in) operating activities	660,956	5,396,993	23,799,584
Investing activities			
Purchase of intangible assets – exploration	(28,109,042)	(7,270,129)	(51,034,004)
Purchase of intangible assets – others	–	(172,472)	(176,972)
Purchase of property, plant and equipment	(11,124)	(72,927)	(148,215)
Purchase of other fixed assets	(16,854)	(137,557)	(247,992)
Purchase of investment	–	–	(2,778,914)
Site restoration deposit	(471,979)	(2,663,394)	(2,784,660)
Net cash used in investing activities	(28,608,999)	(10,316,479)	(57,170,157)
Financing activities			
Interest and investment income	507,950	1,149,198	2,376,072
Finance costs	(123,411)	(148,341)	(275,428)
Issue of shares	39,965,300	24,522,656	24,527,092
Net cash provided by financing activities	40,349,839	25,523,513	26,627,736
Net (decrease)/increase in cash and cash equivalent	12,401,796	20,604,027	(6,743,437)
Cash and cash equivalent at the beginning of the period	24,490,939	31,234,376	31,234,376
Cash and cash equivalent at the end of the period	36,892,735	51,838,403	24,490,939

Reconciliation Of Operating Profit to Cash Flow Generated From (Used In) Operating Activities for the six months ended 30 June 2007

	Six months ended 30 June 2007 US\$	Six months ended 30 June 2006 US\$	Year ended 31 December 2006 US\$
Operating profit	2,575,462	6,444,296	11,424,623
Depletion and depreciation	899,619	577,003	2,137,699
Decommissioning charge	122,195	167,158	304,899
Share based payment charges	507,336	301,107	687,459
	4,101,612	7,489,564	14,554,680
(Increase)/decrease in inventories	674,772	(984,961)	(2,379,835)
Decrease/(increase) in trade and other receivables	(1,835,233)	(2,537,487)	225,800
Increase/(decrease) in trade and other payables	(2,283,195)	1,527,189	11,542,219
Cash flow generated from (used in) operating activities	660,956	5,494,305	23,942,864

Notes to the Interim Financial Statements

for the six months ended 30 June 2007

Accounting policies

(i) Basis of preparation

Interim consolidated financial statements have been prepared on a basis consistent with the Group's IFRS accounting policies for 2007. Comparative information has been restated under IFRS.

(ii) Changes in accounting policies

On 1 January 2007 it became mandatory for the Group to comply with International Financial Reporting Standards.

The interim results for the six months ended 30 June 2007 have been prepared on the basis of all standards and interpretations issued by the International Accounting Standards Board effective for the Group's reporting year ending 31 December 2007.

Restatement of 2006 results from UK GAAP to IFRS for the Group, including a description of revised accounting policies under IFRS, was published on 20 September 2007. The restatement document also provided reconciliations of comparative information from UK GAAP to IFRS.

These interim financial statements are prepared in accordance with IFRS 6 'Exploration for and evaluation of mineral resources'. The Group has continued to follow its existing full cost accounting policy for oil and gas assets to both exploration and appraisal activity and the assets in the development and production phases.

Glossary

3D	three-dimensional
DGH	Directorate General of Hydrocarbons (India)
DST	drill stem test
G&G	geological and geophysical
GOI	Government of India
H1	first half of
H2	second half of
HOEC	Hindustan Oil Exploration Company Limited
IFRS	International Financial Reporting Standards
km²	square kilometres
m	metres
MDRT	measured depth from rotary table
MMSCFD	million standard cubic feet per day
Official List	Official List of the UK Listing Authority
ONGC	Oil and Natural Gas Corporation Ltd
Reliance	Reliance Industries Limited
RFQ	request for quote
stb/d	stock tank barrel of oil per day



Hardy Oil and Gas plc

Lincoln House

137-143 Hammersmith Road

London W14 0QL

Tel: +44 (0) 20 7471 9850

Fax: +44 (0) 20 7471 9851

www.hardyoil.com