



**For Immediate Release: Monday, August 14, 2006**

**HERITAGE OIL REPORTS SECOND QUARTER 2006 RESULTS AND OPERATIONAL UPDATE**

Calgary, Alberta, August 14 – Heritage Oil Corporation (TSX: HOC) today reported its financial results for the second quarter of 2006. All figures are in U.S. Dollars. Following the announcement in the second quarter of the sale of Heritage Congo Limited for a consideration including \$28 million in cash, which is expected to complete in the second half of this year, the Congolese interests have been classified as discontinued operations and certain prior year balances have been reclassified to conform.

**Second Quarter Results:** (three-months ended June 30, 2006 compared with three-months ended June 30, 2005)

	<b>2006 US\$</b>	<b>2005 US\$</b>
Revenue from continuing operations	1,906,373	668,197
Loss from continuing operations	(2,945,756)	(1,403,870)
Net loss from continuing operations per share (basic & diluted)	(0.13)	(0.07)
Loss after discontinued operations	(1,680,927)	(695,497)
Net loss after discontinued operations per share (basic and fully-diluted)	(0.08)	(0.03)
Cash and cash equivalents	53,302,543	19,396,789

**Year-To-Date Results:** (six-months ended June 30, 2006 compared with six-months ended June 30, 2005)

	<b>2006 US\$</b>	<b>2005 US\$</b>
Revenue from continuing operations	4,028,102	857,154
Loss from continuing operations	(3,337,835)	(2,756,351)
Net loss from continuing operations per share (basic & diluted)	(0.15)	(0.13)
Loss after discontinued operations	(1,246,759)	(1,133,025)
Net loss after discontinued operations per share (basic and fully-diluted)	(0.06)	(0.05)

Heritage Chairman and CEO, Micael Gulbenkian, stated “The second half of the year will be the busiest operational period ever for our Company, with drilling programs in Uganda, Russia and Oman. As expected during this phase of our strategy, we registered a financial net loss in the second quarter, but our revenues have increased handsomely and the funds from the sale of

Heritage Congo Limited will help finance other opportunities that we are pursuing. In the remaining half of the year, work will continue to convert the Memoranda of Understanding (“MOUs”) in Kurdistan to Production Sharing Agreements (“PSAs”), complete the sale of the Congolese assets and appraise further opportunities in Russia.”

## **OPERATIONAL HIGHLIGHTS**

During the first six months of 2006, Heritage has actively pursued implementation of its medium-term strategy with considerable operational progress made in all territories, particularly during the second quarter of 2006:

### Russia

Heritage completed the acquisition of a 200 km 2D seismic survey in the Zapadno-Chumpasskoye license, in which it has a 95% working interest. The data is being processed over the summer and a five-well drilling program is expected to commence before the end of the year. The Company also plans to build all weather roads that will allow operation throughout the year.

Heritage continues to actively appraise a number of other Russian oil and gas opportunities, in line with its strategy to build a more substantial presence in producing assets in that country.

### Uganda

Heritage commenced mobilization of the drilling rig to the Kingfisher-1 wellsite in Block 3A and expects to spud the first well of a two-well initial program shortly. The Kingfisher prospect, which is a large structural high, extends out into Lake Albert and can be conveniently drilled vertically from the lakeshore. Exploration prospects have improved substantially following the completion of the Waraga-1 well test in Block 2 (which lies immediately north of Heritage’s permit) during July 2006 by Hardman Resources (operator). The well test produced an aggregate maximum flow rate of 12,050 barrels per day (bpd) from three zones.

### Kurdistan

The Company’s 50%-owned subsidiary, K Petroleum Company, continued discussions to convert the two existing MOUs into PSAs. The conversion was delayed by the appointment of the new cabinet of the national Government of Kurdistan and a new Minister of Natural Resources. Heritage wholeheartedly welcomes these appointments, which should help provide long-term development and stability. Heritage now expects the MOU conversions to occur before the end of the year.

### Oman

The West Bukha-2 appraisal/development well spudded on May 23. This well is targeting Cretaceous age carbonate reservoirs at a depth of around 4,100 m (13,450 ft). The West Bukha field is the portion of the West Bukha-Hengam gas-condensate field that lies approximately 25 km offshore the Sultanate of Oman, north of the producing Bukha field. Between 1975 and 1986, three wells (Hengam-1, Khasab-1 and West Bukha-1) were drilled on the structure, two of which produced gas and condensate and a third downdip which produced water. Since these wells were drilled, the joint venture has processed and interpreted a 3D seismic survey that enabled the establishment of a more accurate geological model to locate the best reservoirs in terms of thickness and quality.

### Iraq

Heritage held the first steering committee meeting with Ministry of Oil officials from Baghdad. Heritage Middle East, a wholly-owned subsidiary, is looking to undertake field studies over two existing fields in Southern Iraq, strongly positioning the Company to be awarded licenses after the hydrocarbon law is passed. Additionally, Heritage held its second training course in Portugal for 40 officials from the Oil, Gas and Petrochemical Establishment of the Government of Kurdistan and the Ministry of Oil in Baghdad. Heritage considers these courses to be of assistance to these organizations as well as an ideal way to cement relations with these parties.

### Republic of Congo

Heritage entered into an agreement with Afren PLC (“Afren”) to sell the entire share capital of Heritage Congo Limited, which is expected to close later this year. The consideration may be summarized as follows:

- Cash of \$28 million, with \$26 million paid on closing and \$2 million placed in a security account;
- Up to 2,000,000 Afren common share purchase warrants, with a term of five years, of which 500,000 will be issued upon the satisfaction of certain conditions; and
- An overriding royalty of 15% over a 30% working interest in the Kouakouala B license in relation to the Mengo Field.

## **FINANCIAL**

In the second quarter, results from operations in the Republic of Congo have been treated as discontinued operations. Revenue from continuing operations in the second quarter of 2006 was 185% higher than in the same period last year, due to revenues from drilling operations. Revenue in the first half of this year was 370% higher than in the same period in 2005. Production in the second quarter of 2006 of 142 bpd from the Bukha field, Oman was 13% higher than in the same period last year and included 80 bpd of condensate that was inventoried at the period end and sold in July 2006, generating revenue of approximately \$1.5 million.

There was a net loss after discontinued operations of \$1,680,927 (Cdn\$1,877,292) in the second quarter of 2006 compared to a loss of \$695,497 (Cdn\$776,744) in the same period last year. In Q2 2006, the basic and diluted loss per share were \$0.08, compared to basic and diluted loss per share of \$0.03 in the same period last year. In the first half of 2006, the basic and diluted loss per share were \$0.06, compared to basic and diluted loss per share of \$0.05 in the same period last year.

Complete Financial Statements and Management’s Discussion and Analysis will be filed by the end of the day and will be available on SEDAR at [www.sedar.com](http://www.sedar.com).

Heritage is an international oil and gas corporation with a producing property in the Sultanate of Oman, a development property in Russia and exploration projects in the Republic of Uganda. The Company announced the sale of its interests in the Republic of Congo, subject to certain conditions precedent, in June 2006. Through its subsidiary KPC, the Company has entered into two MOUs with the Government of Kurdistan, Iraq. Heritage Middle East, which is focusing on Iraq, has an office in Amman, Jordan.

The Company's Common Shares trade on the Toronto Stock Exchange under the symbol HOC.

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**FORWARD-LOOKING STATEMENTS:** 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 – are forward-looking statements 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" and elsewhere in Heritage documents filed from time-to-time with the Toronto Stock Exchange and other regulatory authorities. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

# HERITAGE OIL CORPORATION

Consolidated Balance Sheets

June 30, 2006 and December 31, 2005 (Unaudited)

(U.S. dollars)

	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 53,302,543	\$ 8,583,321
Accounts receivable	1,008,465	580,664
Inventories	157,470	193,361
Prepaid expenses	347,012	219,222
Assets held for sale	925,324	760,899
	<b>55,740,814</b>	<b>10,337,467</b>
Property and equipment	68,381,930	58,706,448
Deferred financing costs	2,842,192	—
Deferred development costs	1,257,674	1,187,371
Assets held for sale	15,153,693	13,676,487
	<b>\$ 143,376,303</b>	<b>\$ 83,907,773</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 3,555,906	\$ 4,438,649
Current portion of long-term debt	136,339	248,045
Liabilities associated with assets held for sale	90,618	—
	<b>3,782,863</b>	<b>4,686,694</b>
Long-term debt	64,855,808	7,520,438
Liabilities associated with assets held for sale	452,243	434,849
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital	23,508,025	22,854,418
Contributed surplus	845,068	517,209
Convertible bonds equity component	3,284,890	—
Retained earnings	46,647,406	47,894,165
	<b>74,285,389</b>	<b>71,265,792</b>
	<b>\$ 143,376,303</b>	<b>\$ 83,907,773</b>

# HERITAGE OIL CORPORATION

Consolidated Statements of Loss and Retained Earnings

Three-months and six-months ended June 30, 2006 and 2005 (*Unaudited*)

(U.S. dollars)

	Three-months ended, June 30		Six-months ended, June 30	
	2006	2005	2006	2005
<b>REVENUE:</b>				
Petroleum and natural gas	\$ 85,795	\$ 561,251	\$ 1,317,411	\$ 645,809
Drill rig	1,185,353	-	1,997,980	-
Interest	635,225	106,946	712,711	211,345
	<b>1,906,373</b>	668,197	<b>4,028,102</b>	857,154
<b>EXPENSES:</b>				
Petroleum and natural gas operating	45,955	153,995	319,140	333,806
Drill rig operating	985,159	-	1,578,773	-
General and administrative	1,504,928	967,327	2,747,059	1,518,859
Financing charges	1,912,598	136,553	2,130,312	226,043
Foreign exchange losses	220,026	625,271	271,023	1,232,645
Depletion, depreciation and accretion	183,463	188,921	319,630	302,152
	<b>4,852,129</b>	2,072,067	<b>7,365,937</b>	3,613,505
Loss from continuing operations	<b>(2,945,756)</b>	(1,403,870)	<b>(3,337,835)</b>	(2,756,351)
Earnings from discontinued operations	1,264,829	708,373	2,091,076	1,623,326
Net loss	<b>(1,680,927)</b>	(695,497)	<b>(1,246,759)</b>	(1,133,025)
<b>Retained earnings, beginning of period</b>	<b>48,328,333</b>	51,634,454	<b>47,894,165</b>	52,434,857
Premium on purchase and cancellation of Common Shares	-	(263,751)	-	(626,626)
<b>Retained earnings, end of period</b>	<b>\$ 46,647,406</b>	\$ 50,675,206	<b>\$ 46,647,406</b>	\$ 50,675,206
Net loss per share from continuing operations:				
Basic and diluted	<b>\$ (0.13)</b>	\$ (0.07)	<b>\$ (0.15)</b>	\$ (0.13)
Net loss per share:				
Basic and diluted	<b>\$ (0.08)</b>	\$ (0.03)	<b>\$ (0.06)</b>	\$ (0.05)

# HERITAGE OIL CORPORATION

Consolidated Statements of Cash Flows

Three-months and six-months ended June 30, 2006 and 2005 (Unaudited)

(U.S. dollars)

	Three-months ended, June 30		Six-months ended, June 30	
	2006	2005	2006	2005
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING:</b>				
Continuing Operations				
Loss from continuing operations	\$ (2,945,756)	\$ (1,403,870)	\$ (3,337,835)	\$ (2,756,351)
Items not involving cash:				
Depletion, depreciation and accretion	183,463	188,921	319,630	302,152
Financing charges	279,791	-	295,164	-
Foreign exchange losses	173,301	422,121	159,886	732,566
Stock based compensation	195,649	260,341	379,273	260,341
Changes in non-cash operating working capital	(189,803)	375,640	(1,833,530)	351,874
	(2,303,355)	(156,847)	(4,017,412)	(1,109,418)
Discontinued operations				
Funds provided by discontinued operations	1,264,829	708,373	2,091,076	1,623,326
Depletion, depreciation and accretion	355,032	210,211	834,865	438,329
Change in non-cash operating working capital of discontinued operations	(748,976)	(989,798)	(73,807)	(1,574,857)
	(1,432,470)	(228,061)	(1,165,278)	(622,620)
<b>FINANCING:</b>				
Common Shares issued for cash	602,193	394,205	602,193	436,834
Convertible bonds, net of issue costs	-	-	57,000,000	-
Long-term debt	-	-	-	8,452,350
Repurchase of Common Shares	-	(313,795)	-	(742,217)
Repayment of long-term debt	(42,611)	(28,568)	(204,804)	(51,624)
Changes in non-cash financing working capital	(1,500,000)	-	-	-
	(940,418)	51,842	57,397,389	8,095,343
<b>INVESTING:</b>				
Property and equipment expenditures	(6,821,315)	(3,798,396)	(9,995,112)	(6,143,899)
Development expenditure	(61,521)	(67,639)	(70,303)	(129,189)
Changes in non-cash investing working capital	(965,565)	(808,607)	431,087	1,073,181
Discontinued operations repayment of note receivable	-	-	-	4,210,538
Discontinued operations property and equipment expenditures	(1,487,682)	(1,478,553)	(2,294,677)	(2,259,682)
	(9,336,083)	(6,153,195)	(11,929,005)	(3,249,051)
Foreign exchange gains (losses) on cash held in foreign currency	318,306	(755,125)	416,116	(1,062,406)
<b>Change in cash and cash equivalents</b>	<b>(11,390,665)</b>	<b>(7,084,539)</b>	<b>44,719,222</b>	<b>3,161,266</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>64,693,208</b>	<b>26,481,328</b>	<b>8,583,321</b>	<b>16,235,523</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 53,302,543</b>	<b>\$ 19,396,789</b>	<b>\$ 53,302,543</b>	<b>\$ 19,396,789</b>
Supplementary information:				
Interest received	\$ 637,797	\$ 106,062	\$ 689,148	\$ 275,551
Interest paid	\$ 1,636,317	\$ 89,490	\$ 1,757,066	\$ 226,043

