9 June 2009

Heritage Oil Limited
("Heritage" or the "Company")

HERITAGE OIL LIMITED ENTERS INTO A MEMORANDUM OF UNDERSTANDING TO CREATE THE LEADING OIL COMPANY IN THE KURDISTAN REGION OF IRAQ THROUGH THE PROPOSED ACQUISITION OF GENEL ENERGY INTERNATIONAL LIMITED

Heritage Oil Limited (LSE: HOIL, TSX: HOC), an independent upstream exploration and production company, announces that it has entered into a non-binding Memorandum of Understanding ("MoU") with Genel Enerji A.Ş. The MoU is subject to various conditions and execution of binding documentation to acquire Genel Energy International Limited ("Genel"), a private independent oil and gas exploration and production ("E&P") company, which holds licences in the Kurdistan Region of Iraq ("Kurdistan"). The proposed acquisition (the "Proposed Acquisition") would be paid for wholly in new shares of Heritage and would result in Genel shareholders owning approximately 50% of the enlarged ordinary share capital of Heritage. It is anticipated that following the Proposed Acquisition, the Company, as enlarged by the acquisition of Genel ("the Enlarged Group") will be re-named HeritaGE Oil plc

Heritage's management believe that the Proposed Acquisition will offer considerable shareholder value as it will create a prominent Main Market London listed production company which should have the financial capacity to bring into production its enlarged development and exploration portfolio, create the infrastructure for the development of the Taq Taq and Miran assets in Kurdistan, while also generating significant cash flow following the commencement of oil exports on 1 June 2009.

Highlights

- Proposed Acquisition will create an Anglo-Turkish integrated oil company with two core areas; Kurdistan and Uganda
- Genel is a private, independent E&P company in Turkey, and was awarded its first licence in Kurdistan in 2002
- Genel has interests in two producing oil fields, being the joint operator of the Taq Taq field holding a 55% working interest (44% participating interest) as well as having a 25% working interest in the Tawke field
- In addition, Genel owns 25% of the Miran licence (the balance of which is owned by Heritage), 40% of the Duhok licence, 40% of the Barbahar licence and a 20% interest in the Chia Surkh licence
- Genel also owns the right to develop the Taq Taq Petroleum Refinery. This refinery in Kurdistan is primarily being built through the phased

construction and operation of a 60,000 barrels of oil per day ("bbl/d") refinery in the vicinity of the Taq Taq and Miran oil fields. The phased construction of the refinery is expected to be completed by 2012 with 40,000 bbl/d expected to be operational in 2011

- The Enlarged Group will own a number of key licences in Kurdistan where exports from the Taq Taq and Tawke fields commenced on 1 June 2009. Production is transported by the main export pipeline to the Mediterranean port city of Ceyhan in Turkey and marketed by the State Oil Marketing Organization ("SOMO")
- Net production to the Enlarged Group from Kurdistan is currently approximately 30,000 bbl/d and is estimated to be around 43,000 bbl/d by year end 2009, which should generate significant cash flow
- Cash flow generation should provide the financial flexibility to fast-track development of other assets within the Enlarged Group's portfolio
- The Enlarged Group will benefit from the additional expertise of Genel with its experience in developing the Taq Taq field, and local knowledge which should result in considerable costs savings and other benefits to the development of the Miran field
- Genel recognises the advantages of Heritage's Main Market London listing, its highly prospective portfolio, a proven technical team and management with a history of finding significant oil resources
- Based on current information, management expects the Enlarged Group to have estimated proved and probable reserves of approximately 300 million barrels of oil with multi-billion barrels of oil potential
- Suspension in trading of Heritage shares to be lifted following the release of this announcement

Summary of Transaction

- Heritage will issue 260 million ordinary shares, constituting 100% of the current issued share capital of Heritage, in exchange for acquiring the entire share capital of Genel. The new Heritage shares issued as consideration will rank pari passu with Heritage's existing ordinary shares
- The proposed executive board of the Enlarged Group following completion will include: Mr Tony Buckingham, the current CEO of Heritage, who will be appointed as Executive Chairman of the Enlarged Group; Mr. Mehmet Sepil, the current CEO of Genel, who will be appointed as CEO; Mr. Mehmet Emin Karamehmet, currently Chairman of the Çukurova Group, who will be appointed as Executive Director and Mr. Paul Atherton who will remain as CFO
- A prospectus and circular describing the proposed transaction are being prepared, including relevant Mineral Experts' Reports for the key assets of both the Company and Genel
- The Proposed Acquisition would be classified as a reverse takeover of Heritage under the Listing Rules of the Financial Services Authority and accordingly, would be subject to the approval by a majority of Heritage's shareholders voting at an extraordinary general meeting to be called by Heritage at the appropriate time

- The Enlarged Group will be one of the largest E&P companies listed on the Main Market of London and would be expected to become a member of the FTSE100 index
- The eligibility of the Enlarged Group to be admitted to the Official List has not yet been agreed with the UK Listing Authority

Transaction Details

The MoU is not legally binding in respect of its principal terms and therefore execution of binding documentation in relation to the Proposed Acquisition is subject to, among other things: (i) the respective parties conducting detailed due diligence; and (ii) the parties reaching agreement on definitive and legally binding documentation including an implementation agreement. Subject to satisfactory completion of these conditions and the ones referred to in the MoU, Heritage is targeting the third quarter of 2009 for the execution of definitive documentation. Once the legally binding documentation has been executed, completion of the Proposed Acquisition will be conditional on among other things: (i) the approval of Heritage's shareholders voting at an extraordinary general meeting to be called at the appropriate time; and (ii) admission of the ordinary shares of Heritage, as enlarged by the issue of shares in relation to the Proposed Acquisition, to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. Accordingly, there can be no assurances that the Proposed Acquisition will complete or that it will complete on the terms outlined in the MoU or herein.

Should the Proposed Acquisition proceed, it will be treated as a reverse takeover under the Listing Rules of the UK Listing Authority (the "Listing Rules"). On 3 June 2009, at Heritage's request following a significant movement in its share price, Heritage's shares were suspended from trading on the London Stock Exchange and Heritage announced that it was in preliminary discussions with a third party regarding a possible merger. This announcement provides information in relation to this possible merger, together with details of where certain publicly available information on the licences in which Genel has interests can be obtained. Accordingly, the UK Listing Authority has confirmed that the suspension in the trading of Heritage's shares will be lifted following the release of this announcement.

The Enlarged Group would be an Anglo-Turkish oil company with a unique footprint in Kurdistan, producing oil for export and for the local markets, together with an exciting prospect in the Albert Basin in Uganda. The Enlarged Group should benefit from the additional expertise of Genel, with its proven track record of turning exploration into production in Kurdistan. Together with the Ugandan assets and other assets in Africa, the Middle East and Russia, the Enlarged Group would create a leading London listed international E&P company. The financial flexibility of the Enlarged Group should also facilitate the fast track development of oil production in Kurdistan and Uganda.

It was recently announced that Genel was the nominated party by the Kurdistan Regional Government ("KRG") to acquire third party back-in rights to a number of licences in Kurdistan including the Tawke and Miran licences and there exists an associated long-term community and corporate social responsibility support liability of approximately US$1.1 billion to fund local infrastructure projects within Kurdistan which is to be funded gradually from Genel's future profits. In the event of a change of control of Genel, approximately US$605 million of such liability will become the direct responsibility of Genel's vendors to be settled on terms acceptable to the KRG. The remaining US$495 million will remain a long-term liability of Genel's acquirer and will be payable to the KRG each quarter on an asset by asset basis from a percentage of the future oil profit share of Genel. As part of the due diligence, and in consultation with the KRG, an understanding of this liability is a key part of determining the relative valuation of Genel.

As the Proposed Acquisition, if completed, will be classified as a reverse takeover of Heritage under the Listing Rules, applications will be made in due course to the UK Listing Authority and the London Stock Exchange for the Enlarged Group's ordinary shares to be admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange respectively. The eligibility of the Enlarged Group to be admitted to the Official List has not yet been agreed with the UK Listing Authority.

Information on Genel

Genel is a private, independent E&P company. Genel is 56% owned by the Çukurova Holding Group, which itself is one of the largest industrial and commercial conglomerates in Turkey, and which has a number of investments across the automotive, telecommunications, media, textile, energy and information technology sectors.

Genel has been operating in Kurdistan since 2002, following the establishment of Kurdistan as an autonomous region of Iraq. Genel's interests are set out in the table below. Genel also has a 100% interest in a development project for an oil refinery near the Taq Taq and Miran fields.

Licence (all located in Kurdistan)	Genel PSC working Interest	Operator	Award/ Acquisition Date	Estimated Proved and Probable Reserves (Mb bl)
Production				
Taq Taq	44%	TTOPCO (Addax/ Genel)	July 2002	186.7 [1]
Tawke	25%	DNO	March 2009	56.1 [2]
Exploration				
Kewa Chirmila	44%	TTOPCO (Addax/Genel)	July 2002	-
Duhok	40%	DNO	March 2009	-
Miran	25%	Heritage Oil	March 2009	-
Barbahar	40%	Genel	March 2009	-
Chia Surkh	20%	To be determined	April 2009	-

Source:
[1] Taq Taq and Kewa Chirmila reserve data from McDaniel & Associates report dated 30 June 2008
[2] Tawke reserve data from Beicip Franlab report 18 March 2009

Taq Taq oil field

Genel was a signatory to the original Production Sharing Contract ("PSC") for the Taq Taq oil field in July 2002, which was subsequently updated and re-signed by the KRG and Genel in January 2004.

In July 2005, Addax Petroleum International Ltd (a wholly-owned subsidiary of Addax Petroleum Corporation, an E&P company listed on the London and Toronto Stock Exchanges) ("Addax") farmed-in to the Taq Taq licence. In November 2006, Genel (55%) and Addax (45%) formed TTOPCO, a special purpose entity responsible for all petroleum operations under the Taq Taq licence. Genel and Addax currently hold 44% and 36% interests in the PSC, respectively, with the KRG retaining the remaining 20% interest.

The PSC was revised and amended on 21 November 2006. The revised PSC extends the geographic scope of the original PSC to include further exploration acreage, which encompases the Kewa Chirmila exploration structure that is currently being drilled. The PSC was further amended on 26 February 2008 in light of new legislation (the KRG Oil and Gas Law of Kurdistan, dated 8 August 2007).

Addax, under its continuing obligations as a reporting issuer in Canada and as a listed company in Toronto and London, is required to disclose certain information to the market in relation to its interest in the Taq Taq licence. This information in relation to the Taq Taq oil field is available on the Addax corporate website - www.addaxpetroleum.com – and on SEDAR, a regulatory filing service for Canadian reporting issuers, with the following website address - www.sedar.com.

The appraisal phase of the Taq Taq field's development has been completed and the field development is in the process of being finalised. A total of 11 wells have been drilled in the field.

On 1 June 2009, export of crude oil commenced from both the Taq Taq and Tawke oil fields through the main export pipeline to the Mediterranean port city of Ceyhan in Turkey. The crude oil is marketed by SOMO.

Taq Taq currently has gross production capacity of 40,000 bbl/d, which is in the process of being expanded to 70,000 bbl/d by year end. Crude is currently trucked approximately 115km to an uploading facility at Khurmula and further pumped into the export pipeline Kirkuk - Yumurtalik, which has a total capacity of 1.6 million bbl/d. A pipeline extension from Taq Taq to the main export pipeline is planned with a capacity of 450,000 bbl/d at an estimated cost of approximately US$130-150 million. Once the pipeline construction is completed over the next 12 months, the Taq Taq field production is expected to gradually increase from 70,000 bbl/d base production at year end to production of 162,000 bbl/d by year end 2010. The spare capacity in the field pipeline is expected to be used to carry future Miran production and other nearby discoveries.

Tawke

Genel has a 25% interest in the Tawke PSC, which is 55% owned and operated by DNO International (“DNO”), a Norwegian E&P company listed on the Oslo Stock Exchange. The KRG holds the remaining 20% interest in the PSC which is carried exclusively by DNO.

DNO, under its continuing obligations as a listed company in Oslo, is required to disclose certain information to the market in relation to its interest in the Tawke licence. This information in relation to the Tawke oil field is available on the DNO corporate website - www.dno.no.

Tawke has also commenced exports and due to its favourable location, a pipeline has already been constructed to the main export pipeline. This pipeline was completed in Q1 2009. The Tawke oil field commenced production on 1 June 2009 and gross production is expected reach 50,000 bbl/d by the year end.

Miran

Genel has a 25% interest in the Miran PSC, an exploration asset. The balance of the interest in this PSC is owned by Heritage. The KRG’s interest in the Miran PSC is carried until there is a commercial discovery, upon which the KRG has a back-in right to obtain 25%, thus pro-rata diluting the interests of both Genel and Heritage.

As stated in the announcement by Heritage, dated 6 May 2009, the Company believes that first production from Miran could be fast tracked to begin as early as the end of 2009. Miran is located adjacent to Taq Taq, requiring an extension to the pipeline of approximately 30 km, allowing Miran to access the Taq Taq infrastructure and the export pipeline.

Further information in relation to the Miran oil field is available on the Heritage corporate website - www.heritageoilltd.com.

Taq Taq Petroleum Refinery Company Limited ("TTPRC")

There is currently a deficit of approximately 97,500 bbl/d of refined oil products in Northern Iraq, requiring the import of approximately US$4bn of refined oil products per annum.

TTPRC is building the refinery in Kurdistan primarily through the phased construction and operation of the 60,000 bbl/d Taq Taq Petroleum Refinery near the city of Koya, in the vicinity of the Taq Taq and Miran fields.

TTPRC anticipates construction of the Taq Taq Petroleum Refinery will take place in two phases, the first of which will reach 40,000 bbl/d refining volume by 2011 with the subsequent phase adding 20,000 bbl/d in 2012.

TTPRC has already entered into or negotiated a number of the key contracts to implement this strategy, in particular a Petroleum Operations Contract (dated 26

February 2008 and amended 12 September 2008) pursuant to which the KRG approved and authorised the construction and operation of the proposed refinery and also a Processing Agreement expected to be entered into shortly and governing the provision by the KRG of crude oil feedstock. The land adjacent to the TTOPCO Truck Loading Station has already been allocated for the construction of the refinery and has been designed in accordance with Taq Taq crude oil specifications.

Pursuant to the above-mentioned agreements, TTPRC is guaranteed a tolling fee of US$15 per barrel of oil for the first 158 million barrels of oil and US$7.5 per barrel of oil thereafter, providing an additional market for the Taq Taq and Miran oil field production.

The first phase of construction is estimated to require funding of approximately US$340 million. The second phase is estimated to require approximately US$170 million bringing the total estimated funding to approximately US$510 million.

Genel's other exploration assets in Kurdistan

- Kewa Chirmila licence — 44% interest in the licence and joint operator, 36% owned by Addax and the KRG has a 20% carried interest. An exploration well is in the process of being drilled, following the acquisition of a 2D seismic survey in 2007
- Duhok licence – 40% interest in the Duhok PSC, an exploration asset, which is 40% owned and operated by DNO. The KRG will retain the remaining 20% interest in the PSC
- Barbahar licence – 40% interest in Barbahar PSC, an exploration asset. Genel is operator under the PSC, with a further 40% interest to be assigned to a third party (still to be determined). The KRG will retain the remaining 20% interest in the PSC
- Chia Surkh – 20% interest in the Chia Surkh PSC, an exploration asset and a further interest to be assigned to two third parties (still to be determined)

Proposed New Executive Directors to the board of Heritage

Mehmet Sepil, proposed CEO of the Enlarged Group, 55, is a graduate of the Civil Engineering Department of the Middle East Technical University, in Ankara, Turkey and holds a Master of Science Degree in Coastal and Harbor Engineering from the same university. Mr. Sepil has over 27 years of construction engineering, financial and administrative management experience in construction and high tech companies, which includes advanced field operations, international contracting and business development experience within NATO, the US and Turkish Government projects as well as private sector projects.

Mehmet Emin Karamehmet, proposed Executive Director, is Chairman of the board of directors of the Çukurova Holdings Group.

Proposed Acquisition of Genel

The Proposed Acquisition will create the Enlarged Group with expected net working interest production of approximately 45,000 bbl/d by year end, increasing in the medium term to approximately 90,000 bbl/d from the Taq Taq and Tawke fields in 2011, with the potential to double production with the development of the Miran oil field. The development of the refinery will, in addition, allow increased production by up to 60,000 bbl/d once the refinery is running at peak capacity.

Based on current information, management expects the Enlarged Group to have net proved and probable reserves of approximately 300 million barrels of oil and multi-billion barrel oil potential.

In addition, the Enlarged Group should offer shareholder value with high impact exploration programmes in Kurdistan and Uganda and further potential in other areas: Tanzania, Malta, the Democratic Republic of Congo, Mali and Pakistan. The Enlarged Group will retain strategic focus on the Middle East and Africa.

The KRG has been consulted on the Proposed Acquisition and welcomes the transaction.

Commenting on today's announcement, Dr Ashti Hawrami, Minister of Natural Resources for the Kurdistan Regional Government said:
"We are very pleased that the two companies are coming together. The new Company, trading on the London Stock Exchange, will bring together an integrated plan for the development and fast track production of the Taq Taq and Miran oil fields. The financial capability and skill base of the enlarged Heritage should ensure earlier production and therefore significantly faster generation of revenues for the Government of Iraq to create substantial value as an employer, as a tax payer and as a provider of oil revenue for the benefit of the people of Iraq."

Tony Buckingham, Chief Executive Officer of Heritage, commented:
"The potential combination of our two companies brings together a long held ambition to develop the assets in our core areas. We believe that shareholders will support the transaction which is anticipated to create significant shareholder value by bringing these fields to production in a timely manner and generating cash flow to explore and develop our multi-billion barrel resource potential both in Northern Iraq and Uganda. Heritage also recognises the strategic benefits of working with a partner such as Genel with a track record of turning exploration into production in the region and the positioning it will provide with respect to the rest of Iraq and the Middle East."

Mehmet Sepil, Chief Executive Officer of Genel, commented:
"We are excited about the possibility of combining with Heritage to create a significant Main Board listed company with a strong financial capability and access to international capital markets, international expertise and with the aim of expanding the activities of the Enlarged Group in other countries in the Middle East. We intend to bring our world-class Taq Taq and Tawke assets into production immediately and the Miran asset subsequently. Production will be for both exports to the world market and also to serve the local market, generating

significant cash flows for the benefit of all shareholders. The combination of Heritage with its worldwide experience and Genel's Turkish nationality together with its significant long experience and track record in the Kurdistan Region would help to develop our assets in an efficient and timely manner and would deliver excellent value to all stakeholders including the people of Iraq."

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Notes to Editors

Heritage

- Heritage is listed on the Official List of the UKLA and admitted to trading on the Main Market of the London Stock Exchange and is a constituent of the FTSE 250 Index. The trading symbol is (LSE: HOIL). Heritage has a further listing on the Toronto Stock Exchange (TSX: HOC).

- Heritage is an independent upstream exploration and production company engaged in the exploration for, and the development, production and acquisition of, oil and gas in its core areas of Africa, the Middle East and Russia.

- Heritage has a producing property in Russia and exploration projects in Uganda, Kurdistan, the Democratic Republic of Congo, Malta, Pakistan, Tanzania and Mali.

- For further information please refer to our website at **www.heritageoilltd.com**

Genel

- Genel is a private and independent upstream exploration and production company engaged in the exploration of, and development and production of oil and gas assets in Kurdistan.

- Genel has two producing licences, five exploration projects and a 100% in the development of an oil refinery, all of which are in Kurdistan.

- For further information please refer to our website at **www.genel-enerji.com.**

Financial Information for Genel for the year ended 31 December 2008

Set out below are the audited financial statements for Genel for the year ended 31 December 2008 which have been prepared in accordance with International Financial Reporting Standards (IFRS).

Should the Proposed Acquisition proceed, a prospectus will be required to be published in relation to the issue of shares to shareholders of Genel. This prospectus will include, pursuant to the Listing Rules and Prospectus Rules of the UK Listing Authority, audited financial statements for Genel prepared on a consistent basis with the accounting policies adopted in Heritage's annual accounts for the year ended 31 December 2008. It is possible, therefore, that the financial information contained in the prospectus may differ from the financial statements set out below.

As described in this announcement, Genel has acquired interests in the Tawke, Miran, Duhok, Barbahar and Chia Surkh licences in the Kurdistan Region of Iraq since 31 December 2008. These acquisitions are not reflected in the summary financial statements presented below.

BALANCE SHEET
As at 31 December 2008
(In United States Dollars)

ASSETS

	Notes	2008	2007
Current assets			
Cash and cash equivalents	5	108,183	2,036,048
Inventory	6	7,377,984	2,742,323
Trade and other receivables	7	3,402,922	646,145
Total current assets		**10,889,089**	**5,424,516**
Non-current assets			
Intangible assets	8	117,954,358	78,919,790
Tangible assets	9	15,666,746	507,007
Other non-current assets		-	48,115
Total non-current assets		**133,621,104**	**79,474,912**
Total assets		**144,510,193**	**84,899,428**

LIABILITIES AND EQUITY

	Notes	2008	2007
Current liabilities			
Accounts payable	11	11,209,595	2,788,000
Accrued liabilities	12	14,991,708	6,449,005
Short-term debt to shareholders	13	982,091	722,054
Short-term debt from Joint Venture	13	5,699,570	-
Total current liabilities		**32,882,964**	**9,959,059**
Non-current liabilities			
Long-term Payable to joint venture partner	10	52,633,779	52,633,778
Long-term payable to shareholders	13	67,757,799	26,769,249
Reserve for employee severance indemnity		38,908	21,065
Total non-current liabilities		**120,430,486**	**79,424,092**
Total liabilities		**153,313,450**	**89,383,151**
Equity			
Share capital	14	50,000	50,000
Accumulated loss		(8,853,257)	(4,533,723)
		(8,803,257)	**(4,483,723)**
Total liabilities and equity		**144,510,193**	**84,899,428**

The notes are an integral part of these financial statements

STATEMENT OF OPERATIONS
For the year ended 31 December 2008
(In United States Dollars)

	Notes	2008	2007
Revenue	15	2,137,221	-
Cost of sales		(1,235,821)	-
Gross profit		**901,400**	**-**
Operating expenses	16	(2,686,976)	(941,945)
General and administrative expense	17	(343,850)	(174,516)
Results from operating activities		**(2,129,426)**	**(1,116,461)**
Finance expense		(2,209,144)	-
Finance income		19,036	-
Net finance expense	**18**	**(2,190,108)**	**-**
Net Loss		**(4,319,534)**	**(1,116,461)**

The notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2008
(In United States Dollars)

	Share Capital	Accumulated Loss	Total
Appropriations:			
Net loss for the year		(1,116,461)	(1,116,461)
At 31 December 2007	**50,000**	**(4,533,723)**	**(4,483,723)**
Appropriations:			
Net loss for the year		(4,319,534)	(4,319,534)
At 31 December 2008	**50,000**	**(8,853,257)**	**(8,803,257)**

The notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2008
(Amounts in tables in United States Dollars)

Cash flows from operating activities	**Notes**	**2008**	**2007**
Loss for the year		**(4,319,534)**	**(1,116,461)**
Adjustments for:			
Depreciation and amortization	8	597,677	-
Change in inventories	6	(4,635,661)	(2,041,511)
Change in trade and other receivable	7	(2,756,777)	(584,628)
Change in other non-current assets		48,115	-
Change in accrued liabilities	12	8,542,703	-
Change in accounts payable	11	8,421,595	5,490,925
Change in debt from joint venture	13	5,699,570	-
Change in reserve for employee severance indemnity		17,843	16,123
Net cash from operating activities		**11,615,531**	**1,764,448**
Cash flows from investing activities			
Change in payable to joint venture partner	10	-	31,599,131
Change in debt from shareholders	13	41,248,587	22,517,816
Acquisition of intangible and intangible assets	8,9	(54,791,983)	(53,845,347)
Net cash from (used for) investing activities		**(13,543,396)**	**271,600**
Net increase/(decrease) in cash and cash equivalents		(1,927,865)	2,036,048
Beginning cash		2,036,048	**-**
Ending cash	**5**	**108,183**	**2,036,048**

The notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008
(Amounts in tables in United States Dollars unless otherwise noted)

1 Reporting entity

Genel is domiciled in Anguilla, British West Indies. It was established on 13 November 2006. The financial statements of Genel as at and for the year ended 31 December 2008 comprise Genel and Genel's interest in jointly controlled entity "Taq Taq Operating Company".

Genel and Addax Petroleum International Limited signed a joint operating agreement relating to the "Taq Taq Development Block" and "Kewa Chirmila Exploration Block" (the agreement area) in Northern Iraq. Taq Taq Operating Company is jointly owned by Genel and Addax Petroleum International Limited at a ratio of 55% and 45% respectively. Taq Taq Operating Company is currently devoting most of its efforts to activities such as exploring for and developing of crude oil resources in the agreement area. In Iraq, the ownership of unexploited petroleum resources remains with the state, whereas exploration and production is carried out by private contractors under a specific production sharing contract, or PSC. The PSC is a contract between an oil-producing company and the host government that governs the rights and duties of both parties in respect of the operations of a production block, and in particular governs how the revenues from oil produced are to be shared between the government and the contracting oil producers. Genel is entitled to operate under the PSC in Northern Iraq. The counterparties of the PSC are on one part Genel and Addax Petroleum International Limited as the private contractor and on the other part, the Federal Region of Kurdistan as the owner of the petroleum resources.

Under the PSC, the contractors Genel and Addax Petroleum International Limited typically bear all risks and costs for exploration, development and production through jointly controlled entity (Taq Taq Operating Company Limited). In return, if exploration is successful, Genel recovers the sum of its investment and operating costs ("cost oil") from a percentage of the production and sale of the crude oil. Genel is also entitled to receive a share of production in excess of cost oil ("profit oil"). In general, the sharing of profit oil varies between the working interest holders and the government from one PSC contract to another PSC contract. The sum of cost oil attributable to Genel's share of costs and Genel's share of profit oil represents Genel entitlement to oil produced under a PSC.

"Crude Oil" means crude mineral oil, asphalt, ozokerite and all kinds of hydrocarbons whether in a solid, liquid or mixed state at the wellhead or separator or which is obtained from Natural Gas through condensation or extraction.

The term of the contract is for twenty-five consecutive years commencing from 25 February, 2003, unless the Contract is terminated earlier in accordance with Article 28 of the contract. The contract was initially made on 25 February 2003 between Genel Enerji A.Ş and the Kurdistan Regional Government which was transferred to Genel on 21 November 2006.

1 Reporting entity (continued)

The government is entitled to terminate the contract by giving ninety (90) days' advance written notice thereof to all parties, when the contractor commits a material breach in relation to its obligations indicated in the contract or if the contractor has not accomplished its warranties. At any time, if in the opinion of the contractor, circumstances do not warrant continuation of the petroleum operations; the contractor may, by giving written notice to that effect to the Government relinquish its rights and be relieved of its obligations pursuant to the contract except for the contractor's obligations to complete the minimum work program.

Management's plan regarding going concern

Based on the announcement by KRG, the Management expects that in June 2009 some 40,000 bbl/d of crude oil shall commence (by trucking) from the Taq Taq Field to the newly installed temporary loading and unloading facilities at the Khurmala Station and from there onwards it will be transported through the existing pipeline networks to the export pipeline. Moreover, the Management has taken the necessary precautions to increase the amount of crude oil sold to the local market. The local sales commenced in 2008 at an average rate of 1,300 bbl/d and continued to grow at a rapid rate. In April 2009, the average daily local sales increased to 7,300 bbl/d which is expected to increase 10,000 bbl/d in May. With the above mentioned sales figures, Genel will recover from its current position in a short period of time.

2 Basis of preparation

(a) Statement of compliance

These financial statements of Genel have been prepared in accordance with International Financial Reporting Standard (IFRS).

These financial statements have been approved by the board of Directors.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that the liability "reserve for employee severance indemnity" is stated at its fair value if reliable measures are available

(c) Functional and presentation currency

The financial statements are presented in US Dollars, which is Genel's functional currency. All financial information is presented in US Dollar.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

2 Basis of preparation *(continued)*

Valuation of crude oil reserves represents a significant estimate that requires judgment

Genel obtained an appraisal report of the Crude Oil Reserves from McDaniel and Associates Consultants Limited as of 30 June 2008 for Taq Taq field in Iraq. The appraisal report is based on the forecast prices and costs of crude oil. Genel's share of total proved and probable and possible light and medium crude oil gross (*) reserves are 314,464,000 and net (**) reserves are 97,309,000 barrels respectively.

(*) Gross reserves include the working interest reserves before deductions of royalties payable to others
(**) Net reserves are based on the on Genel's share of Cost Oil and Profit Oil revenues

3 Significant accounting policies

Genel and Addax Petroleum International Limited ("Contractor") shall provide or procure the provision of all funds required to conduct Petroleum operations under the agreement and the contractors shall be entitled to recover its costs and expenses from proceeds of Petroleum produced from the agreement area.

(a) Interests in Joint Venture

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The financial statements include the assets that Genel controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that Genel incurs and its share of the income that it earns from the joint operation.

Intercompany balances and any unrealized gains and losses or income and expenses arising from transactions between Genel and the joint venture, are eliminated in preparing the accompanying financial statements.

(b) Intangible assets

(i) Recognition and measurement

IFRS 6 "Exploration for and Evaluation of Mineral Resources" requires that exploration and evaluation assets are classified as tangible or intangible according to the nature of the asset. Some exploration and evaluation assets are treated as intangible (e.g. drilling rights), whereas others are tangible (e.g. vehicles and drilling rigs). To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is part of the cost of the intangible asset. However, using a tangible asset to develop an intangible asset does not change a tangible asset into an intangible asset

Genel uses the "Full Cost" method to account for the exploration and development costs. All expenditures on pre-licence, licence acquisition, exploration, appraisal and development activities including enhanced oil recovery and extended life projects are capitalized and amortized using the units-of-production method based on proven and probable mineral reserves.

3 Significant accounting policies *(continued)*

(b) Intangible assets *(continued)*

(i) Recognition and measurement *(continued)*

All other costs are expensed as incurred including operating and production-related costs, such as tariffs and royalties, and also administrative and other general overhead costs not directly attributable to the activities referred to in the paragraph above.

Changes in the cost and reserve estimates do not give rise to prior year adjustments. Where estimates are revised, the carrying amount is amortized using the revised estimates from the date of the revision.

(ii) Amortization

Amortization is charged using the unit-of-production method for the intangible assets based on the proven and probable reserve of 424,300,000 barrels as at December 31, 2008.

(c) Inventories

(i) Materials and Supplies

Materials and supplies are valued at the lower of average cost or net realizable value.

(d) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and at banks and daily deposits.

(e) Trade receivables

Trade receivables are recorded at the original invoice amount.

(f) Reserve for Employee Severance Indemnity

In accordance with the existing social legislation in Turkey, the subsidiary Company (TTOPCO) is required to make lump-sum payments to it Turkish employees whose employment is terminated due to the retirement or for other reasons other than resignation or misconduct.

In the accompanying financial statements Genel has reflected a reserve for employee severance indemnity calculated by using a discount factor by taking into consideration the current market yield at the balance sheet date on government bonds, in accordance with IAS 19 “Employee Benefits”.

(g) Provision

A provision is recognized in the balance sheet when Genel has a present obligation (legal or constructive) because of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

3 Significant accounting policies *(continued)*

(h) Asset retirement obligation

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred. Upon the Production Sharing Agreement, Genel has no asset retirement obligation.

(i) Revenue

Revenue is recognized to the extent that is probable that the economic benefit will flow to Genel and the revenue can be reliably measured. Revenues represent the invoiced value of services rendered. The PSC between Genel and “Addax Petroleum International Limited as the private contractor and on the other part, the Federal Region of Kurdistan as the owner of the petroleum resources, set all the sale and production sharing activities.

(j) Accounts payable

Accounts payable, other payables and accrued expenses are carried at cost and not discounted per IAS 39, due to their short-term nature.

(k) Taxes

According to the PSC agreement article numbered 16, the Kurdistan Regional Government is liable for payment of the taxes of the Contractor in respect of the payment to the appropriate taxation or other governmental authorities, courts or other judicial bodies in the Kurdistan Region of all or any duties or taxes which may be levied, charged, calculated or assessed against or all any of the operator, the contractor. According to the tax jurisdiction of Anguilla, Genel is not subject to corporation tax.

(l) Related Parties

For the purpose of this report, the shareholders of Genel, the companies controlled by/ associated with them and top management are referred to as related parties.

(m) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3 Significant accounting policies (continued)

(n) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2008, and have not been applied in preparing these consolidated financial statements:

- IFRS 8, Operating Segments (effective for financial years beginning on or after 1 January 2009) IFRS 8 replaces IAS 14 Segment Reporting and adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. Genel is in the process of assessing the impact of this new standard will have on its financial statements.
- Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for Genel's 2009 financial statements and will constitute a change in accounting policy for Genel. In accordance with the transitional provisions Genel will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.
- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, becomes mandatory for Genel's 2009 financial statements. Genel plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements
- IFRIC 13, Customer Loyalty Programmes addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits that operate, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for Genel's 2009 financial statements, is not expected to have any impact on the financial statements.

3 Significant accounting policies (continued)

(n) New Standards and Interpretations not yet adopted *(continued)*

- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for Genel's 2009 financial statements, with retrospective application required, are not expected to have any impact on the financial statements.
- Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by Genel in a subsidiary, while maintaining control, to be recognized as an equity transaction. When Genel loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for 2010 financial statements, are not expected to have an impact on Genel's financial statements.
- The IFRIC issued on 3 July 2008 an Interpretation, IFRIC 15 Agreements for the Construction of Real Estate. The Interpretation will standardize accounting practice across jurisdictions for the recognition of revenue among real estate developers for sales of units, such as apartments or houses before construction is complete. The Interpretation is effective for annual periods beginning or after 1 January 2009 and is not expected to have any effect on the financial statements of Genel.
- Amendment to "IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items" clarifies the existing principles that determine whether specific risks and portions of cash flows are eligible for designation in a hedging relationship. The amendments are to be applied retrospectively for annual periods beginning on or after 1 July 2009, with earlier application permitted. The amendment is not expected to have any effect on the consolidated financial statements.

4 Financial risk management

Genel has exposure to the following risks from its use of financial instruments:

i. credit risk

ii. liquidity risk

iii. market risk

This note presents information about Genel's exposure to each of the above risks, Genel's objectives, policies and processes for measuring and managing risk, and Genel's management of capital. Further quantitative disclosures are included throughout these financial statements.

Genel management has overall responsibility for the establishment and oversight of Genel's risk management framework.

4 Financial risk management *(continued)*

Genel's risk management policies are established to identify and analyze the risks faced by Genel, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Genel's activities.

Credit risk

Credit risk is the risk of financial loss to Genel if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Genel's cash and cash equivalents.

Liquidity risk

Liquidity risk is the risk that Genel will not be able to meet its financial obligations as they fall due. Genel's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses and risking damage to Genel's reputation.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates will affect Genel's income. Genel does not use any hedging instruments in order to manage volatility in profit or loss.

(i) Currency risk

Genel is exposed to currency risk on purchases that are denominated in a currency other than the US Dollar which is the functional currency of Genel. The purchases are primarily the US Dollar and accordingly Genel does not face any significant currency risk.

(ii) Interest rate risk

Genel has not entered into any type of derivative instrument in order to hedge interest rate risk at 31 December 2008.

5 Cash and cash equivalents

Cash and cash equivalent include cash at banks.

	2008	2007
Cash at banks	108,183	2,036,048
Cash and cash equivalents	**108,183**	**2,036,048**

6 Inventory

As at 31 December 2008 and 2007, inventories are as follows:

	2008	2007
Tubing & Casing	3,922,801	1,365,872
Mud and Cement	845,946	559,083
Completion. Equipment	711,715	274,216
Well Head Equipment	539,925	81,969
Materials	534,562	-
Drillbits	520,909	118,873
Cement Additives and Casing Accessories	271,626	304,349
Other	30,500	37,961
Total	**7,377,984**	**2,742,323**

7 Trade and other receivables

As at 31 December 2008 and 2007, trade and other receivables are as follows:

	2008	2007
Trade receivable	2,137,221	-
Other receivable	1,265,701	646,145
Total current assets	**3,402,922**	**646,145**

Trade receivable arises from local sales.

Other receivable represents receivables from Taq Taq Production Refinery Company. Genel undertook a "Refinery Project" which is being set up in the Taq Taq Field. The licences, the necessary legal framework and agreements are finalised with the Kurdistan Regional Government (KRG) a separate Refinery Company is established. The costs incurred for the Project is billed to the Refinery Company. Such costs incurred for the project are treated as other receivable. The Refinery will primarily use Taq Taq Crude and therefore will provide economic benefit to Taq Taq project. Genel's exposure to credit and currency risk and impairment losses related to trade and other receivable are disclosed in note 21.

8 Intangible assets

As at 31 December 2008 and 2007, intangible assets are as follows:

Cost	January 1, 2008	Additions	Disposal	December 31, 2008
Drilling (exploration and appraisal)	37,663,679	13,487,364	-	51,151,043
Employee Costs	10,532,513	6,268,750	-	16,801,263
Geological and Geophysical Researches	11,972,802	2,351,726	-	14,324,528
Security Expenses	3,689,473	3,784,376	-	7,473,849
PSC Requirements	2,750,000	3,492,500	-	6,242,500
Infrastructure Upgrades	3,113,520	2,248,051	-	5,361,571
Health Safety Environment	2,178,415	361,542	-	2,539,957
Fees	1,365,393	558,489	-	1,923,882
Travel	1,109,121	612,320	-	1,721,441
Development overhead	-	1,383,686	-	1,383,686
Exploration overhead	-	1,616,110	-	1,616,110
Total Exploration Block	3,502,779	2,083,917	-	5,586,696
Other	1,042,095	1,383,414	-	2,425,509
Capitalized Exploration and Appraisal Costs (*)	**78,919,790**	**39,632,245**	**-**	**118,552,035**

Accumulated depreciation	January 1, 2008	Depreciation	Disposal	December 31, 2008
Capitalized Exploration and Appraisal Costs	-	597,677	-	597,677
	-	597,677	-	597,677
Net book value	**78,919,790**	**39,034,568**	**-**	**117,954,358**

(*) Capitalized exploration and appraisal costs are comprised of the costs of Taq Taq Block and Kewa Chirmila Block.

Drilling costs include expenditures whether directly or indirectly incurred for well drilling, completing and reworking operations including labor, engineering, subcontractor fees, material and equipment consumed or lost, perforation, formation testing, cementing, well-lodging and transportation.

Geological and geophysical expenditures are used to locate and identify properties with the potential to produce commercial quantities of oil as well as to determine the optimal location for exploratory and developmental wells

8 Intangible assets *(continued)*

Security expenses are comprised of costs incurred to secure the oil field and its environment. PSC requirements represent a contractual liability arising from the terms of the PSC signed between joint venture partners and KRG.

Since the production has commenced in the current year, these capitalized costs including Taq Taq Block and Kewa Chirmila Block costs, are amortized using the units of production method based on proven and probable mineral reserves. Upon the appraisal report of the Crude Oil Reserves from McDaniel and Associates Consultants Limited as of 30 June 2008, the reserves details are as follows:

	Total Crude Oil Reserves		
Reserve Category	**Property Gross Mbbl**	**Company Gross Mbbl**	**Company Net Mbbl**
Proved Undeveloped Reserves	118,135	51,980	21,524
Probable Reserves	306,165	134,713	43,312
Proved +Probable Reserves	424,300	186,692	64,836
Possible Reserves	290,390	127,771	32,473
Proved +Probable +Possible Reserves	714,690	314,464	97,309

As at 31 December 2008 total amortization of capitalized cost is amounting to 597,677 USD and net value of the capitalized cost is amounting to 117,954,358 USD.

9 Tangible assets

Tangible asset is comprised of cost of facility which is in construction in progress phase as of 31 December 2008. Total addition to the facility in the current year is USD 15,159,738.

10 Payable to joint venture partner

This account represents payable to Addax Petroleum International Limited; the other joint venture party in the jointly controlled entity Taq Taq Operating Company Limited. As per the agreements between Addax Petroleum International Limited and Genel, the account will be paid from the proceeds of the project.

11 Accounts payable

	2008	2007
Accounts Payable	11,209,595	2,788,000
Total	**11,209,595**	**2,788,000**

Trade payables are mainly comprised of amounts outstanding from purchases and ongoing costs. Genel management considers that the carrying amount of trade payables approximates their fair value.

12 Accrued liabilities

As at 31 December 2008 and 2007, accrued liabilities are as follows:

	2008	2007
Drilling (Exploration & Appraisal) + (Workovers)	4,537,304	1,735,279
Exploration Overhead Accrual	3,443,335	443,540
Facilities	2,808,958	22,612
Expenses accrual	2,209,144	-
PSC Requirement	898,062	2,750,000
Security Expenses	250,936	205,398
Employee Cost	206,389	116,094
Inventory	127,684	436,994
IT & Communications	-	182,138
Others	509,896	556,950
Total	**14,991,708**	**6,449,005**

13 Related party balances and transactions

Related party balances represent payables to Genel Enerji AŞ for funding of the investments. Details of significant related party transactions with shareholders are set out below.

As at December 31, 2008 and December 31, 2007, the amounts due to and due from related parties were as follows:

	2008	2007
Due from related parties		
Taq Taq Petroleum Refinery Company	1,265,701	-
Due to related parties		
Addax	52, 633,779	52,633,778
Taq Taq Operating Company	5,699,570	-
Genel Enerji Suleimaniah	982,091	722,054
Genel Enerji A.Ş	67,757,799	26,769,249

There is not any significant related party transaction in the current year.

14 Share Capital

Genel's shareholder and its ownership interest at 31 December 2008 is as follows:

	2008		2007	
	Number of Shares	**% Ownership of Shares**	**Number of Shares**	**% Ownership of Shares**
Genel Enerji AŞ.	**50,000**	100%	**50,000**	100%

15 Revenue

As at 31 December 2008 and 2007, revenue are as follows:

	31 December 2008	31 December 2007
Oil sales (local)	2,137,221	-
Total	**2,137,221**	**-**

16 Operating expenses

Although, the production process has started in the last quarter of 2008; the exploration, appraisal and development phase have still continued. Operating expenses represent the expenses incurred particularly for the extraction of the oil given to the government free-of-charge and costs of unsuccessful explorations which are not capitalized by Genel.

17 General and administrative expenses

As at 31 December 2008 and 2007, general and administrative expenses are as follows:

	2008	**2007**
Consultancy fee	206,479	140,523
Salary expenses	79,248	17,994
Travel expenses	50,270	15,550
Other	7,853	449
Total	**343,850**	**174,516**

General and Administrative Expenses mainly represent expenses incurred for the appraisal report on the Taq Taq field prepared by McDaniel and Associates Consultants Limited in 2008 and the fee for audit services from KPMG.

18 Net finance expense

As at 31 December 2008 and 2007, net finance expenses are as follows:

	2008	**2007**
Interest expense	(2,209,144)	-
Other	19,036	-
Total	**(2,190,108)**	**-**

19 Operating lease

Genel leases drilling rig and temporary production facilities under operating leases. The drilling rig lease runs for a period of 2 years starting from the commencement date, 14 August 2008, with an option to cancel the lease by paying early termination fee.

Early production facilities are leased for a term of 1 year starting from 05 June 2008. The contract can be cancelled with 10 days notice.

During the year ended 31 December 2008, USD 3,332,881 was recognised as an expense in the income statement in respect of operating leases (2007:nil).

20 Commitments and contingencies

Genel does not have any commitments or contingencies as of 31 December 2008.

Even after the establishment of new Iraqi government in May 2006, the public security situation and political instability in Iraq is still a major problem. Attacks against multinational forces, Iraqi security units and even multinational companies engaged in the reconstruction of Iraq, are common in Iraq where oil fields are located.

21 Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of Genel's business.

Credit Risk

Exposure to credit risk:
The carrying amount of financial asset represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

		2008	2007
Cash and cash equivalents	*5*	108,183	2,036,048
Trade and other receivables	*6*	3,402,922	646,145

21 Financial instruments (continued)

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	2008				
	Carrying amount	***Contractual Cash flows***	***6 months Or less***	***6-12 months***	***More than 1 year***
Non-derivative financial Liabilities					
Accounts payable	11,209,595	11,209,595	11,209,595	-	-
Short-term debt to shareholders	982,091	982,091	982,091	-	-
Short-term debt from subsidiaries	5,699,570	5,699,570	5,699,570		
Long-term Payable to joint venture partner	52,633,779	52,633,779			52,633,779
Long-term payable to shareholders	67,757,799	67,757,799			67,757,799
	138,282,834	**138,282,834**	**17,891,256**	**-**	**120,391,578**

	2007				
	Carrying amount	***Contractual Cash flows***	***6 months Or less***	***6-12 months***	***More than 1 year***
Non-derivative financial Liabilities					
Accounts payable	2,788,000	2,788,000	2,788,000	-	-
Short-term debt to shareholders	722,054	722,054	722,054		
Short-term debt from subsidiaries	-	-	-	-	-
Long-term Payable to joint venture partner	52,633,778	52,633,778			52,633,778
Long-term payable to shareholders	26,769,249	26,769,249			26,769,249
	82,913,081	**82,913,081**	**3,510,054**	**-**	**79,403,027**

21 Financial instruments (continued)

Currency risk

Exposure to currency risk:

Genel is exposed to foreign currency risk on purchases that are denominated in a currency other than the respective functional currency of Genel. The currencies giving rise to this risk are primarily Turkish Lira, Pounds Sterling ("GBP") and Euro.

Genel has not entered into any forward transactions in order to manage the foreign currency risks

		31 December 2008		31 December 2007	
Assets		**Original Currency**	**USD**	**Original currency**	**USD**
Cash and cash equivalents	EUR	24	34	-	-
Total foreign currency assets			**34**		**-**
Liabilities					
Trade Payables	EUR	67,107	94,996	145,972	214,340
	GBP	59,965	86,932	20,900	41,737
	TL	86,511	57,205	15,031	12,906
Total foreign currency liabilities			**239,133**		**268,983**
Net foreign currency position			**(239,099)**		**(268,983)**

Sensitivity analysis

Considering the foreign currency position as at December 31, 2008, it is estimated that a general decrease of one percentage point in the value of the USD against other foreign currencies would decrease Genel's income before tax approximately by $ 2,390 (31 December 2007: $ 2,689).

22 Subsequent events

Subsequent to 31 December 2008 Genel acquired new assets in Northern Iraq where its current assets (Taq Taq and Kewa Chirmila Oil Fields) are located. Genel committed one billion one hundred million US Dollars Capacity Building Payment to KRG for the purchase of the following assets. This consideration will be payable on quarterly basis by allocating 30% of the profit oil generated from the assets.

22 Subsequent events (continued)

On March 31, 2009, an "Assignment, Novation and Ammendment Agreement" has been signed between Kurdistan Regional Government of Iraq, DNO Iraq AS and Genel. As per the agreement, DNO Iraq AS transferred so called "3rd party interest" corresponding to 25% of the Tawke Block in Northern Iraq to Genel.

On March 31, 2009, an "Assignment, Novation and Ammendment Agreement" has been signed between Kurdistan Regional Government of Iraq, DNO Iraq AS and Genel. As per the agreement, DNO Iraq AS transferred so called "3rd party interest" corresponding to 40% of the Dohuk Block in Northern Iraq to Genel.

On March 31, 2009, an "Assignment, Novation and Ammendment Agreement" has been signed between Kurdistan Regional Government of Iraq, Heritage Energy Middle East Limited and Genel. As per the agreement, Heritage Energy transferred so called "3rd party interest" corresponding to 25% of the Miran Block in Northern Iraq to Genel.

On March 31, 2009, a "Production Sharing Contract" has been signed between Kurdistan Regional Government of Iraq and Genel for the Barbahar Block in Northern Iraq. As per the contract, Genel is entitled to 40% of the Barbahar Block in Northern Iraq. In addition the contract appoints Genel as the operator of the field.

On 5 January 2009, Genel has assigned the USD 61,062,473 receivable due from Genel to Focus Investments Limited.

If you would prefer to receive press releases via email please contact Lindsay Carpenter (lindsay@chfir.com) and specify "Heritage press releases" in the subject line.

Certain information in this announcement is based on management estimates. Such estimates have been made in good faith and represent the genuine belief of applicable members of management. Those management members believe that such estimates are founded on reasonable grounds. However, by their nature, estimates may not be correct or complete. Accordingly, no representation or warranty (express or implied) is given that such estimates are correct or complete. No representation or warranty (express or implied) is given that such estimates are so founded. The Company and J.P. Morgan Cazenove do not undertake any obligation to correct or complete any estimate whether as a result of being aware of information (new or otherwise), future events or otherwise.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION:

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements include, but are not limited to, statements with regard to the outcome of the Proposed Acquisition, future production and grades, projections for sales growth, estimated revenues, reserves and resources, targets for cost savings, the construction cost of new projects, projected capital expenditures, the timing of new projects, future cash flow and debt levels, the outlook for the prices of hydrocarbons, the outlook for economic recovery and trends in the trading environment, statements about cost synergies, revenue benefits or integration costs and capacity and may be (but are not necessarily) identified by the use of words such as "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", “aims”, “plans”, “predicts”, “continues”, “assumes”, “positioned”, "will", or "should" and other similar expressions that are predictions of or indicate future events and future trends or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include matters that are not historical facts and include statements regarding the Company’s intentions, beliefs or current expectations. An investor should not place undue reliance on forward-looking statements because, by their nature, they involve known and unknown risks, uncertainties and other factors and relate to events and depend on circumstances that may or may not occur in the future that are in many cases beyond the control of the Company. A number of factors could cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements. In particular, there is no assurance that the Company will enter into a binding implementation agreement in respect of the Proposed Acquisition or that such an agreement will be entered into on the terms described in this announcement. There is also no assurance that even if a binding implementation agreement is entered into that any such transaction will be completed.

Any forward-looking statements in this announcement reflect the Company’s view with respect to future events as at the date of this announcement and are subject to risks relating to future events and other risks, uncertainties and assumptions relating to the Company’s operations, results of operations, growth strategy and liquidity. The Company (and J.P. Morgan Cazenove) undertake no obligation publicly to release the results of any revisions or up-dates to any forward-looking statements in this announcement that may occur due to any change in its expectations or to reflect events or circumstances after the date of this announcement.

Subject to certain exceptions, neither this announcement nor any copy of it may be taken or transmitted into the United States of America, its territories or possessions or distributed, directly or indirectly, in or into the United States of America, its territories or possessions. Neither this announcement nor any copy of it may be taken or transmitted into Australia, Canada, Japan or South Africa or to Canadian persons or to any securities analyst or other person in any of those jurisdictions. Any failure to comply with this restriction may constitute a violation of United States, Australian, Canadian, South African or Japanese securities law. The distribution of this announcement in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. This announcement does not constitute or form a part of any offer or solicitation to purchase or subscribe for securities in the United States. The securities referred to herein have not been and will not be registered under the US Securities Act of 1933 (the "Securities Act"), and may not be offered or sold in the United States unless they are registered under the Securities Act or pursuant to an exemption from, or in a transaction not subject to the registration requirements of the Securities Act. There will be no public offer of any securities of Genel or the Enlarged Group in the United States. The securities referred to herein have not been and will not be registered under the applicable securities laws of Canada, Australia, South Africa or Japan and, subject to certain exceptions, may not be offered or sold within Canada, Australia, South Africa or Japan or to any national, resident or citizen of Canada, Australia, South Africa or Japan.

This announcement constitutes an advertisement within the meaning of the Prospectus Rules of the United Kingdom Financial Services Authority and is not a prospectus and has been prepared solely in connection with the Proposed Acquisition. A prospectus and circular (the "Prospectus") will be published by Heritage in due course in connection with the Proposed Acquisition. Copies of the Prospectus will be available, following publication, from the Company's registered office and from 34 Park Street, London, W1K 2JD, being the Company's principal place of business in the UK.

Important Information

This announcement does not constitute an offer to sell, or the solicitation of an offer to buy, exchange, or transfer any securities of Heritage. The value of Heritage's ordinary shares can go down as well as up and past performance cannot be relied on as a guide to future performance.

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