



**28 August 2009**

**Heritage Oil Plc  
("Heritage" or the "Company")**

**HERITAGE OIL ANNOUNCES 2009 INTERIM RESULTS**

Heritage Oil Plc (LSE: HOIL), an independent upstream exploration and production company, announces the publication of its interim results for the six months ended 30 June 2009.

**Operational Highlights**

- Discovery of the Miran West field in the Kurdistan Region of Iraq, ("Kurdistan")
- Second test at the Miran West-1 well, Miran Block, Kurdistan, completed with a flow rate of 3,640 bopd recorded from a single upper reservoir interval
- Miran West-1 has been suspended as a future producer with an anticipated producing rate of 8,000-10,000 bopd
- Discovery of the world-class Buffalo-Giraffe field in Block 1, Uganda
- Kingfisher-3A well in Block 3A, Uganda, encountered oil in the three main reservoirs
- 2D seismic collected over the Kimbiji and Kisangire licence areas in Tanzania
- Announced the proposed acquisition of Genel Energy International Limited ("Genel") which would create a leading Anglo-Turkish oil company

**Financial Highlights**

- Successful placing of 25.4 million new shares raised gross proceeds of \$216.8 million (£132 million)
- Sale of holdings in Oman realised cash of \$28.4 million
- Back costs of \$6.7 million were received as the third party back-in rights for 25% were exercised on the Miran Block
- Net average production for the six months ended 30 June 2009 of 231 bopd

**Outlook**

- High-impact six well exploration and appraisal programme to commence on Block 1, Uganda, in the fourth quarter
- Miran West-2 well in Kurdistan to commence drilling in the fourth quarter
- Completion of the proposed acquisition of Genel

### **Proposed Acquisition of Genel**

Discussions between Heritage and Genel are continuing, with the terms of an implementation agreement being finalised and the required prospectus and circular also being prepared.

Heritage has recently been made aware of an investigation by the Financial Services Authority ("FSA") that could potentially affect the ability of certain members of Genel's operational management team to assume their proposed roles in the combined entity. Heritage understands that relevant members of the Genel team are assisting the FSA with a view to bringing this matter to a swift conclusion. Heritage will update the market on these issues when it is in a position to do so.

Elections took place in Kurdistan at the end of July and a new government is in the process of being formed. Heritage and Genel continue to monitor progress on the formation of the new government and await the subsequent formal approval of the proposed transaction, together with an understanding of the pricing and payment mechanism which is to be established for international sales from Kurdistan.

Heritage intends to make available to shareholders, as soon as practicable, the prospectus and circular which describe the proposed acquisition and will include the relevant Mineral Experts' Reports for the key assets of both Heritage and Genel. Management anticipate meeting with shareholders and analysts once these have been distributed. Completion of the Proposed Acquisition remains subject to various conditions, which are covered in more detail in the financial review.

### **Upcoming Exploration Activity**

In the fourth quarter of 2009 Heritage will embark on further exploration drilling in Block 1, Uganda, targeting the Buffalo-East, Crocodile and Leopard prospects. The tendering process for the drilling rig and rig services has begun and Heritage expects contracts to be awarded in September 2009 when site preparation will also begin. In addition, appraisal drilling on existing discoveries will also be pursued in the block. Appraisal drilling on the Miran Block, in Kurdistan, is also scheduled to start in the fourth quarter with the Miran West-2 well.

### **Tony Buckingham, Chief Executive Officer, commented:**

*"The first half of 2009 has been an active time operationally with drilling successes in Uganda and Kurdistan and corporately with the proposed acquisition of Genel and a successful placing. The remainder of 2009 will see the start of a high-impact drilling programme in Block 1, Uganda, coupled with appraisal drilling on the Miran Block in the Kurdistan Region of Iraq. We have a strong balance sheet and many opportunities to continue creating shareholder value."*

Heritage's 2009 interim report is available on its website at [www.heritageoilplc.com](http://www.heritageoilplc.com)

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**Notes to Editors**

- Heritage is listed on the Main Market of the London Stock Exchange and is a constituent of the FTSE 250 Index. The trading symbol is 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, the Kurdistan Region of Iraq, the Democratic Republic of Congo, Malta, Pakistan, Tanzania and Mali.
- All dollars are US\$ unless otherwise stated.
- For further information please refer to our website, **www.heritageoilplc.com**

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## **Chairman's and Chief Executive Officer's Review**

We are pleased to announce that numerous initiatives being pursued continue to show substantial progress. We have strengthened our balance sheet through an equity issue in June 2009 raising gross proceeds of \$216.8 million (£132 million). Support for the Company was demonstrated by the placing price being at a 2.9% premium to the previous closing price, which is exceptional in the current financial markets. We have continued to make major discoveries in both our core areas of Uganda and the Kurdistan Region of Iraq ("Kurdistan") and are in the process of finalising a transaction to create a leading Anglo-Turkish oil company with attractive production and excellent growth prospects. We remain resolute in our aim to generate growth in shareholder value through our portfolio of assets. The remainder of 2009 has the potential to see the Company become one of the largest exploration and production companies listed on the Main Market of the London Stock Exchange with expectations of becoming a member of the FTSE100 Index.

## **Operational Overview – Exploration**

### **Uganda**

Since the beginning of 2006, there have been 27 wells drilled in the Albert Basin, with 26 of these wells encountering hydrocarbons. Heritage has drilled six wells with a 100% success rate in our operated Blocks 1 and 3A. In excess of 700 million barrels of gross resources have so far been proved up and there remain many prospects yet to be drilled in this prolific basin. The commercial threshold for development of this basin has been comfortably exceeded and we are in discussions with the government of Uganda for an early phased development for the commercialisation of this basin.

### ***Block 1***

This year began with the transformational Giraffe discovery which concluded the initial multi-well exploration programme in Block 1 that commenced in September 2008. Pressure data from this significant discovery indicated that it is structurally connected to the Buffalo discovery forming the world-class Buffalo-Giraffe field, with gross recoverable resources estimated to be over 350 million barrels. The success of this multi-well programme lowered the risk of many other analogous prospects in Block 1. In the fourth quarter of 2009 Heritage will embark on further exploration drilling in Block 1 targeting the Buffalo-East, Crocodile and Leopard prospects. The tendering process for the drilling rig and rig services has begun and Heritage expects contracts to be awarded in September 2009 when site preparation will also begin. In addition, appraisal drilling on existing discoveries will also be pursued in the block.

### ***Block 3A***

Appraisal drilling on the Kingfisher structure concluded in February 2009 with the completion of the Kingfisher-3A sidetrack, which intersected all three Kingfisher reservoir intervals present in the Kingfisher-1A and 2 wells. The three Kingfisher wells have all been suspended as future producers. Management believes that successful drilling of the Kingfisher field has lowered the exploration risk of other targets identified within Block 3A which are to be explored in a lake drilling programme scheduled to commence in 2010.

### ***Commercial Development***

Heritage is discussing potential options with the government of Uganda for fast-track development and commencement of early production. Options include the possibility of utilising the existing railway network in East Africa for a phased development with the potential for first production in 2011. An export pipeline to the coast is also being considered as well as a scheme to service local markets. A number of parties have approached Heritage with a view to financing large scale infrastructure programmes in Uganda and these discussions are ongoing.

## **Kurdistan**

Heritage commenced drilling the Miran West-1 well in December 2008, just fifteen months after signing the licence – demonstrating both the operational efficiency of the Company and our commitment to the region. Initial testing operations were completed in May 2009 and the structure, with a gross oil bearing interval of 710 metres, is estimated to have oil-in-place of between 2.3 and 4.2 billion barrels based on fracture porosity alone. Excellent recoveries of between 50% and 70% are expected due to the highly fractured nature of the reservoirs and the lack of associated gas. Initial Miran West-1 drilling operations were designed to cope with the potential for high reservoir pressures and this resulted in the loss of drilling fluid and lost circulation material in these highly permeable fractured reservoirs, whereby initial testing operations were severely constrained.

A further test was completed in August 2009 during which the Miran West-1 well flowed at a maximum rate of 3,640 bopd from a single upper reservoir interval. The test rate was restricted by surface equipment capacity. However, data gathered from the test indicates a rate of 8,000 to 10,000 bopd would be achievable when it is placed on production. Tests on two other deeper reservoir intervals in the well were unsuccessful because of damage and contamination sustained during drilling. Consequently, the remedial measures undertaken during retesting operations were no more effective than during initial testing.

We are very encouraged by this result in a well where the lower formations were badly damaged through drilling. Miran West-1 was the first wildcat exploration well ever drilled on this licence covering two structures which together total approximately 320 square kilometres. We have gathered important information which will be invaluable in advancing our forward programmes on this significant discovery beginning with the Miran West-2 appraisal well, which is planned to spud in the fourth quarter.

Fast-track development of the Miran field is planned to commence by the middle of 2010. Two licence operators in Kurdistan began exporting crude oil on 1 June 2009 via the Iraq-Turkey main export pipeline to the Mediterranean port of Ceyhan.

## **Tanzania**

Acquisition of 207 kilometres of 2D seismic in the onshore portion of the Kimbiji licence area concluded in January 2009. This completed our initial Tanzania seismic acquisition programme which began in the fourth quarter of 2008 with the acquisition of 198 kilometres of 2D seismic in the Kisangire licence area. This data is in the process of being interpreted and will be used as the basis for planning a multi-well drilling programme. Earlier this year we obtained an extension to the initial exploration period for the Kisangire licence for eighteen months to December 2010.

## **Operational Overview – Production**

### **Russia**

As previously disclosed, the Zapadno Chumpasskoye field was shut-in from December 2008 through February 2009 following a temporary reduction in the domestic oil price in Russia. Daily production recommenced at a level of approximately 150 bopd in March and has since increased to a current level of approximately 450 bopd. Production during the first half of the year averaged 231 bopd as local markets returned to normal following unfavourable market conditions in the early part of the year. Measures are under way to increase production by working-over an existing well and undertaking a fracture stimulation programme. Production is expected to average 500 bopd for the remainder of the year.

## **Corporate Activity**

In April 2009, \$28.4 million was realised through the sale of Eagle Energy (Oman) Limited (“Eagle Energy”). We believe that greater value will be created using this cash to accelerate other work programmes within our portfolio.

In April 2009, Heritage announced that Genel Energy International Limited (“Genel”) had been nominated by the Kurdistan Regional Government (“KRG”) as the Third Party partner in the Miran Block under the terms of the production sharing contract. Heritage remains operator with a 75% working interest. Additionally, it was announced that the KRG and Heritage would not build a mini-refinery in Kurdistan. Heritage agreed to pay the KRG \$35 million from future production revenue from the Miran field instead.

On 9 June 2009, Heritage announced that it had entered into a non-binding Memorandum of Understanding (“MoU”) with Genel Enerji A.S to acquire the entire share capital of Genel. An update issued at the beginning of August stated that it had been agreed in principle that Heritage will issue 286.3 million Ordinary Shares (representing approximately 50% of the voting rights of Heritage as enlarged by the Proposed Acquisition (the “Enlarged Group”)) in consideration for acquiring the entire share capital of Genel.

Discussions between Heritage and Genel are continuing, with the terms of an implementation agreement being finalised and the required prospectus and circular also being prepared.

Heritage has recently been made aware of an investigation by the Financial Services Authority (“FSA”) that could potentially affect the ability of certain members of Genel's operational management team to assume their proposed roles in the combined entity. Heritage understands that relevant members of the Genel team are assisting the FSA with a view to bringing this matter to a swift conclusion. Heritage will update the market on these issues when it is in a position to do so.

Elections took place in Kurdistan at the end of July and a new government is in the process of being formed. Heritage and Genel continue to monitor progress on the formation of the new government and await the subsequent formal approval of the proposed transaction, together with an understanding of the pricing and payment mechanism which is to be established for international sales from Kurdistan.

Heritage intends to make available to shareholders, as soon as practicable, the prospectus and circular which describe the proposed acquisition and will include the relevant Mineral Experts’ Reports for the key assets of both Heritage and Genel. Management anticipate meeting with shareholders and analysts once these have been distributed. Completion of the Proposed Acquisition remains subject to various conditions which are covered in more detail in the financial review.

On 15 June 2009, Heritage announced the successful placing of 25.4 million new shares at 520 pence which represented a 2.9% premium to the previous closing price. The proceeds of the placing will support plans to accelerate development of our core areas, and our general work programmes.

## **Financial Results**

Heritage’s net production decreased by 38% to an average of 231 bopd in the first six months of this year compared to the same period last year. This decrease resulted from the shut-in of production from December 2008 through February 2009 due to unfavourable Russian domestic market conditions. Production is expected to average 500 bopd for the remainder of the year. Following the disposal of the Oman operations, production and revenue are currently only generated from the

Zapadno Chumpasskoye field in Russia.

Heritage's net loss from continuing operations in the first half of 2009 was \$12.1 million, compared to \$17.0 million in the first half of 2008. The adjusted net loss from continuing operations in the first half of 2009 was \$8.3 million compared to \$12.7 million in the first half of 2008 excluding certain non-cash items (share-based compensation expense, gain on derivative financial liability, impairment of investment in unlisted securities, foreign exchange gains/losses and unrealised gain/loss on revaluation of Afren plc warrants) and one-off reorganization costs.

Cash capital expenditures of \$60.9 million were incurred in the first half of 2009 (\$56.3 million in 2008), principally on drilling programmes in Uganda and Kurdistan and a seismic acquisition programme in Tanzania.

At 30 June 2009, Heritage had a working capital surplus of \$236 million, including cash and cash equivalents of \$255.4 million. Heritage had net cash of \$95.5 million (cash and cash equivalents less total liabilities) and nil gearing (net debt as a percentage of total shareholders' equity) at 30 June 2009 compared with net debt of \$121.1 million (excess of total liabilities over cash and cash equivalents) and gearing of 64% at 31 December 2008.

### **Strategy**

The Group intends to continue to accelerate the development of its core areas and generate additional growth in shareholder value by focusing on high-impact international plays offering multiple targets with the potential to discover substantial hydrocarbon reserves. The Group's growth strategy is to acquire and invest in exploration and early development opportunities throughout the world, with a particular emphasis on its core areas of Africa and the Middle East.

Heritage has developed a highly effective network of influential industry, political and institutional relationships which enable the Group's experienced management and technical teams to gain access to a wide variety of oil and gas business opportunities.

### **Corporate Social Responsibility**

Heritage remains committed to developing its corporate social responsibility strategy. We recognise the need to engage with local stakeholders from an early stage and their needs and requirements guide our community projects. Heritage is involved in many community projects as we firmly believe these are fundamental in building trust within the areas where we operate.

In early 2009 Heritage sponsored the UAE Charity Challenge to raise funds for worthy causes including supporting malaria control interventions near Lake Albert, Uganda. Malaria is the leading cause of illness and death in Uganda and the most efficient way of preventing malaria is through the use of Long Life Insecticide treated Nets (LLIN). These mosquito nets have a special insecticide repellent that can last for up to six years making them very effective and low maintenance.

In the vicinity of Block 3A only 10% of the households in the Buhuka parish owned a LLIN. To help protect the residents from malaria, the UAE charity, supported by Heritage, funded a LLIN distribution programme. This was carried out by the Malaria Consortium and achieved a 100% coverage across the villages in the catchment area. Heritage also provided all the logistical support to the LLIN distribution programme including trucking from Entebbe to Lake Albert, boats to access remote villages and flights for Malaria Consortium personnel.

Additionally in the first half of 2009 Heritage rebuilt a ferry for the Uganda Wildlife Authority.

Environmental performance remains a priority for Heritage. During the first half of the year we have fully restored our drill sites in Uganda, thus meeting all conditions in our commitment to minimise our environmental impact.

### **Outlook**

The remainder of 2009 will be an exciting and busy time for the Heritage team. On the operations side, we will continue with drilling activity in both Uganda and Kurdistan. We plan to return to Block 1, Uganda, in the fourth quarter with a high-impact six well programme targeting the Buffalo-East, Crocodile and Leopard prospects. Each of these wells is expected to take a month to drill and will provide regular news flow. Drilling of the Miran West-2 well in Kurdistan is planned to commence in the fourth quarter, starting our appraisal programme on this significant discovery.

We also expect to complete the proposed acquisition of Genel and integration of their production and exploration licences into our portfolio. This transaction will increase our production and reserve base immediately and add significant additional exploration prospects to our Kurdistan holdings.

With production expected to increase, potential resource growth from our active drilling campaigns and completion of the Genel acquisition, the growth prospects for Heritage have never looked better.

### **Michael J. Hibberd**

Chairman and Non-Executive Director

### **Tony Buckingham**

Chief Executive Officer

## Financial Review

### Selected Operational and Financial Data

		Six months Ended 30 June 2009	Six months Ended 30 June 2008	Change
Production	bopd	231	372	(38%)
Sales volume	bopd	311	364	(15%)
Average realised price	\$/bbl	15.0	29.9	(50%)
Petroleum and natural gas revenue	\$ million	0.8	2.0	(60%)
Loss from continuing operations	\$ million	(12.1)	(17.0)	29%
Loss on disposal of discontinued operations	\$ million	(0.7)	-	n/a
Profit from discontinued operations	\$ million	-	0.5	n/a
Net loss	\$ million	(12.8)	(16.5)	22%
Net loss per share – basic and diluted	\$	(0.05)	(0.07)	29%
Total cash capital expenditures – continuing operations	\$ million	(60.9)	(56.3)	

  

		As at 30 June 2009	As at 31 December 2008
Period end cash balance	\$ million	255.4	90.6

## Performance

### Production

Following the disposal of our Oman operations, with effect from 1 January 2009, all production revenue from continuing operations, is generated from the Zapadno Chumpasskoye field in Russia. Oman has been classified as discontinued operations following its sale.

Average daily production from continuing operations decreased by 38% from 372 bopd in the six month period ended 30 June 2008 to 231 bopd in the six month period ended 30 June 2009. This decrease resulted from the shut-in of the Zapadno Chumpasskoye crude oil production from December 2008 through February 2009 due to unfavourable domestic market conditions in Russia. Crude production recommenced in March and has been increasing and averaged 441 bopd in June 2009. We expect production to average 500 bopd for the remainder of the year.

### Revenue

Petroleum and natural gas revenue, from continuing operations, decreased by 60% to \$0.8 million, due to both lower volumes of crude oil sales from the Zapadno Chumpasskoye field in Russia and lower average realised prices. The average realised price per barrel in the first half of 2009 of \$15.00/bbl was 50% lower than in the first half of 2008, due to lower average commodity prices in Russia.

### Operating Results

Petroleum and natural gas operating costs from continuing operations of \$0.7 million in the six month period ended 30 June 2009 were 23% lower than in the same period last year, due to lower crude oil production.

Production tax decreased from \$1.4 million in the first half of 2008 to \$0.4 million in the first half of 2009, due to lower revenues.

General and administrative expenses decreased from \$20.1 million in the first half of 2008 to \$6.4 million in the first half of 2009. This is principally due to a one-off expense of \$9.6 million relating to the corporate reorganisation and subsequent listing on the London Stock Exchange incurred in the

first half of 2008 and lower non-cash share-based compensation expenses. Share-based compensation expenses in the first half of 2009 were lower than in the first half of 2008 as the fair value of a number of stock options issued previously had been fully recognised by the end of 2008.

Excluding non-cash share-based compensation, one-off corporate reorganisation and subsequent listing expenses, general and administrative expenses decreased from \$6.1 million in the first half of 2008 to \$5.0 million in the first half of 2009. This decrease is partly due to the pound sterling being weaker against the US dollar in the first half of 2009 compared to the prior year period.

Depletion, depreciation and amortisation expenses decreased by 28% to \$0.8 million in the first half of 2009, primarily due to decreased production volumes.

Exploration expenditures expensed and not capitalised decreased by 91% from \$0.3 million in the first half of 2008 to \$0.03 million in the first half of 2009. Exploration expenditures in the first half of 2008 principally related to activities in Tanzania (\$0.2 million) and Russia (\$0.1 million).

Interest income of \$0.1 million in the first half of 2009 was \$1.9 million lower than in the same period in 2008 as a result of lower average cash balances and reduced interest rates in 2009. Cash and cash equivalents are typically held in interest bearing treasury accounts.

Convertible bonds are separated into equity, liability and derivative liability components (being the bondholders' conversion option of the host bond contract and the bondholders' put option) and each component is recognised separately. The Company had the right to redeem, in whole or part, the bonds for cash at any time on or before 16 February 2008, at 150% of par value (the "Company call option").

Due to significant volatility that movements in the Company's share price created in the income statement under its previous treatment, the Company has reassessed its accounting policy in respect of its convertible debt. The Company previously assessed the debt/equity classification of each component of a compound financial instrument only on issue or where there was a change in contractual terms. However an alternative policy is to make this assessment throughout the life of the instrument and, in particular, to treat changes in effective terms, such as the lapsing of the Company call option, in the same way as changes in contractual terms, i.e. as requiring reassessment. The Company has decided to change accounting policy from the former option to the latter believing that the latter option better reflects the commercial terms of the financial instruments currently operative. Prior period results have been restated to reflect the new policy.

On the basis of the changed policy, on expiry of the Company call option in February 2008, the bondholders' conversion option has been reclassified from a liability classification (with all changes in fair value being reflected in the income statement) to an equity classification. Consequently, the \$30.6 million fair value of the bondholders' conversion option has been transferred to equity at that date with no subsequent income statement impact; a gain of \$6.1 million was recognised up to that date.

At 30 June 2009, the carrying value of investments in unlisted securities (shares of SeaDragon Offshore Limited ("SeaDragon")) was written down to nil following the completion of a financial reorganisation by SeaDragon which has resulted in a reduction in the carrying value as it is not possible to determine the extent to which the cost of the investment will be recoverable in the foreseeable future. This resulted in an impairment write-down of \$2.4 million recognised in the income statement during the six month period ended 30 June 2009.

Other finance costs decreased from \$6.9 million in the first half of 2008 to \$2.5 million in the first half of 2009, primarily due to bondholders exercising their conversion rights in respect of \$27.9 million of bonds in the first half of 2009 thereby losing the right to earn any interest. Additionally, the level of interest costs capitalised was higher in the first half of 2009 compared to the same period last year due to the higher cumulative amount of capital expenditures financed from interest bearing borrowings.

Foreign exchange losses of \$0.7 million were incurred in the first half of 2009 (first half of 2008 – \$1.8 million gains), because of an intercompany US dollar denominated loan provided to the Russian subsidiary used to develop the Zapadno Chumpasskoye field. The revaluation of this loan in Russian roubles (the functional currency of the Russian subsidiary) created the foreign exchange losses due to the weakening of the Russian rouble against the US dollar during the first half of 2009. In accordance with Heritage's accounting policy, the revaluation loss was recognised in the financial statements of the Russian subsidiary in Russian roubles and on consolidation, the revaluation losses were translated into US dollars and included in the statement of comprehensive income.

Heritage recognised an unrealised gain on the fair value of its investment in Afren plc ("Afren") warrants of \$0.7 million in the first half of 2009, compared to a \$1.9 million gain in the first half of 2008. Heritage holds 1,500,000 warrants in Afren, received as partial consideration from the sale of Heritage Congo in 2006.

Heritage's net loss from continuing operations in the first half of 2009 was \$12.1 million, compared to \$17.0 million in the first half of 2008. The adjusted net loss from continuing operations in the first half of 2009 was \$8.3 million compared to \$12.7 million in the first half of 2008 excluding certain non-cash items (share-based compensation expense, gain on derivative financial liability, impairment of investment in unlisted securities, foreign exchange gains/losses and unrealised gain/loss on revaluation of Afren warrants) and the one-off reorganisation costs.

On 7 April 2009, the Company completed the sale of Eagle Energy (Oman) Limited ("Eagle Energy"), a wholly-owned subsidiary of Heritage, to RAK Petroleum Oman Limited for \$28 million, plus a working capital adjustment of \$0.4 million, both of which have been received. The Company acquired Eagle Energy, which holds a 10% interest in Block 8 offshore Oman, in 1996. Block 8 contains the Bukha field, which has been producing since 1994, and the West Bukha field which commenced production in February 2009.

The results of operations of Eagle Energy have been classified as discontinued operations. The loss on disposal of discontinued operations in Oman was \$0.7 million in the first half of 2009.

In the first half of 2009 the basic and diluted loss per share was \$0.05, compared to basic and diluted loss per share of \$0.07 in the first half of 2008.

### **Cash Flow and Capital Expenditures**

Cash used in operating activities of continuing operations was \$12.2 million in the first half of 2009 compared to \$26.1 million in the first half of 2008. Total cash capital expenditures for continuing operations in the first half of 2009 was \$60.9 million compared to \$56.3 million in the first half of 2008. The following major work programmes were undertaken in the first half of 2009:

- In March 2009, Heritage completed drilling of the Miran West-1 well in the Kurdistan Region of Iraq. The Miran West-1 well reached target depth of 2,935 metres in March 2009 and initial testing operations were completed in May 2009;

- In February 2009, Heritage successfully completed drilling the Kingfisher-3A well in Block 3A, Uganda. The well reached a total measured depth of 2,712 metres (1,875 metres true vertical depth) and has been suspended as a future production well, along with the previously drilled and suspended Kingfisher-1A and Kingfisher-2 wells; and
- In February 2009, Heritage completed the acquisition of 2D seismic on the Kimbiji licence area and on the onshore portion of the Kisangire licence area in Tanzania

## **Financial Position**

### **Liquidity**

Heritage had a net increase in cash and cash equivalents during the first half of 2009 of \$163.5 million. At 30 June 2009, Heritage had a working capital surplus of \$236 million, including cash and cash equivalents of \$255.4 million.

As for most oil and gas exploration companies, Heritage raises financing for its activities from time to time using a variety of sources. Based on current plans and knowledge and projected capital expenditure and operating cash requirements, the Group has sufficient cash to finance its current plans for at least twelve months from the date of approval of the financial statements. Sources of funding for future exploration and development programmes will be derived from, *inter alia*, new credit facilities, reinvesting funds from operations, using existing treasury resources, disposal proceeds from the sale of non-core assets, such as the sale of the Company's holdings in Oman in April 2009, farm-outs and, when considered appropriate, issuing debt and additional equity, such as the share placement in June 2009. Accordingly, the Group has a number of different sources of finance available and the Directors are confident that additional finance will be raised as and when needed. In addition, development of the Group's successful exploration and infrastructure projects may be financed separately.

### **Capital Structure**

Heritage's financial strategy has been to fund its capital expenditure programmes and any potential acquisitions by selling non-core assets, farm-outs, reinvesting funds from operations, using existing treasury resources, finding new credit facilities and, when considered appropriate, either issuing unsecured convertible bonds or equity.

On 7 April 2009, the Company completed the sale of Eagle Energy, a wholly-owned subsidiary of Heritage, to RAK Petroleum Oman Limited for \$28 million, plus a working capital adjustment of \$0.4 million.

On 18 June 2009, the Company completed the placing of 25,400,000 new Ordinary Shares at a price of 520 pence per share for gross proceeds of \$216,848,944 (£132,080,000) to the Company. Share issue costs were \$11,820,609.

Heritage had net cash of \$95.5 million (cash and cash equivalents less total liabilities) and nil gearing (net debt as a percentage of total shareholders' equity) at 30 June 2009 compared with net debt of \$121.1 million (excess of total liabilities over cash and cash equivalents) and gearing of 64% at 31 December 2008.

### **Important Events Since 30 June 2009**

On 9 June 2009, Heritage announced that it had entered into a non-binding Memorandum of Understanding ("MoU") with Genel Enerji A.S to acquire the entire share capital of Genel. An

update issued at the beginning of August stated that it had been agreed in principle that Heritage will issue 286.3 million Ordinary Shares (representing approximately 50% of the voting rights of Heritage as enlarged by the Proposed Acquisition (the “Enlarged Group”)) in consideration for acquiring the entire share capital of Genel.

Discussions between Heritage and Genel are continuing, with the terms of an implementation agreement being finalised and the required prospectus and circular also being prepared.

Heritage has recently been made aware of an investigation by the Financial Services Authority (“FSA”) that could potentially affect the ability of certain members of Genel's operational management team to assume their proposed roles in the combined entity. Heritage understands that relevant members of the Genel team are assisting the FSA with a view to bringing this matter to a swift conclusion. Heritage will update the market on these issues when it is in a position to do so.

Elections took place in Kurdistan at the end of July and a new government is in the process of being formed. Heritage and Genel continue to monitor progress on the formation of the new government and await the subsequent formal approval of the proposed transaction, together with an understanding of the pricing and payment mechanism which is to be established for international sales from Kurdistan.

Heritage intends to make available to shareholders, as soon as practicable, the prospectus and circular which describe the proposed acquisition and will include the relevant Mineral Experts’ Reports for the key assets of both Heritage and Genel. Management anticipate meeting with shareholders and analysts once these have been distributed.

Completion of the Proposed Acquisition remains subject to various conditions. These include: (i) agreeing definitive legally binding documentation, including the implementation agreement; (ii) formal ratification of the Proposed Acquisition by the Ministry of Natural Resources of the Kurdistan Region of Iraq and the Kurdistan Region Oil and Gas Council; (iii) the approval of Heritage’s shareholders voting at an Extraordinary General Meeting of the Company; and (iv) confirmation as to the eligibility of the Enlarged Group to be admitted to the Official List by the UK Listing Authority (“UKLA”) and the admission of the Ordinary Shares of Heritage, as enlarged, to the Official List of the UKLA and to trading on the London Stock Exchange.

### **Primary Risks and Uncertainties Facing the Business**

The primary risks and uncertainties facing the business which could have a material adverse impact on the Group include:

- Exploration and development expenditures and success rates – the Company has experienced management and technical teams with a track-record of finding attractive oil discoveries and has a diversified international portfolio of exploration, development and production assets;
- Factors associated with operating in developing countries, political and regulatory instability – the Company maintains close contact with governments in the areas within which it operates and where appropriate gets involved in community projects;
- Heritage cannot completely protect itself against title disputes – in many of the countries in which the Group operates, land title systems are not developed to the extent found in many industrialised

countries. Notwithstanding potential challenges in the DRC, Kurdistan and Malta, the Group believes that it has good title to its oil and gas properties. However, it cannot control or completely protect itself against the risk of title disputes or challenges and there can be no assurance that claims or challenges by third parties against the Group's properties will not be asserted at a future date;

- Oil and gas sales volumes and prices – whilst not under the direct control of the Company, a material movement could impact on the Group;
- Loss of key employees – remuneration packages are regularly reviewed to ensure key executives and senior management are properly remunerated; and
- Generally, it is the Company's policy to conduct and manage its business in US dollars, which is its reporting currency. Cash balances in Group subsidiaries are primarily held in US dollars but small amounts may be held in other currencies in order to meet immediate operating or administrative expenses or to comply with local currency regulations

The Board will continue to review its approach to commodity prices, interest rates and currency fluctuations in light of the Company's future capital commitments and ongoing obligations. Heritage may use derivative instruments to mitigate against its exposure to volatility in oil prices and foreign currency movements. In 2008 and 2009 the Group did not enter into any hedging arrangements.

Further information on the risks facing the Company are discussed in the 2008 Annual report issued on 30 April 2009, in the Directors' Report on pages 47 to 50 and also in note 3 of the financial statements on pages 64 and 65.

**Paul Atherton**  
Chief Financial Officer

## **Responsibility Statement of the Directors in Respect of the Interim Report and Accounts**

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim report and accounts includes a fair review of the information required by:
  - a) 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 condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period; and any changes in the related party transactions described in the last annual report that could do so.

Approved by the Board and signed on its behalf by

**Tony Buckingham**  
Chief Executive Officer  
28 August 2009

**Paul Atherton**  
Chief Financial Officer  
28 August 2009

## **Independent Review Report to Heritage Oil Plc**

### **Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the interim report and accounts for the six months ended 30 June 2009 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the interim report and accounts and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules (“the DTR”) of the UK’s Financial Services Authority (“the UK FSA”). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

### **Directors’ Responsibilities**

The interim report and accounts is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report and accounts in accordance with the DTR of the UK FSA.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the EU. The condensed set of financial statements included in this interim report and accounts has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

### **Our Responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report and accounts 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 UK. A review of interim 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 condensed set of financial statements in the interim report and accounts for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

**Jimmy Daboo for and on behalf of KPMG Audit Plc**  
Chartered Accountants

8 Salisbury Square  
London  
EC4Y 8BB  
28 August 2009

## Condensed Consolidated Income Statement

	Six months Ended 30 June 2009	Restated* Six months Ended 30 June 2008
	\$	\$
<b>Revenue</b>		
Petroleum and natural gas	846,629	1,979,842
<b>Expenses</b>		
Petroleum and natural gas operating	(739,893)	(964,944)
Production tax	(378,362)	(1,400,664)
General and administrative	(6,379,304)	(20,132,529)
Depletion, depreciation and amortisation	(751,742)	(1,050,336)
Exploration expenditures	(28,113)	(301,253)
<b>Operating loss</b>	<b>(7,430,785)</b>	<b>(21,869,884)</b>
<b>Finance income (costs)</b>		
Interest income	86,987	2,005,905
Gain on derivative financial liability relating to convertible bonds (notes 2 and 7)	-	6,098,240
Impairment of investment in available for sale financial assets (note 6)	(2,352,825)	-
Other finance costs	(2,501,375)	(6,898,888)
Foreign exchange (losses)/gains	(658,581)	1,834,611
Unrealised gain on other financial assets	743,564	1,857,243
	<b>(4,682,230)</b>	<b>4,897,111</b>
<b>Loss from continuing operations</b>	<b>(12,113,015)</b>	<b>(16,972,773)</b>
Loss on disposal of discontinued operations (note 4)	(698,763)	-
Profit from discontinued operations (note 4)	-	483,148
<b>(Loss)/profit from discontinued operations</b>	<b>(698,763)</b>	<b>483,148</b>
<b>Net loss for the period attributable to owners of the Company</b>	<b>(12,811,778)</b>	<b>(16,489,625)</b>
<b>Net loss per share from continuing operations</b>	<b>(0.05)</b>	<b>(0.07)</b>
Basic and diluted		
<b>Net (loss)/profit per share from discontinued operations</b>	<b>-</b>	<b>-</b>
Basic and diluted		
<b>Net loss per share</b>	<b>(0.05)</b>	<b>(0.07)</b>
Basic and diluted		

\* See basis of accounting and presentation and significant accounting policies (note 2) and discontinued operations (note 4).

The notes are an integral part of these condensed consolidated financial statements.

## Condensed Consolidated Statement of Comprehensive Income

	Six months Ended 30 June 2009 \$	Restated* Six months Ended 30 June 2008 \$
<b>Loss for the period</b>	<b>(12,811,778)</b>	(16,489,625)
<b>Other comprehensive (loss)/income</b>		
Exchange differences on translation of foreign operations	(1,059,783)	113,120
Net change in fair value of available for sale financial assets transferred to the income statement	(168,000)	-
Other comprehensive (loss)/income, net of income tax	(1,227,783)	113,120
<b>Total comprehensive loss for the period</b>	<b>(14,039,561)</b>	(16,376,505)
Attributable to:		
Owners of the Company	(14,039,561)	(16,376,505)

\* See basis of accounting and presentation and significant accounting policies (note 2) and discontinued operations (note 4).

The notes are an integral part of these condensed consolidated financial statements.

## Condensed Consolidated Statement of Financial Position

	30 June 2009	Restated* 31 December 2008
	\$	\$
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible exploration assets (note 5)	245,923,367	211,346,037
Property, plant and equipment (note 5)	60,537,547	88,039,218
Other financial assets (note 6)	851,065	3,330,501
	<b>307,311,979</b>	<b>302,715,756</b>
<b>Current assets</b>		
Inventories	41,986	395,109
Prepaid expenses	2,558,789	664,759
Trade and other receivables	4,124,807	6,901,511
Cash and cash equivalents	255,407,425	90,620,385
	<b>262,133,007</b>	<b>98,581,764</b>
<b>Total Assets</b>	<b>569,444,986</b>	<b>401,297,520</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	25,553,696	54,751,768
Borrowings (note 7)	616,473	595,418
	<b>26,170,169</b>	<b>55,347,186</b>
<b>Non-current liabilities</b>		
Borrowings (note 7)	133,276,286	155,609,982
Provisions	471,793	719,808
	<b>133,748,079</b>	<b>156,329,790</b>
<b>Total Liabilities</b>	<b>159,918,248</b>	<b>211,676,976</b>
<b>Net Assets</b>	<b>409,526,738</b>	<b>189,620,544</b>
<b>SHAREHOLDERS' EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		
Share capital (note 8)	455,683,783	218,283,881
Reserves	80,471,429	85,153,359
Retained deficit	(126,628,474)	(113,816,696)
	<b>409,526,738</b>	<b>189,620,544</b>

\* See basis of accounting and presentation and significant accounting policies (note 2).

The notes are an integral part of these condensed consolidated financial statements.

## Condensed Consolidated Statement of Changes in Equity

Attributable to owners of the company for the six months ended 30 June 2009

	Share Capital	Foreign currency translation reserve	Available for sale investments revaluation reserve	Share- based payments reserve	Retained deficit	Equity portion of convertible debt	Total equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2009 (as restated*)</b>	218,283,881	(220,784)	168,000	54,564,393	(113,816,696)	30,641,750	189,620,544
<b>Total comprehensive income for the period</b>							
Loss for the period	-	-	-	-	(12,811,778)	-	(12,811,778)
<b>Other comprehensive (loss)/income</b>							
Exchange differences on translation of foreign operations	-	(1,059,783)	-	-	-	-	(1,059,783)
Net change in fair value of available for sale financial assets transferred to the income statement	-	-	(168,000)	-	-	-	(168,000)
<b>Total other comprehensive loss</b>	-	(1,059,783)	(168,000)	-	-	-	(1,227,783)
<b>Total comprehensive loss for the period</b>	-	(1,059,783)	(168,000)	-	(12,811,778)	-	(14,039,561)
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Issue of shares, net	205,028,335	-	-	-	-	-	205,028,335
Issue of shares on conversion of bonds	30,801,620	-	-	-	-	(5,410,790)	25,390,830
Share-based payment transactions	1,569,947	-	-	1,956,643	-	-	3,526,590
<b>Total transactions with owners</b>	237,399,902	-	-	1,956,643	-	(5,410,790)	233,945,755
<b>Balance at 30 June 2009</b>	455,683,783	(1,280,567)	-	56,521,036	(126,628,474)	25,230,960	409,526,738

\* See basis of accounting and presentation and significant accounting policies (note 2) and discontinued operations (note 4). As at 31 December 2008, the equity portion of convertible debt was previously stated as nil and retained deficit was previously stated as \$108,960,420.

The notes are an integral part of these condensed consolidated financial statements.

**Attributable to owners of the company for the six months ended 30 June 2008**

	Share Capital	Foreign currency translation reserve	Available for sale investments revaluation reserve	Share- based payments reserve	Retained deficit	Equity portion of convertible convertible debt	Total equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2008</b>	217,672,248	430,580	168,000	42,579,779	(67,657,170)	-	193,193,437
<b>Total comprehensive income for the period</b>							
Loss for the period	-	-	-	-	(16,489,625)	-	(16,489,625)
<b>Other comprehensive (loss)/income</b>							
Exchange differences on translation of foreign operations	-	113,120	-	-	-	-	113,120
<b>Total other comprehensive income</b>	-	113,120	-	-	-	-	113,120
<b>Total comprehensive income/loss for the period</b>	-	113,120	-	-	(16,489,625)	-	(16,376,505)
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Issue of shares, net	83	-	-	-	-	-	83
Share-based payment transactions	297,112	-	-	6,360,655	-	-	6,657,767
Recognition of equity portion of convertible bonds	-	-	-	-	-	30,641,750	30,641,750
<b>Total transactions with owners</b>	297,195	-	-	6,360,655	-	30,641,750	37,299,600
<b>Balance at 30 June 2008 (as restated*)</b>	217,969,443	543,700	168,000	48,940,434	(84,146,795)	30,641,750	214,116,532

\* See basis of accounting and presentation and significant accounting policies (note 2) and discontinued operations (note 4). As at 30 June 2008, the equity portion of convertible debt was previously stated as nil and retained deficit was previously stated as \$108,960,420.

The notes are an integral part of these condensed consolidated financial statements.

## Condensed Consolidated Cash Flow Statement

	Six months Ended 30 June 2009 US\$	Restated* Six months Ended 30 June 2008 US\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the period from continuing operations	(12,113,015)	(16,972,773)
Items not affecting cash		
Depletion, depreciation and amortisation	751,742	1,050,336
Finance costs – accretion expenses	2,176,301	2,060,811
Foreign exchange gains	(1,569,577)	(385,876)
Share-based compensation	1,329,436	4,521,052
Gain on derivative financial liability	-	(6,098,240)
Gain on other financial assets	(743,564)	(1,857,243)
Impairment of investment in available for sale financial assets	2,352,825	-
Increase in trade and other receivables	(188,933)	(2,023)
Increase in prepaid expenses	(1,894,030)	(210,679)
Decrease/(increase) in inventory	287,841	(10,826)
Decrease in trade and other payables	(2,574,733)	(8,172,390)
Continuing operations	(12,185,707)	(26,077,851)
Discontinued operations	-	596,998
	(12,185,707)	(25,480,853)
<b>Investing activities</b>		
Exercise of third party back-in rights for Miran (note 5)	6,737,635	-
Property, plant and equipment expenditures	(698,988)	(8,703,142)
Intangible exploration expenditures	(60,240,024)	(47,600,278)
Continuing operations	(54,201,377)	(56,303,420)
Discontinued operations		
Net consideration on disposal	28,198,780	-
Property, plant and equipment expenditures and intangible exploration expenditures	(4,026,185)	(4,006,761)
	(30,028,782)	(60,310,181)
<b>Financing activities</b>		
Shares issued for cash, share placement	216,848,944	171,791
Shares issued for cash, proceeds from exercise of share options	964,934	-
Shares issue costs	(11,820,609)	-
Repayment of long-term debt	(299,122)	(312,862)
	205,694,147	(141,071)
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>163,479,658</b>	<b>(85,932,105)</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>90,620,385</b>	<b>230,089,323</b>
Foreign exchange gain on cash held in foreign currency	1,307,382	538,056
<b>Cash and cash equivalents – End of period</b>	<b>255,407,425</b>	<b>144,695,274</b>
<b>Non-cash investing and financing activities (note 11)</b>		
<b>Supplementary information</b>		
The following have been included within cash flows from continuing operations for the period under operating activity		
Interest received	139,026	3,152,480
Interest paid	7,135,964	6,876,764

\* See basis of accounting and presentation and significant accounting policies (note 2) and discontinued operations (note 4).

The notes are an integral part of these consolidated financial statements.

## Notes to Condensed Consolidated Financial Statements

### 1. Reporting Entity

Heritage Oil Plc (the “Company”) was incorporated under the Companies (Jersey) Law 1991 (as amended) on 6 February 2008 as Heritage Oil Limited. On 18 June 2009, the name of the Company was changed to Heritage Oil Plc. Its primary business activity is the exploration, development and production of petroleum and natural gas in Africa, Middle East, Russia and South Asia. The Company was established in order to implement a corporate reorganisation of Heritage Oil Corporation (“HOC”, the “Corporation”).

### 2. Basis of Accounting and Presentation and Significant Accounting Policies

These interim consolidated financial statements of the Company as at and for the six months ended 30 June 2009 include the results of the Company and all subsidiaries over which the Company exercises control (together referred as the “Group”). The comparative figures include the results of HOC and all its subsidiaries.

As for most oil and gas exploration companies, the Company raises financing for its activities from time to time using a variety of sources. Based on its current plans and knowledge and its projected capital expenditure and operating cash requirements, the Group has sufficient cash to finance its current plans for at least twelve months from the date of approval of the condensed consolidated financial statements. Sources of funding for future exploration and development programmes will be derived from, *inter alia*, new credit facilities, reinvesting funds from operations, using existing treasury resources, disposal proceeds from the sale of non-core assets, such as the sale of the Company’s holdings in Oman in April 2009, farm-outs and, when considered appropriate, issuing debt and additional equity, such as a share placement in June 2009. Accordingly the Group has a number of different sources of finance available and the Directors are confident that additional finance will be raised as and when needed. In addition, development of the Group’s successful exploration projects may be financed separately.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the interim report and accounts.

The condensed interim consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. They do not include all information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Company and all its subsidiaries as at the year ended 31 December 2008.

The Company’s condensed interim consolidated financial statements are presented in US dollars, which is the Company’s functional and presentation currency.

The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied by the Company and all its subsidiaries in its consolidated financial statements as at and for the year ended 31 December 2008 (which are prepared in accordance with IFRS as adopted by the EU), except for the change in accounting policy disclosed below.

The condensed interim consolidated financial statements were approved by the Board and authorised for issuance on 28 August 2009. The comparative information at 30 June 2008 and 31 December 2008 is abridged and therefore not the Company’s statutory accounts for those financial periods.

#### (i) Presentation of Financial Statements

In 2009, the Group has applied IAS 1 Presentation of Financial Statements (revised 2007) which has introduced a number of terminology changes (including titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. The revised standard has had no impact on the reported results or financial position of the Group.

## **(ii) Determination and Presentation of Operating Segments**

As of January 2009, the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO and CFO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO and CFO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, corporate offices expenses and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

## **(iii) Borrowings**

The Company has changed its accounting policy in relation to the recognition of equity or financial liabilities arising from the issue of convertible bonds. Previously the Company made the assessment of whether the conversion feature is a derivative liability or an equity instrument on initial recognition only and did not revisit that assessment, absent any actual change in the contractual terms. It is now the Company's policy to reassess the classification during the life of the convertible bond and reclassify between liabilities and equity when appropriate. In particular, the Company now adopts a policy of reassessing the initial classification when there has been a change in the effective terms of the contract. As explained in note 7 it was the existence of the Company call option that resulted in derivative treatment for the conversion option in the convertible bond issued on 16 February 2007. Following the expiry of that option the Company has under this new policy reclassified the conversion option as an equity instrument from that date. The Company believes this new policy provides reliable and more relevant information as it bases the classification of such instruments on the terms that are currently operative.

In accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the change has been made retrospectively and the comparatives have been restated accordingly.

As a result, the loss for continuing operations for the six months ended 30 June 2008 has been restated to reduce the previously reported net loss attributable to owners of the company by \$41.5 million to \$16.5 million (year to 31 December 2008: increase the loss by \$4.9 million to \$46.2 million). These adjustments have been taken up in finance income (costs). In addition, non-current derivative financial liabilities have been reduced by \$72.1 million to nil at 30 June 2008 (at 31 December 2008 – by \$25.8 million to nil), and the fair value of the conversion feature as at 16 February 2008 of \$30.6 million has been transferred to equity through the Statement of Changes in Equity. If the accounting policy had not changed then an additional loss of \$132.5 million would have been recognised in the income statement for the six months ended 30 June 2009 and a non-current derivative financial liability of \$158.0 million would have been recognised in the statement of financial position at 30 June 2009. The change in accounting policy had no impact on the cash flow statement.

## **3. Operating Segments**

The Group has a single class of business which is international exploration, development and production of petroleum oil and natural gas. The geographical areas are defined by the Company as operating segments in accordance with IFRS 8 Operating Segments. The Group operates in a number of geographical areas based

on location of operations and assets, being Russia, Uganda, Democratic Republic of Congo (“DRC”), Kurdistan Region of Iraq, Pakistan, Tanzania, Malta, Mali and Oman (discontinued). The Group reporting segments comprise each separate geographical area in which it operates.

	Six months ended 30 June 2009					
	External revenue	Segment result	Total assets	Total liabilities	Capital additions	Depreciation, depletion and amortisation
	\$	\$	\$	\$	\$	\$
Russia	846,629	(1,462,238)	47,095,822	490,832	1,549,751	(246,655)
Uganda	-	-	149,993,253	5,477,193	14,518,175	-
DRC	-	-	1,646,778	-	40,013	-
Kurdistan Region of Iraq	-	-	66,215,363	8,953,047	14,907,589	-
Pakistan	-	-	1,817,157	-	256,828	-
Tanzania	-	-	17,997,510	478,719	4,697,547	-
Mali	-	-	1,523,937	-	290,931	-
Malta	-	-	9,408,207	15,141	781,475	-
Oman – discontinued operations	-	(698,763)	-	-	500,000	-
Total for reportable segments	846,629	(2,161,001)	295,698,027	15,414,932	37,542,309	(246,655)
Corporate	-	(10,650,777)	273,746,959	144,503,316	315,728	(505,087)
Elimination of discontinued operations	-	698,763	-	-	(500,000)	-
Total from continuing operations	846,629	(12,113,015)	569,444,986	159,918,248	37,358,037	(751,742)

  

	Six months ended 30 June 2008 (restated*)					
	External revenue	Segment result	Total assets	Total liabilities	Capital additions	Depreciation, depletion and amortisation
	\$	\$	\$	\$	\$	\$
Russia	1,979,842	(367,862)	54,322,021	541,825	7,461,629	(550,801)
Uganda	-	-	108,190,951	15,918,855	19,364,009	-
DRC	-	-	1,469,413	-	173,193	-
Kurdistan Region of Iraq	-	-	30,369,188	925,572	28,120,730	-
Pakistan	-	-	1,453,476	-	501,069	-
Tanzania	-	(174,658)	2,630,983	-	2,630,983	-
Mali	-	-	585,060	-	371,914	-
Malta	-	-	7,471,413	-	800,757	-
Oman – discontinued operations	929,649	483,148	21,054,001	3,708,755	7,385,831	(168,431)
Total for reportable segments	2,909,491	(59,372)	227,546,506	21,095,007	66,810,115	(719,232)
Corporate	-	(16,430,253)	171,714,096	164,049,063	140,035	(499,535)
Elimination of discontinued operations	(929,649)	(483,148)	(21,054,001)	(3,708,755)	(7,385,831)	168,431
Total from continuing operations	1,979,842	(16,972,773)	378,206,601	181,435,315	59,564,319	(1,050,336)

\*See basis of accounting and presentation and significant accounting policies (note 2).

Oman was classified as discontinued operations (see note 4). Corporate activities include the financing activities of the Group and is not an operating segment.

Exploration expenditures in respect of E&E assets relate to pre licence costs which are expensed in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources.

There have been no changes to the basis of segmentation or the measurement basis for the segment result since 31 December 2008.

#### 4. Discontinued Operations

On 7 April 2009, the Company completed the sale of Eagle Energy (Oman) Limited (“Eagle Energy”), its Oman segment (see note 3), a wholly-owned subsidiary of the Company, to RAK Petroleum Oman Limited for \$28 million, plus a working capital adjustment of \$0.4 million. Eagle Energy holds a 10% interest in Block 8, Oman. The segment was not classified as held for sale or discontinued operations at 31 December 2008 and the comparative income statement has been restated to show the discontinued operations separately

from continued operations.

The effective date of the transaction is 1 January 2009. The cash consideration of \$28 million and a working capital adjustment of \$0.4 million have been received. The Company acquired Eagle Energy, which has a 10% interest in Block 8 offshore Oman, in 1996. Block 8 contains the Bukha field which has been producing since 1994 and the West Bukha field which commenced production in February 2009.

The results of operations of Eagle Energy have been classified as discontinued operations. The following table provides additional information with respect to the amounts included in profit from discontinued operations. There were no revenues or costs associated with Block 8, Oman between 1 January 2009 and 7 April 2009 included in the condensed consolidated income statement as there were no sales in that period.

	Six months ended 30 June 2008 \$
<b>Revenue</b>	
Petroleum and natural gas	929,649
<b>Expenses</b>	
Petroleum and natural gas operating	(278,071)
Depletion, depreciation and amortisation	(168,430)
	(446,501)
Operating loss	483,148

The following table provides additional information with respect to the discontinued operations amounts included in the balance sheet at 7 April 2009.

	7 April 2009 \$
<b>Assets</b>	
<b>Non-current assets</b>	
Intangible exploration assets	1,051,083
Property, plant and equipment	27,448,917
	28,500,000
<b>Current assets</b>	
Accounts receivable	246,783
Inventories	65,282
	312,065
<b>Total Assets</b>	28,812,065

The loss on disposal of discontinued operations has been derived as follows:

	7 April 2009 \$
<b>Consideration received, satisfied cash</b>	
Sales proceeds	28,000,000
Working capital adjustments	390,242
Total disposal consideration	28,390,242
Less:	
Carrying amount of net assets sold	(28,812,065)
Other expenses	(276,940)
Loss on disposal of discontinued operations	(698,763)

## 5. Property, Plant and Equipment and Intangible Exploration Assets

### Capital Additions

During the six months ended 30 June 2009 the Group acquired property, plant and equipment and intangible exploration assets with a cost of \$37,358,037 (six months ended 30 June 2008 – \$59,564,319).

### Exercise of Third Party Back-in Rights

In April 2009, in accordance with the option outlined in the PSC in the Kurdistan Region of Iraq, the Kurdistan Regional Government (“KRG”) nominated a third party participant in the Miran Block. The Company remains the operator with a 75% working interest in the Miran Block and has received the pro-rata

share of 25% of all past work programme expenditures and the third party will be responsible for paying its share of future costs. The transaction was completed upon the receipt of approximately \$6.7 million in costs incurred by the Company to 31 January 2009. No gain/loss resulted from this transaction and intangible exploration assets reduced by \$6.7 million. The KRG and the Company have agreed to replace the agreement under which they had agreed in principle (subject to certain conditions which had not been satisfied) to jointly develop a refinery with an agreement under which the Company has agreed to make payments of up to \$35 million from future oil and gas sales from the licence.

## 6. Other Financial Assets

	30 June 2009	31 December 2008
	\$	\$
Investment in warrants	851,065	107,501
Investment in unlisted securities	–	3,223,000
	<b>851,065</b>	<b>3,330,501</b>

The investment in Afren plc warrants is classified as held for trading. The investment in unlisted securities represents common shares in a private company named SeaDragon Offshore Limited (“SeaDragon”), which is classified as available-for-sale.

The Company owns 805,832 of the unlisted shares of SeaDragon, approximately 15% of the shares outstanding. At 31 December 2008, these shares were carried at a value of \$4 per share, which was valued based on the most recent private placement of SeaDragon on 26 October 2006. At 30 June 2009, the carrying value of the investments in the shares of SeaDragon was written down to nil following completion of a financial reorganisation by SeaDragon and the Company does not expect that the cost of the investment will be recoverable in the foreseeable future. This resulted in an impairment write-down of \$2,352,825 (2008 – nil) recognised in the income statement during the six month period ended 30 June 2009.

## 7. Borrowings

	30 June 2009	Restated* 31 December 2008
	\$	\$
<b>Non-current borrowings</b>		
Convertible bonds – unsecured	118,479,478	141,319,489
Non-current portion of long-term debt	14,796,808	14,290,493
	<b>133,276,286</b>	<b>155,609,982</b>
<b>Long-term debt – secured</b>	<b>616,473</b>	595,418
Current	14,796,808	14,290,493
Non-current	15,413,281	14,885,911

\*See basis of accounting and presentation and significant accounting policies (note 2).

On 16 February 2007, the Company raised \$165,000,000 by completing a private placement of convertible bonds. Issue costs amounted to \$6,979,268 resulting in net proceeds of \$158,020,732. The Company issued 1,650, \$100,000 unsecured bonds at par, which have a maturity of five years and one day and an annual coupon of 8% payable semi-annually on 17 August and 17 February of each year. Bondholders have the right to convert the bonds into Ordinary Shares at a price of \$4.70 per share at any time. The number of Ordinary Shares receivable on conversion of the bonds is fixed. The Company had the right to redeem, in whole or part, the bonds for cash at any time on or before 16 February 2008, at 150% of par value (the “Company call option”). This right was not exercised.

The fair value of the host liability component of the bonds (net of issue costs) was estimated at \$140,154,215 on 16 February 2007. The difference between the \$165,000,000 due on maturity and the initial liability

component is accreted using the effective interest rate method and is recorded as finance costs. As the Company call option meant that conversion feature could be settled in cash in accordance with IAS 32 the conversion was treated as a derivative liability. The fair value of this derivative liability (estimated using the Black-Scholes option pricing model) was \$17,866,517 at 16 February 2007 and subsequent gains and losses have been recorded in finance income and costs up to the expiry of the Company call option on 17 February 2008. As a result of the expiry of this option, and hence the cash settlement feature, the Company has reassessed the classification of the conversion option and determined that it qualifies to be treated as equity under IAS 32, being an option to convert a fixed amount of cash for a fixed number of shares. Therefore, the fair value of the conversion option was reclassified to equity at that date.

Bondholders have a put option requiring the Company to redeem the bonds at par, plus accrued interest, in the event of a change of control of the Company or revocation or surrender of the Zapadno Chumpasskoye Licence in Russia (the “contingent put option”). In the event of a change of control and redemption of the bonds or exercise of the conversion rights, a cash payment of up to \$19,700 on each \$100,000 bond will be made to the bondholder, the amount of which depends upon the date of redemption and market value of shares at the date of any change of control event. This contingent put option has been valued separately.

The fair value of the contingent put option has been estimated as de minimis by the Company (31 December 2008 – de minimis).

Between 1 January 2009 and 30 June 2009, bondholders with \$27.9 million of bonds gave notice of the exercise of 279 bonds and received 5,936,160 Ordinary Shares. As a result of this conversion, \$25,390,830 was transferred to Share Capital from convertible bonds and accrued liabilities, and \$5,410,790 was transferred from equity portion of convertible debt to Share Capital.

## 8. Share Capital

The Company was incorporated under the Companies (Jersey) Law 1991 (as amended) on 6 February 2008. The Company’s authorised share capital is an unlimited number of Ordinary Shares without par value and one special voting share with no par value.

### Ordinary Shares

	Six months ended 30 June 2009		Six months ended 30 June 2008	
	Number	Amount \$	Number	Amount \$
Balance – Beginning of period	251,858,374	215,509,055	254,877,480	217,672,248
Issue of shares	25,400,000	205,028,335	2	83
Exchange of Common Shares for Exchangeable Shares	-	-	(4,431,120)	(3,784,296)
Exchange of Exchangeable Shares for Ordinary Shares	225,000	192,150	143,000	122,126
Issued on conversion of bonds	5,936,160	30,801,620	-	-
Issued on exercise of stock options	470,000	1,569,947	73,330	297,112
Balance – End of period	283,889,534	453,101,107	250,662,692	214,307,273

### Special Voting Share

	Six months ended 30 June 2009		Six months ended 30 June 2008	
	Number	Amount \$	Number	Amount \$
Balance – Beginning of period	1	-	-	-
Issued during the period	-	-	1	-
Balance – End of period	1	-	1	-

### Exchangeable Shares of Heritage Oil Corporation Each Carrying One Voting Right in the Company

	Six months ended 30 June 2009		Six months ended 30 June 2008	
	Number	Amount \$	Number	Amount \$
Balance – Beginning of period	3,249,108	2,774,826	-	-
Exchange of the Common Shares for Exchangeable Shares	-	-	4,431,120	3,784,296
Exchange of the Exchangeable Shares for Ordinary Shares	(225,000)	(192,150)	(143,000)	(122,126)
Balance – End of period	3,024,108	2,582,676	4,288,120	3,662,170
Balance of Ordinary Shares of the Company and Exchangeable Shares of HOC – End of period	286,913,642	455,683,783	254,950,812	217,969,443

On 18 June 2009, the Company completed the placing of 25,400,000 new Ordinary Shares at a price of 520 pence per share for gross proceeds of \$216,848,944 (£132,080,000) to the Company. Share issue costs were \$11,820,609.

### 9. Loss Per Share

The following table summarises the weighted average Ordinary and Exchangeable Shares:

	Six months Ended 30 June 2009	Six months Ended 30 June 2008
<b>Weighted average Ordinary and Exchangeable Shares</b>		
Basic	258,507,387	254,942,099
Diluted	287,660,501	266,484,003

The reconciling item between basic and diluted weighted average number of Ordinary Shares is the dilutive effect of stock options. A total of nil shares relating to the LTIP (30 June 2008 – 4,926,429) and 27,680,851 of shares relating to the convertible bonds (30 June 2008 – 33,617,020) were excluded from the above calculation, as they were anti-dilutive. However since the Company has made a loss in each period for the purposes of calculating diluted loss per share, all potential Ordinary Shares have been treated as anti-dilutive.

### 10. Related Party Transactions

During the six months ended 30 June 2009, the Company incurred transportation costs of \$59,175 (30 June 2008 – \$49,892) with respect to the services provided by a company indirectly owned by Mr. Anthony Buckingham, CEO and a director of the Company.

## 11. Non-cash Investing and Financing Activities Supplementary Information

	30 June 2009	30 June 2008 \$
Capitalised portion of share-based compensation	(1,232,210)	(1,964,931)
Non-cash property, plant and equipment and intangible exploration assets additions relating to the capitalized portion of share-based compensation	1,232,210	1,964,931

## 12. Subsequent Events

### Conversion of Convertible Bonds

In July 2009, bondholders with \$2 million of bonds gave notice of the exercise of 20 bonds. These bondholders received 425,531 Ordinary Shares.

### Proposed Acquisition of Genel Energy International Limited

On 9 June 2009, Heritage announced that it had entered into a non-binding Memorandum of Understanding (“MoU”) with Genel Enerji A.S to acquire the entire share capital of Genel. An update issued at the beginning of August stated that it had been agreed in principle that Heritage will issue 286.3 million Ordinary Shares (representing approximately 50% of the voting rights of Heritage as enlarged by the Proposed Acquisition (the “Enlarged Group”)) in consideration for acquiring the entire share capital of Genel.

Discussions between Heritage and Genel are continuing, with the terms of an implementation agreement being finalised and the required prospectus and circular also being prepared.

Elections took place in Kurdistan at the end of July and a new government is in the process of being formed. Heritage and Genel continue to monitor progress on the formation of the new government and await the subsequent formal approval of the proposed transaction, together with an understanding of the pricing and payment mechanism which is to be established for international sales from Kurdistan.

Heritage intends to make available to shareholders, as soon as practicable, the prospectus and circular which describe the proposed acquisition and will include the relevant Mineral Experts’ Reports for the key assets of both Heritage and Genel. Management anticipate meeting with shareholders and analysts once these have been distributed.

Completion of the Proposed Acquisition remains subject to various conditions. These include: (i) agreeing definitive legally binding documentation, including the implementation agreement; (ii) formal ratification of the Proposed Acquisition by the Ministry of Natural Resources of the Kurdistan Region of Iraq and the Kurdistan Region Oil and Gas Council; (iii) the approval of Heritage’s shareholders voting at an Extraordinary General Meeting of the Company; and (iv) confirmation as to the eligibility of the Enlarged Group to be admitted to the Official List by the UK Listing Authority (“UKLA”) and the admission of the Ordinary Shares of Heritage, as enlarged, to the Official List of the UKLA and to trading on the London Stock Exchange.

**FORWARD-LOOKING INFORMATION:**

Except for statements of historical fact, all statements in this news release – including, without limitation, statements regarding production estimates and future plans and objectives of Heritage – constitute forward-looking information that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from those anticipated in such statements. Factors that could cause actual results to differ materially from anticipated results include risks and uncertainties such as: risks relating to estimates of reserves and recoveries; production and operating cost assumptions; development risks and costs; the risk of commodity price fluctuations; political and regulatory risks; and other risks and uncertainties as disclosed under the heading "Risk Factors" in its Prospectus and elsewhere in Heritage documents filed from time-to-time with the London Stock Exchange and other regulatory authorities. Further, any forward-looking information is made only as of a certain date and the Company undertakes no obligation to update any forward-looking information or statements to reflect events or circumstances after the date on which such statement is made or reflect the occurrence of unanticipated events, except as may be required by applicable securities laws. New factors emerge from time to time, and it is not possible for management of the Company to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information.