



**17 June 2010**

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

**HERITAGE OIL PROVIDES AN OPERATIONAL UPDATE**

Heritage Oil Plc (LSE: HOIL), an independent upstream exploration and production company, announces an operational update to accompany its Annual General Meeting, taking place at 3:00 pm (BST) today at 22 Grenville Street, St. Helier, Jersey.

**Highlights**

- The Government of the Republic of Uganda ("Government") has assured Heritage that it is committed to completing the transaction as soon as possible
- Heritage and Government are in discussion over whether the disposal of the Ugandan interests is subject to tax in Uganda. Heritage has proposed that the outstanding tax dispute be submitted to binding arbitration in London and has offered to deposit US\$108 million with the Ugandan Revenue Authority (the "URA") on its receipt of the cash consideration of US\$1.35 billion on closing, which would be refunded to Heritage if it is ultimately determined that no tax is payable
- Proposed dividend of 75p-100p per share following the completion of the sale of the Ugandan interests
- Exploration drilling of the Miran West-2 well in Kurdistan is scheduled to be completed in the third quarter of 2010. Testing of the Miran West-2 well will resume on completion of the deeper exploration drilling
- 3D seismic programme to commence shortly in Kurdistan
- Further diversified drilling programmes scheduled to commence in Malta, Pakistan and Russia in the second half of 2010

**Uganda**

Since it first entered Uganda 13 years ago Heritage has been the pioneering oil company in Uganda, being the first company to explore for oil there in almost 60 years. As such, Heritage has always enjoyed good relations with Government. Heritage, as operator, discovered two of the largest oil fields in Uganda; the Kingfisher Field on the shores of Lake Albert in Block 3A and the Buffalo-Giraffe Field in Block 1. Having invested over US\$150 million in the country, Heritage is proud of the part it has played in establishing the Ugandan oil industry which stands on the verge of an exciting new phase in its development.

As announced previously, Tullow Uganda Limited exercised its right of pre-emption on 17 January 2010 to acquire the Company's entire interests in Blocks 1 and 3A (the "Assets") for a cash consideration on closing of US\$1.35 billion (the "Consideration") with deferred consideration of up to US\$150 million in cash or an interest in a mutually agreed asset.

Heritage announced on 7 April 2010 that it had received a letter from Government stating that it supports Heritage's disposal of the Assets and will conclude its review of the transaction within eight weeks. As previously announced, the only substantive condition still outstanding

and preventing completion of the disposal of the Assets is Government approval of the transaction. Government has now informed Heritage that its review of the transaction has been concluded and the only issue preventing approval from being granted is the absence of an agreement between Heritage and Government with respect to whether the disposal of the Assets is taxable in Uganda.

Heritage representatives have met with appointed officials from the Ministry of Energy and Mineral Development, Ministry of Finance Planning and Economic Development (collectively the “Ministry”) and the URA on many occasions over recent weeks to resolve this remaining issue but no agreement has been reached. Heritage’s position, based on comprehensive advice from leading tax experts in Uganda, the United Kingdom and North America, is that the disposal of the Assets is not taxable in Uganda. Historically, none of the corporate or asset transactions in the oil sector in Uganda which have involved the sale or transfer of a licence have been taxed. Government’s current position is that the Consideration is subject to a tax of approximately US\$360 million.

Heritage prides itself on its track record of compliance and good relations in all of the jurisdictions in which it operates and intends to pay any lawfully imposed tax. In an effort to resolve the situation and to expedite Government’s consent, Heritage has proposed (the “Proposal”) in writing that the outstanding tax dispute be submitted to binding arbitration in London under the rules established by the United Nations Commission for International Trade Law (UNCITRAL), as required under the Production Sharing Agreements between Heritage and Government with respect to the Assets (collectively, the “PSAs”).

Even though Heritage is under no legal obligation to do so, it has also offered to deposit US\$108 million with the URA on its receipt of the Consideration, which would be refunded to Heritage if it is ultimately determined that no tax is payable. Although the dispute will be settled in accordance with the procedures set out in the PSAs, this amount of US\$108 million has been determined based on subsection 103(2) of the Income Tax Act (Uganda), which requires a taxpayer to deposit 30% of the disputed amount of tax with the URA pending final resolution of the dispute.

The Proposal is in accordance with the laws of Uganda and the terms of the PSAs and goes beyond Heritage’s legal obligations and is given in good faith. Government has assured Heritage that it will respond in a timely fashion and is committed to completing the transaction as soon as possible. Heritage is of the opinion that it has done everything reasonable to obtain Government’s consent to the disposal of the Assets and looks forward to completing the transaction shortly.

### **Kurdistan Region of Iraq**

The Miran West-2 well is being drilled to encounter the deeper exploration objectives in the underlying Jurassic and Triassic structures which have the potential to contain substantial quantities of hydrocarbons. The well has been re-engineered and it is expected that the deepening of the Miran West-2 well to 4,600 metres will complete during the third quarter of 2010. The three zones identified previously in the Cretaceous will be tested when target depth has been reached, as well as any other zones identified in the deeper Jurassic and Triassic structures.

Acquisition of 3D seismic over the Miran Block is expected to commence shortly and will help to establish further appraisal drilling locations with a view to exploiting the reservoirs’ fracture networks. Future plans for the drilling of the Miran East-1 exploration well are progressing and Heritage is currently planning to contract a rig to commence drilling in the fourth quarter 2010.

## **Other Operations**

336 kilometres of 2D seismic has recently been acquired on the Zamzama North Block in Pakistan, where a number of structural leads have already been mapped. Work programmes across the portfolio are progressing with wells planned in Malta, Russia and Pakistan for the second half of 2010.

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

*“Operationally we are busy with active work programmes across our portfolio. We continue to drill the high impact Miran West-2 exploration well in Kurdistan and are making plans to drill our first wells in Malta and Pakistan later this year. Corporately, we remain focused on completing the proposed disposal in Uganda shortly, leaving us with the financial flexibility to consider many additional opportunities to enhance our growth profile.”*

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### **For further information please contact:**

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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.
- On completion of the sale of the Ugandan interests Heritage will receive US\$1.35 billion in cash. There is a further contingent, deferred consideration of up to US\$150 million in cash or an interest in a mutually agreed asset.

- 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](http://www.heritageoilplc.com)**

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**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. The completion of the sale of the Ugandan interests is subject to certain conditions, some of which are beyond the control of the Company. 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.