Exploration and Production

Hardy Oil and Gas plc

Interim Report 2009

Who We Are

Hardy Oil and Gas plc is an upstream international oil and gas company whose assets are principally in India. Its portfolio includes a blend of exploration, appraisal, development, and production assets.

Hardy's goal is to evaluate and exploit its asset base with a view to creating significant value for its shareholders.

Group Overview:
Highlights

The successful placing in the first half of 2009 highlighted the continued support of our shareholders.

Operational Highlights

- D3: Pre-drilled KGV-D3-G1 to 20" casing point (1,625 m TVD) for future re-entry
- D3: Completed the acquisition of 1,150 km^2 of 3D seismic data (3D seismic data has now been gathered across the entire block)
- PY-3: Net average daily production for the first half of 2009 was 543 stbd (H1 2008: 337 stbd)
- PY-3: The PY3-PD4RL well was suspended with a gas lift valve in position for future reactivation with artificial lift
- Assam: Completed the acquisition of 390 lkm of 2D seismic data
- Published a technical evaluation report by GCA corroborating internal estimates of the resource potential of the Krishna Godavari Basin blocks D3 and D9

Financial Highlights

- Revenue US$5.8 million (H1 2008: US$9.9 million)
- Net loss of US$4.3 million (H1 2008: net profit US$6.2 million)
- Capital expenditure of US$7.0 million on pre-drilling, drilling and acquisition of seismic data
- Successful share placing for net proceeds of US$15.2 million on 27 April 2009
- Cash and short-term investments at 30 June 2009 amounted to US$32.7 million; the Company has no long-term debt

Outlook

- Drilling of the first exploration well on D9 expected in the second half of 2009
- Drilling of an additional exploration well on D3 is expected in the second half of 2009
- PY-3 production is expected to re-commence in September 2009

Group Overview:
Chairman's Statement

"Our focus through the remainder of 2009, and into 2010, will be to progress our exploration programmes on the D9 and D3 blocks in the prolific Krishna Godavari Basin in India"

E P Mortimer
Chairman

Overview
With the backdrop of adverse market conditions during the past year, the Company's successful equity placement of new shares raising US$15.2 million was a significant undertaking and is a positive indicator of our shareholders' support of the Company's business, assets and strategy. We are committed to realising substantial growth in shareholder value through focused exploration efforts on our India assets. The publication of Gaffney, Cline & Associates Ltd's technical evaluation report on the Prospective Resource potential of our D9 and D3 blocks supports our view of the substantial prospectivity of our Krishna Godavari Basin assets.

Financial
Revenue for the six months ended 30 June 2009 amounted to US$5.8 million compared with US$9.9 million for the same period in 2008 principally resulting from a decline in the crude oil price by 52%. Oil sales of 116,977 stb was realised for the six months ended 30 June 2009 (H1 2008: 126,343 stb); the average price realised was US$48.44 per stb (H1 2008: US$100.97 per stb).

The Company recorded a net loss of US$4.3 million compared to a net profit of US$6.2 million in 2008. The Company's fully diluted loss per share was US$0.06 in 2009 compared to earnings per share of US$0.09 reported for the same period in 2008. Results for 2008 included a pre-tax gain from the sale of investments of US$9.0 million.

Cash flow from operating activities (before changes in non-cash working capital) amounted to a deficit of US$2.6 million in 2009 compared to a surplus of US$2.0 million for the same period in 2008.

Total capital expenditures amounted to US$7.0 million, principally on the drilling of the PY3-PD4 lateral well, the acquisition of 3D and 2D seismic data and pre-drilling of one well on the D3 exploration block.

During the period, Hardy issued 6,208,997 Ordinary Shares at 174 pence each for net proceeds of US$15.2 million. As a result, Hardy's cash resources increased by US$2.6 million to US$32.7 million at 30 June 2009; the Company has no long-term debt.

Outlook

Exploration

The Company expects to drill its first well, on the highly prospective D9 exploration block, in the second half of 2009. Further drilling on the D3 exploration block is also expected to commence in the second half of 2009. As Hardy is not the operator of either of these exploration blocks, the exact timing of commencement of drilling remains difficult to predict.

Appraisal

The GS-01 joint venture continued to undertake geological and geophysical studies to appraise the GS01-B1 gas discovery. A decision to undertake further appraisal drilling is expected by the end of 2009.

We expect to continue dialogue with the Ministry of Petroleum and Natural Gas of the Government of India and the Directorate General of Hydrocarbons with regard to an extension to the appraisal period of the CY-OS/2 Ganesha gas discovery.

Development

The Company has made progress with the development of the Oza oil field, Nigeria. Several key milestones should be reached by the end of 2009 and field operations are expected to commence in the first quarter of 2010. Planning is ongoing with respect to the long-term development of the Hardy operated PY-3 field.

Production

Production from the PY-3 field was shut down, on 5 July 2009, due to unscheduled repairs and maintenance of the offshore mooring facility. We expect the PY-3 production to re-commence in September 2009. Our current forecast for average daily production for 2009 is 2,400 stbd and our end exit production is anticipated to be 3,100 stbd.

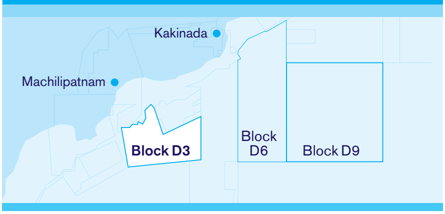
With over US$30 million of cash and short-term investments, the Company's financial position is adequate to meet near-term capital requirements.

E P Mortimer
Chairman
14 August 2009

Business Review:
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).

Krishna Godavari Basin – Eastern India



Block KG-DWN-2003/1 (D3): Exploration (Hardy 10% interest)

Operations

The joint venture acquired 1,150 km² of 3D seismic data during the first half of 2009. With the completion of this programme, the joint venture has acquired 3D seismic data covering the entire block. Additional interpretation and processing was completed on previously acquired data, including PSTM and AVO studies.

On 16 April 2009, the Company announced the commencement of drilling of the third exploration well KDV-D3-G1. Drilling was subsequently suspended after setting of 20" casing at 1,625 m TVD. The joint venture intends to re-enter the well at a later date to test prospective geological horizons.

An appraisal programme for the gas discoveries Dhirubhai 39 and 41 was approved by the joint venture operating committee and has been reviewed by the management committee which includes the DGH and MOPNG. The appraisal period extends up to 11 February 2011 and constitutes an area of 750 km² of the block.

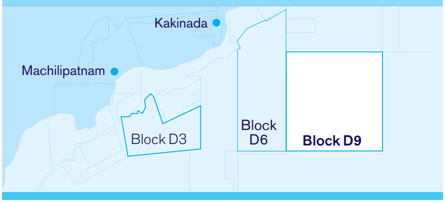
On 27 May 2009, the Company published a technical evaluation report undertaken by GCA which provides the Prospective Resource potential of the block and the geological chance of success of various prospects. GCA employed a play-based exploration methodology on the D3 block to address both the current prospect inventory and the 'yet to find' resource potential. Using the play-based exploration methodology, the potential gross risked Best Estimate Resources for the D3 block is estimated, by GCA, at 9.5 TCF. This includes identified prospects and leads and a number of postulated prospects based on the play area and field size distribution. A summary report can be found on the Company's website **www.hardyoil.com**.

The joint venture's operating committee recently proposed the next location to be KDV-D3-W1, targeting several high amplitude anomalies in the Pliocene and Miocene geological horizons, located approximately 20 km south east of the Dhirubhai 39 and 41 discoveries. The timing of commencement of drilling will remain dependent on the drilling schedule of the operator (Reliance), however, drilling is currently expected to commence in the second half of 2009.

Background

Situated in the emerging world class petroleum system of the Krishna Godavari Basin in India, the D3 exploration licence encompasses an area of 3,288 km^2, in water depths of 400 m to 2,200 m, and is located approximately 45 km offshore. The block is operated by Reliance. The minimum work programme for phase one of the licence requires the drilling of six exploration wells. To date, two exploration wells have been drilled and one well has been pre-drilled. GCA noted, in its evaluation report, that the presence of an unconventional biogenic gas petroleum system in deepwater offshore India is proven on the D3 block.

Krishna Godavari Basin – Eastern India



Block KG-DWN-2001/1 (D9): Exploration (Hardy 10% interest)

Operations

The joint venture has approved a budget for the fiscal year ended 31 March 2010, and management believe that one exploration well will be drilled in the 2009 calendar year. The Company also received an AFE for the drilling of an exploration well which prescribes the use of the 'Deepwater Expedition' drilling rig, currently operating on the adjacent D6 block. The timing of commencement of drilling will remain dependent on the drilling schedule of the operator (Reliance).

The D9 joint venture is awaiting the ratification of a proposed drilling moratorium by the Government of India. The proposed drilling moratorium provides for the licensees of various deepwater exploration licences to be granted a three year extension to the term of the PSC in response to the global shortage of deepwater drilling ships.

On 27 May 2009, the Company published a technical evaluation report undertaken by GCA which provides the Prospective Resource potential of the block and the geological chance of success of various prospects. GCA estimates the gross risked Best Estimate Prospective Resources in the exploration block D9, comprising the joint venture's identified prospects/leads, is estimated, at 10.8 TCF and 143 MMBbl. A summary report can be found on the Company's website **www.hardyoil.com**.

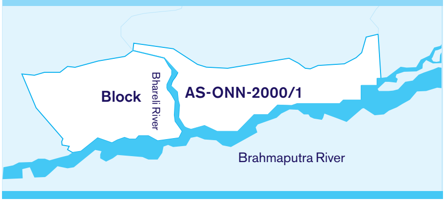
Background

Situated in the emerging world class petroleum system of the Krishna Godavari Basin in India, the licence encompasses 11,605 km^2 in the Bay of Bengal where water depths vary from 2,300 m to 3,100 m. The joint venture has acquired over 4,188 km^2 of 3D seismic including infill, and subsequently leads at Upper Miocene, Middle Miocene, Oligocene and Cretaceous have been identified. Initial exploration will be focused

Business Review:
Review of Operations continued

upon amplitude anomalies within structural closure in the Miocene and Pliocene. There are many seismic anomalies within the block and, given its proximity to D6, exploration potential of this large block is regarded with considerable optimism.

Assam Arkan Basin – North Eastern India



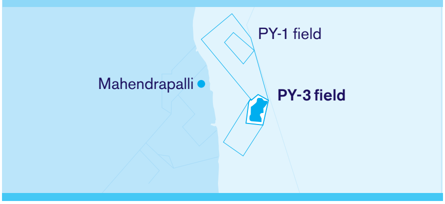
Block AS-ONN-2000/1: Exploration (Hardy 10% interest)

Operations
In the first half of 2009, the Assam joint venture completed the acquisition of 390 lkm of 2D seismic data. Processing and interpretation of the 2D data is expected to continue throughout the remainder of 2009. Further field operations will be based on the results and interpretation of the 2D data and other ongoing geological studies. The majority of the exploration block's phase I minimum work programme has now been completed.

GCA's technical evaluation report noted that they consider 'the Assam opportunity as a challenging, potentially attractive play extension and possible new play(s) opportunity with oil discoveries in the neighbouring sub-regional context'.

Background
On 2 April 2008, Hardy announced the award of a 10% 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 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.

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 2009 was 3,016 stbd (2008: 2,808 stbd). The marginal increase in production is the result of better than expected performance of the single producing well.

As announced on 20 July 2009 the PY-3 field was shut-in on 5 July 2009 due to unscheduled repair and maintenance of the offshore mooring facility. Adverse marine conditions have frustrated efforts of the contractor to assess and undertake necessary repairs to commence production. We expect production to re-commence in September 2009.

As a result of the unplanned shut-in of the field the average gross production forecast for 2009 has been revised downwards to 2,400 stbd, reflecting the anticipated shut-in period.

Operations

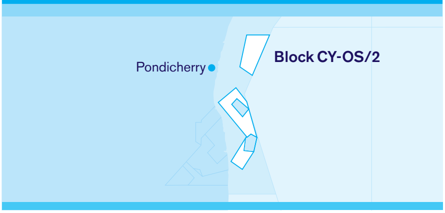
As announced on 17 February 2009, the Company completed the re-entry and drilling of the PY3-PD4RL well. The PY3-PD4RL vertical well was re-entered and side-tracked from 2,916 m MD (2,890 m TVDSS) and drilled down to 4,375 m MD (3,525 m TVDSS). With the assistance of nitrogen lift, the well flowed at 700 stbd of oil with 30% water-cut, however, the well was unable to be reactivated as a self flowing well. The well has been completed as a producer with a gas lift valve to allow for future production when gas lift compression facilities are installed on the FPU. Hardy is currently updating its geological model to incorporate new data gathered from the well.

The PY-3 management committee is reviewing an extension to the field's production facilities contract through to July 2010. The new contract proposal provides for a reduction of approximately 40% from the previous contracted rate. In light of the PY3-PD4RL results, longer term production facility arrangements will follow once the PY-3 joint venture has agreed to a modified phase III development plan.

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 450 m. The licence is operated by HEPI, covers 81 km^2, and produces oil of high quality light crude (49° API). 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 subsea wells tied back to Tahara.

Cauvery Basin – Eastern India



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

Operations

The joint venture has applied for an extension of the appraisal period to January 2012 as per the PSC, to the MOPNG to establish commerciality of the Ganesha gas discovery.

Business Review:
Review of Operations continued

On 20 February 2009, HEPI received a communication from DGH to establish commerciality within 15 days or relinquish the block. As Ganesha is a non-associated gas discovery, the CY-OS/2 PSC provides for an appraisal programme to January 2012 to establish commerciality. The Company has subsequently obtained two independent technical and two legal opinions confirming Ganesha as a non-associated gas discovery. Hardy continues to work with the MOPNG to confirm the extension of the appraisal period to January 2012.

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) non-associated gas 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 2010. 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

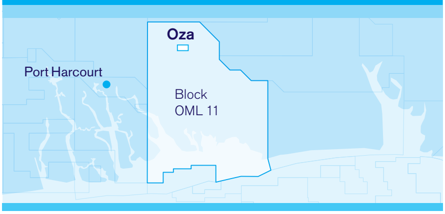
The GS-01 joint venture continued various geological and geophysical studies in relation to the appraisal of the Dhirubhai 33 gas discovery. A decision on the drilling of an appraisal well is expected to be made prior to the end of 2009. It is currently considered that an appraisal well will be required to establish commerciality of the Dhirubhai 33 gas discovery.

The licence is currently active under an adopted appraisal programme for the GS01-B1 gas and condensate discovery (Dhirubhai 33). The appraisal area comprises 5,890 km^2 with a term through to May 2010.

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 original 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. In May 2007, the Company announced a discovery from the GS01-B1 exploration well. The 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.

Niger Delta Basin – Nigeria



Block Oza (OML 11): Development (Hardy 20% interest)

Operations

The Oza joint venture has made progress in the first half of 2009. The joint venture received delivery of over 34 km of pipe which includes the construction of a multiphase fluid pipeline from Oza to the SPDC operated Isimiri flow station. The operator is in advance stages of completing the final FEED study and other regulatory and community approvals. Field operations are expected to commence in the first quarter of 2010.

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^2. 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 three zones in three wells. At present, Oza has three suspended wells in the field. In 2008 Hardy farmed out a 20% working interest in the Oza field. Under the terms of the agreement as consideration for the interest Emerald assumed the Company's obligation to fund the initial work programme of the Oza field.

Niger Delta Basin – Nigeria

Block Atala (OML 46): Development (Hardy 20% interest)

Operations

The original Marginal field award is subject to review in November 2009. Extension of the Atala licence is contingent on the Nigerian authorities believing that sufficient progress has been made over the initial term to merit an extension. As such, the operator along with a consortium of other Niger Delta Marginal field operators have requested extensions due to equipment constraints over the initial term.

Business Review:
Review of Operations continued

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.

Business Development

The Company intends to review the blocks on offer under the Government of India's NELP VIII process and any other upstream opportunities that meet with our stated geographical focus.

Business Review:
Financial Review

The Company's principal source of revenue is from the sale of crude oil production from the PY-3 field.

Key Performance Indicators

	Six months ended 30 June 2009	Six months ended 30 June 2008
Production (stock tank barrels of oil per day – net entitlement basis)	543	337
Average realised price per stb (US$)	48.44	100.97
Revenue (US$'000)	5,800	9,898
Net (loss)/profit (US$'000)	(4,309)	6,177
Cash flow (deficiency) from operations* (US$'000)	(2,580)	1,970
Diluted (loss)/earnings per share (US$)	(0.06)	0.09
Wells drilled**	1	2

* Before changes in non-cash working capital
** In 2009, comprises of one well that has been pre-drilled

As a result of expenditures incurred on the PY-3 field in the fourth quarter of 2008 and the first quarter of 2009, no profit oil was payable for the six months ended 30 June 2009, resulting in higher net entitlement for Hardy.

Operating Results

	Six months ended 30 June 2009	Six months ended 30 June 2008
Production (stbd)		
Gross	3,016	2,808
Participating interest	543	505
Net entitlement interest	543	337
Sales (stbd)		
Gross	3,590	3,857
Participating interest	646	694
Average realised price (US$per stb)	48.44	100.97

Revenue for the six months ended 30 June 2009 decreased by 41.4% to US$5.8 million. The average price realised per stb decreased by 52% to US$48.44 during the six months ended 30 June 2009. Reduced revenue in 2009 resulted from lower realised oil prices offset in part by lower sales volumes despite the absence of profit oil during 2009.

Cost of Sales

Production cost of sales increased 12% in 2009 to US$4.7 million principally reflecting substantially lower per barrel inventory cost at the end of 2007. Actual production cost amounted to US$39.28 per barrel in the first half of 2009. The PY-3 management committee is reviewing an extension to the field's production facilities contract through to July 2010.

Business Review:
Financial Review continued

Gross Loss
As a result, the Company had a gross profit of nil in the first half of 2009 compared with a gross profit of US$5.3 million in 2008.

Administrative Expenses
Administrative expenses increased by 5% to US$5.5 million for the six months ended 30 June 2009. The increase principally results from providing for costs associated with the drilling of the PY3-PD4RL well and offset in part by exchange gains. Non-recurring listing expenses of US$0.7 million were incurred during 2008.

Operating Loss
As a result, the Company is reporting an operating loss of US$5.5 million for the six months ending 30 June 2009 compared with a breakeven position reported for the same period in 2008.

Interest and Investment Income
Investment and other income declined from US$0.7 million for the six month period ended 30 June 2008 to US$0.1 million in 2009. The reduction results principally from lower interest rates realised in 2009.

Taxation
Deferred tax relief of US$1.1 million has been recorded against a pre-tax loss of US$5.4 million in the first half of 2009. No current taxes are payable for the period under review.

Net Loss after Taxation
As a result, the Company recorded a net loss of US$4.3 million in the period ending 30 June 2009 compared to a net profit of US$6.2 million reported for the same period in 2008. Results for the first half of 2008 reflect a pre-tax gain on sale of investment of US$9.0 million.

Cash Flow from Operating Activities
Cash flow deficiency from operating activities, before changes in non-cash working capital, amounted to US$2.6 million in the first half of 2009 compared with a surplus of US$2.0 million for the same period in 2008. This results from reduced revenue, higher operating costs and an increase in general and administrative expenses.

Capital Expenditures
The Group's capital expenditures amounted to US$7.0 million during the six months ended 30 June 2009, compared to US$15.0 million incurred for the same period in 2008.

Approximately US$3.0 million was capitalised with respect to the PY3-PD4RL re-entry. Capital expenditures amounting to US$2.0 million were incurred on the D3 block with the acquisition of 3D seismic and pre-drilling of a well to 1,675 m in April 2009. Approximately US$1.1 million was incurred with respect to seismic acquisition on the Assam block. Minimal expenditures were incurred on the remaining blocks in India and no expenditures were incurred in Nigeria.

Investment and Other Income

During the six months ended 30 June 2009, the Company earned US$0.1 million of interest and other income on its surplus cash balances compared with US$0.8 million report for the same period in 2008, principally reflecting substantially lower interest rates.

Equity Financing

In April 2009, Hardy raised US$15.2 million (after expenses) by way of a placing of 6,208,997 new Ordinary Shares in the capital of the Company with institutional and other investors at a price of 174 pence per share. Net proceeds from the placing were added to the Company's cash resources, which are available to meet ongoing expenditures.

Cash and Short-Term Investments

Total cash and short-term investments increased by US$2.6 million, to US$32.7 million at 30 June 2009. Net proceeds from the financing were more than sufficient to fund capital expenditures and cash deficiency from operating activities.

Summary Balance Sheets

Hardy's non-current assets increased from US$135.8 million at 31 December 2008 to US$141.8 million at 30 June 2009. This resulted principally from the capital expenditure programme on PY3, D3 and Assam blocks.

Current assets represent the Group's cash resources, together with trade and other receivables and inventory. At 30 June 2009, of the US$40.0 million of current assets, US$32.7 million was represented by cash and short-term 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 2009, the Company was not drilling any wells, resulting in a decline in trade and other payables.

During the six months ended 30 June 2009, the Company has grown its net asset base from US$144.2 million at the end of 2008 to US$156.7 million at 30 June 2009 reflecting the equity financing undertaken in April 2009.

Liquidity and Capital Resources

At 30 June 2009, the Company had liquid resources of approximately US$32.7 million, in the form of cash and short-term investments, which were available to meet ongoing expenditures. At the present time, the Company does not have any short-term or long-term debt. The Company has adequate funds to meet its ongoing expenditures.

Principal Risks and Uncertainties

The principal risks and uncertainties affecting the business activities of the Group remain those detailed on pages 22 and 23 of the 2008 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.

Business Review:
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
- give a true and fair view of the assets, liabilities and loss of the Group; 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
14 August 2009

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 2009 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 IFRS 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 2009 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
14 August 2009

Consolidated Income Statement

	Six months ended 30 June 2009 (Unaudited) US$	Six months ended 30 June 2008 (Unaudited) US$	Year ended 31 December 2008 (Audited) US$
Revenue	**5,799,789**	9,898,129	17,306,042
Cost of sales			
Production costs	**(4,677,125)**	(4,160,338)	(7,523,972)
Depletion	**(1,016,009)**	(394,888)	(1,521,919)
Decommissioning charge	**(102,190)**	(63,771)	(151,174)
Gross profit	**4,465**	5,279,132	8,108,977
Administrative expenses	**(5,455,885)**	(5,206,256)	(9,847,526)
Operating (loss)/profit	**(5,451,420)**	72,876	(1,738,549)
Gain on sale of investment	**–**	9,032,672	12,953,064
Interest and investment income	**91,839**	683,803	1,320,189
Finance costs	**(33,257)**	(62,810)	(91,204)
(Loss)/profit on ordinary activities before taxation	**(5,392,838)**	9,726,541	12,443,500
Tax on (loss)/profit on ordinary activities	**1,083,508**	(3,549,726)	(4,971,144)
Loss/(profit) attributable to the equity shareholders of the parent company	**(4,309,330)**	6,176,815	7,472,356
(Loss) earnings per share			
Basic	**(0.07)**	0.10	0.12
Diluted	**(0.06)**	0.09	0.11

Consolidated Statement of Changes in Equity

	Six months ended 30 June 2009 (Unaudited) US$	Six months ended 30 June 2008 (Unaudited) US$	Year ended 31 December 2008 (Audited) US$
Opening equity	**144,231,873**	143,995,825	143,995,825
Total (loss)/gain recognised for the period	**(4,309,330)**	6,176,815	7,472,356
Available for sale investments:			
Realised gain on sale of investment transferred to income statement	**–**	(9,032,672)	–
Unrealised valuation gain/(loss) on investment	**–**	(119,438)	–
Transferred to profit on sale from other reserves	**–**	–	(12,354,477)
Deferred tax asset/(liability) on unrealised valuation gain or loss	**–**	2,583,722	3,441,945
Total recognised (losses)	**(4,309,330)**	(391,573)	(1,440,176)
New shares issued	**15,186,076**	161,588	250,944
Share based payments	**1,639,103**	1,282,672	1,425,280
Closing equity	**156,747,722**	145,048,512	144,231,873

Consolidated Balance Sheet
As at 30 June 2009

	30 June 2009 (Unaudited) US$	30 June 2008 (Unaudited) US$	31 December 2008 (Audited) US$
Assets			
Non-current assets			
Intangible assets – exploration	**128,026,323**	114,237,507	124,013,261
Intangible assets – others	**71,332**	170,415	111,640
Property, plant and equipment	**10,279,579**	2,932,756	8,477,099
Investments	**–**	9,159,896	–
Site restoration deposit	**3,451,332**	3,368,189	3,211,830
	141,828,566	129,868,763	135,813,830
Current assets			
Inventory	**3,470,843**	2,666,602	3,736,437
Trade and other receivables	**3,692,002**	1,857,561	4,087,719
Short-term investments	**12,864,667**	–	22,010,291
Cash and cash equivalents	**19,873,428**	40,276,235	8,139,314
	39,900,940	44,800,398	37,973,761
Total assets	**181,729,506**	174,669,161	173,787,591
Liabilities			
Current liabilities			
Trade and other payables	**(10,267,673)**	(13,272,140)	(13,758,099)
Non-current liabilities			
Provision for decommissioning	**(4,500,000)**	(4,500,000)	(4,500,000)
Provision for deferred tax	**(10,214,111)**	(11,848,509)	(11,297,619)
	(14,714,111)	(16,348,509)	(15,797,619)
Total liabilities	**(24,981,784)**	(29,620,649)	(29,555,718)
Net assets	**156,747,722**	145,048,512	144,231,873
Equity			
Called-up share capital	**685,300**	622,975	623,210
Share premium	**108,475,924**	93,262,817	93,351,938
Shares to be issued	**5,565,973**	3,784,262	3,926,870
Other reserves	**–**	2,344,144	–
Retained earnings	**42,020,525**	45,034,314	46,329,855
Total equity	**156,747,722**	145,048,512	144,231,873

Consolidated Cash Flow Statement

	Six months ended 30 June 2009 (Unaudited) US$	Six months ended 30 June 2008 (Unaudited) US$	Year ended 31 December 2008 (Audited) US$
Operating activities			
Operating (loss)/profit	**(5,451,420)**	72,876	(1,738,549)
Depletion and depreciation	**1,116,745**	550,961	1,805,408
Decommissioning charge	**102,190**	63,771	151,174
Share based payments charges	**1,652,470**	1,282,672	1,429,736
Cash flow from operations (before non-cash working capital changes)	**(2,580,015)**	1,970,280	1,647,769
(Increase)/decrease in inventory	**265,594**	37,313	(1,032,522)
Decrease/(increase) in trade and other receivables	**361,826**	72,262	(2,676,392)
(Decrease)/increase in trade and other payables	**(3,490,426)**	3,630,286	4,126,921
Cash flow from operating activities	**(5,443,021)**	5,710,141	2,065,776
Taxation paid	**(6,626)**	(728,270)	(1,373,117)
Net cash from operating activities	**(5,449,647)**	4,981,871	692,659
Investing activities			
Expenditure on intangible assets – exploration	**(4,013,062)**	(14,952,973)	(24,728,727)
Expenditure of property, plant and equipment	**(2,981,107)**	(20,792)	(6,802,348)
Purchase of intangible fixed assets – others	**–**	(3,841)	(3,841)
Purchase of other fixed assets	**–**	(71,236)	(117,097)
Purchase of investment	**–**	(13,184,387)	(13,184,387)
Sale of investment	**–**	31,500,296	41,378,216
Site restoration deposit	**(239,502)**	1,631	157,990
Short-term investments	**9,145,624**	–	(22,010,291)
Net cash (used in) investing activities	**1,911,952**	3,268,698	(25,310,485)
Financing activities			
Interest and investment income	**118,989**	769,840	1,520,555
Finance costs	**(33,257)**	(62,810)	(91,204)
Issue of shares	**15,186,076**	161,588	170,741
Net cash from financing activities	**15,271,808**	868,618	1,600,092
Net increase in cash and cash equivalents	**11,734,114**	9,119,187	(23,017,734)
Cash and cash equivalents at the beginning of the period	**8,139,314**	31,157,048	31,157,048
Cash and cash equivalents at the end of the period	**19,873,428**	40,276,235	8,139,314

Notes to Interim Consolidated Financial Statements (Unaudited)
Six months ended 30 June 2009

1. Accounting Policies
Basis of Preparation
These interim consolidated financial statements are for the six months ended 30 June 2009 and have been prepared in accordance with International Accounting Standards 14 *Interim Financial Statements*. The accounting policies applied are 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 2008 and are expected to be applied for the year ended 31 December 2009.

The interim results for the six months ended 30 June 2009 are not necessarily indicative of the results to be expected for the full year 2009.

2. Earnings Per Share
The calculation of basic earnings (loss) per share is based on the loss of US$4,309,330 (June 2008: profit US$6,176,815) and a weighted average number of Ordinary Shares of 64,538,546 shares (June 2008: 62,263,771).

The calculation of diluted earnings (loss) per share is based on the (loss) profit for the period 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 4,757,101 (June 2008: 4,707,101) with respect to outstanding share options, resulting in a diluted weighted average number of shares of 69,295,647 (June 2008: 66,970,872).

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. 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. Administrative Expenses
Administrative costs include US$1.6 million of additional costs associated with the re-entry of PD4 well in PY3 field.

5. Intangible Assets – Exploration

Intangible assets – exploration includes US$83,549,545 incurred on the block CY-OS/2. An application has been made for an extension of the appraisal period to January 2012 to the Ministry of Petroleum and Natural Gas of the Government of India to establish commerciality of the Ganesha gas discovery on the block. On 20 February 2009 a communication was received from Directorate General of Hydrocarbons to establish commerciality within 15 days or the block stands relinquished. As Ganesha is a non-associated gas discovery, the production sharing contract provides for an appraisal programme to January 2012 to establish commerciality. The Company has subsequently obtained two technical and two legal opinions confirming Ganesha as a non-associated gas discovery. Hardy continues to work with the Ministry of Petroleum and Natural Gas to confirm the extension of the appraisal period to January 2012.

6. 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 2009 are as follows:

	Number of US$0.01 Ordinary Shares	US$
Beginning of the period	62,321,047	623,210
Shares issued during the period	6,208,997	62,090
End of period	68,530,044	685,300

Notes to Interim Consolidated Financial Statements (Unaudited)

Six months ended 30 June 2009 continued

7. Share Options

Changes in outstanding share options during the six months ended 30 June 2009 are summarised below:

	Number of options	Weighted average price £
Outstanding at beginning of the period	4,707,101	2.94
Granted during the period	50,000	1.74
Outstanding at the end of period	4,757,101	2.93
Exercisable at the end of period	2,617,099	2.13

8. Contingent Liabilities

Bank guarantees for US$2,764,860 have been issued to Government of India as at 30 June 2009. The guarantees were obtained by placing a fixed deposit of Rs 25,978,403 (US$542,687) with a bank with the interest rate of 10.50%.

9. Approval of Interim Consolidated Financial Statements

These interim consolidated financial statements have been approved by the Board of Directors on 14 August 2009.

Definitions and Glossary of Terms

Definitions:

Assam block	licence AS-ONN-2000/1
AVO	amplitude variation with offset
Board	the Board of Directors of Hardy Oil and Gas plc
the Company	Hardy Oil and Gas plc
D3	licence KG-DWN-2003/1 awarded in NELP V
D9	licence KG-DWN-2001/1 awarded in NELP III
DGH	Directorate General of Hydrocarbons of the Government of India
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
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
HON	Hardy Oil Nigeria Limited
Millenium	Millenium Oil and Gas Company Limited
MOPNG	Ministry of Petroleum and Natural Gas of the Government of India
NELP	New Exploration Licensing Policy of the Ministry of Petroleum and Natural Gas of India
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
PSC	production sharing contract
PSTM	pre-stacked time migration
PY-3	licence CY-OS-90/1
Reliance	Reliance Industries Limited
SPDC	Shell Petroleum Development Company of Nigeria

Definitions and Glossary of Terms continued

Glossary of Terms:

US$	United States dollars
2D/3D	two dimensional/three dimensional
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
km^2	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
TVD	total vertical depth
TVDRT	total vertical depth from rotary table

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