



27 August 2010

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

HERITAGE OIL ANNOUNCES 2010 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 2010.

Operational Highlights

- Miran West-2 well, Kurdistan Region of Iraq ("Kurdistan"), is drilling ahead close to the base of the Jurassic section where initial results from wireline logging, shows and sampling indicate the presence of hydrocarbon-bearing fractured reservoir intervals
- It was previously announced on 7 April 2010 that the well had intersected significant hydrocarbon-bearing intervals over approximately 1,800 metres in the Cretaceous section
- In addition to intervals already secured behind casing in the Cretaceous section of the well, which are designated for testing, further intervals have been identified for testing in the Jurassic after reaching total depth
- The well is drilling ahead at 3,468 metres and testing of these numerous intervals will commence once total depth, estimated at 4,600 metres, has been reached in the Triassic
- 336 kilometres of seismic was acquired during the first quarter of 2010 on the Zamzama North Licence, Pakistan
- Net average daily production of 583 bopd in the first half of 2010

Financial Highlights

- Completed the sale of the Ugandan assets in July 2010 for which Tullow Uganda Limited ("Tullow") paid \$1.45 billion in cash (including the contractual settlement of \$100 million), of which Heritage received and retained \$1.045 billion
- Remaining proceeds have been set aside due to an assessment by the Uganda Revenue Authority ("URA") of tax payable, which Heritage is disputing. Heritage deposited \$121,447,500 with the URA and \$283,447,500 has been retained in escrow
- Special dividend of 100 pence per share declared on 2 August 2010 and paid on 27 August 2010 to shareholders on the register on 13 August 2010
- Strong balance sheet with cash of approximately \$700 million, excluding amounts related to the tax dispute, stated after the receipt of \$1.045 billion and the payment of the special dividend

Outlook

- Full results from the Miran West-2 well expected late September/early October
- Acquisition of 3D seismic planned to begin across the Miran Block in the fourth quarter of 2010
- Well planning has commenced for an exploration well on the Zamzama North Licence, Pakistan. Recent floods in our licence area have delayed the well into the first quarter of 2011
- Production expected to increase in Russia with additional development drilling
- Actively looking for new acquisitions and opportunities

Tony Buckingham, Chief Executive Officer, commented:

“We are encouraged with progress of the Miran West-2 well and will provide an update when we have reached total depth. We have a very attractive prospective portfolio that has the potential to create significant shareholder value in the next year through several high impact exploration wells. In addition, the proceeds received from the disposal of the Ugandan assets leave the Company with a strong balance sheet capable of executing the current strategy and we are actively looking for new acquisitions and opportunities”

Heritage’s 2010 interim report is available on its website at 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 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 & CHIEF EXECUTIVE OFFICER'S REVIEW

The sale of our Ugandan assets has placed Heritage in a strong financial position with approximately \$700 million of cash, excluding amounts related to the tax dispute, after the sale of the Ugandan assets and payment of the special dividend of 100 pence per share. We believe the sale of our Ugandan assets is one of the largest oil deals in Sub-Saharan Africa, moving the Ugandan oil industry a significant step closer to full development. Our activities in Uganda over the last 13 years have created material benefits for both our shareholders and the people of Uganda. The monetisation of these assets demonstrates clearly the success of Heritage's strategy of first mover advantage supported by sound technical and operating expertise. We now have the financial flexibility to consider new opportunities to create value, whilst at the same time accelerating programmes in our existing core areas where we continue to make progress. In Kurdistan drilling continues on the Miran West structure and elsewhere in our portfolio seismic acquisition continues in several areas to support planning for new drilling activity. Delays in the completion of the disposal of our Ugandan assets absorbed more management time than envisaged. This has caused minor delays in some areas, but we are now firmly focused on our diversified high impact exploration programmes.

Operational Overview

Kurdistan

The Miran West discovery was made in the first quarter of 2009, confirming the presence of oil in the structure. The Miran West-2 well commenced drilling on 26 November 2009 and is currently drilling ahead on prognosis at a depth of 3,468 metres, close to the base of the Jurassic section. Data acquired after drilling operations commenced indicates that the Miran West-2 well is positioned optimally to test deeper exploration objectives with further potential for substantial quantities of hydrocarbons.

The well intersected hydrocarbon-bearing intervals over approximately 1,800 metres within the Cretaceous section, which was the initial appraisal objective of the well. Additionally, within the Jurassic section of the well, wire-line logging, in conjunction with hydrocarbon shows and down-hole sampling have already resulted in the definition of a number of hydrocarbon-bearing fractured intervals suitable for flow testing. Testing of all of these intervals, in addition to those already secured behind casing in the Cretaceous section of the well, is planned after reaching total depth. Drilling is proceeding as planned to a total depth of 4,600 metres to investigate further potential in the underlying Triassic section.

The acquisition of 3D seismic over the Miran Block is scheduled to begin in the fourth quarter of 2010 and will help define further appraisal drilling locations designed to exploit the reservoirs' fracture networks. The Miran West-1 well, and other Kurdistan drilling, have demonstrated that where open fractures are encountered in wells, the reservoirs can support potential production rates of up to 10,000 bopd.

Future plans for drilling in Kurdistan will focus on appraisal drilling on the Miran West structure which, depending on rig availability, will start in the first half of 2011. The Miran East-1 exploration well will also be drilled in 2011 and we are currently considering whether to contract one or two rigs for the drilling programme next year.

Russia

Production averaged 583 bopd in the first half of 2010, an increase of 152% from the six month period ended 30 June 2009. During the second quarter, the first export sales of Zapadno Chumpasskoye crude via the Black Sea were completed. Work continues on the Chumpasskoye Field and well P14, initially drilled in 1977, has been re-entered and re-logged. The Jurassic and Cretaceous potential reservoirs in P14 are to be retested during the latter part of the year. Field development work is continuing and we have commenced design and tendering phases for the horizontal drilling programme which is scheduled to begin at the end of the year.

Malta

In Malta, Heritage has an extensive data set of approximately 3,500 kilometres of 2D seismic which was acquired in 2000. The acquisition of a further 1,000 kilometres of 2D seismic is planned to commence in the fourth quarter of 2010. Current data indicates the presence of a variety of potentially significant prospects which could contain approximately 500 mmbob. Discussions are ongoing to contract a rig for drilling in 2011.

Pakistan

During the first quarter of 2010, 336 kilometres of 2D seismic was acquired on the Zamzama North Licence in Pakistan. A structure has been identified and planning has begun for an exploration well. Due to the recent floods in our licence area this has been delayed until the first quarter of 2011. With gas infrastructure close to the licence, the potential exists for discovered hydrocarbons to be brought into production relatively quickly.

Tanzania

In Tanzania, Heritage is actively looking to firm up leads on drillable prospects in all areas through the reprocessing of existing 2D seismic and the possible acquisition of additional seismic data.

Mali

In Mali, 1,000 kilometres of 2D seismic will be acquired towards the end of the year to identify potential drilling targets. Previous drilling in the region encountered oil and gas shows indicating the potential for a working hydrocarbon system.

Democratic Republic of Congo

In June 2010, the DRC government took the extraordinary step of awarding our existing licences (Blocks 1 and 2) via Presidential Decree to two British Virgin Islands-registered companies. The operator has commenced legal proceedings to challenge that award. \$1.6 million is capitalised and no impairment has been recognised.

Corporate Overview

In December 2009, a Sale and Purchase Agreement (the “SPA”) was executed with ENI International B.V. (“Eni”) to sell Heritage’s 50% working interests in Blocks 1 and 3A in Uganda (the “Assets”). In January 2010, Tullow Uganda Limited (“Tullow”) exercised its right of pre-emption on the same terms and conditions as agreed with Eni. The transaction completed on 26 July 2010. The Government of the Republic of Uganda (“Government”) has assessed the sale as a taxable event which, after taking legal advice, we dispute. 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. We pride ourselves on our track record of compliance and good relations in all of the jurisdictions in which we operate and intend to pay any lawfully imposed tax. Discussions with Government continue with a view to resolving the tax dispute.

Financial Results

As at 30 June 2010, Heritage had a cash position of approximately \$141 million, which is sufficient to cover the planned 2010 work programme. Additionally, the disposal of the Assets in Uganda completed in July 2010 and Tullow paid cash of \$1.45 billion, of which Heritage received and retained \$1.045 billion. Tullow paid the agreed cash consideration of \$1.35 billion for the Assets. A further \$100 million was paid by Tullow in full and final settlement of a potential contractual dispute between the parties on the interpretation of the SPA provisions relating to the contingent deferred amount, which could have been payable up to the amount of \$150 million dependent on certain conditions being achieved.

Heritage deposited \$121,477,500 with the URA, representing 30% of the disputed tax assessment of \$404,925,000 which the URA claims arises from the sale of the Assets. \$283,447,500 has been retained in escrow, pursuant to an agreement between Heritage, Tullow and Standard Chartered Bank pending resolution between Government and Heritage of a mechanism to resolve the tax dispute. This could include the provision of a guarantee or letter of credit from an international bank to Government to provide security for the remainder of the disputed amount. Government has recently issued a further tax assessment of \$30 million in connection with the sale. Heritage continues to work with Government to agree a way forward for the tax dispute to be resolved.

There are no further monies due to Heritage under the SPA apart from a working capital adjustment, with respect to the Assets at the effective date of the transaction of 17 January 2010, which will be agreed in the next few months with Tullow.

On 27 August, 2010, Heritage returned approximately \$490 million to shareholders through a 100 pence per

share special dividend. The remainder of Heritage's funds, of approximately \$700 million, excluding amounts related to the tax dispute, will be allocated between accelerating the work programmes on our existing asset portfolio and potential acquisitions.

Corporate Social Responsibility ("CSR")

CSR policies developed since the Company's formation are, in our view, a fundamental element of our successful business record. Our CSR systems are reviewed regularly and are an important responsibility of our CSR Board Committee which was established in April 2010. The framework of our CSR policy has been refined through our experiences in Uganda where we have worked diligently with stakeholders. We believe that our active, ongoing involvement in community projects in areas where we operate is fundamental in developing and maintaining strong relationships within these regions. During the first half of 2010 we continued with our programmes in Uganda with the completion of the water gravity system in Hoima, providing over 6,000 villagers across five villages with clean water. Heritage was commended for the support given to the communities in our areas of operation. Our community programmes in Kurdistan, Tanzania and Pakistan are developing and we are pleased to report some case studies of our activities in each area below.

Kurdistan

Our current activities in this region are focused on supporting the local education system and assisting the development of the local infrastructure. At the end of 2009, we ran a competition, engaging with schools near our drilling site, to draw a picture for the cover of our 2009 Annual Report and Accounts. During this process we discovered that one of the pupils had a hearing disability, affecting his ability to learn. Our CSR Committee took the decision to provide him with hearing aids for both ears and as a consequence his hearing capacity has increased from 20% to 60%.

In addition, further work has been undertaken in the region to help repair some of the main access roads to villages near our operations.

Tanzania

Our activities in this region have focused on supporting the local health services. In June 2010, we made a donation to the Baobab Maternity Hospital in Dar es Salaam where a new maternity hospital is urgently needed. The government has donated land for the hospital and will provide support in terms of salaries, supplies and equipment. The donation has been provided to contribute towards the construction, management and service delivery of the Baobab Maternity Hospital.

The expectation is that every year this hospital will save thousands of lives, reduce the spread of HIV/AIDS and prevent the occurrence of disabilities. Currently, reproductive health services in Dar es Salaam are insufficient and do not meet the needs of the hundreds of daily births. Consequently, maternal and newborn death rates are very high and much of this suffering can be prevented.

Pakistan

In light of the recent unprecedented floods in Pakistan, Heritage is contributing \$72,000 which will be allocated between a disaster relief fund and immediate relief to those most affected in our Zamzama North Licence area.

Health, Safety and the Environment

Health and Safety has risen to prominence again in the energy sector after the unfortunate situation in the Gulf of Mexico earlier this year. Our track record for Health and Safety is strong and we continually review our systems to ensure we operate to the highest standards. The health and safety of our employees, and those living around the areas where we operate is of paramount importance to us.

We have had no environmental spills or incidents or incurred any fines relating to our environmental management in the first half of 2010.

Corporate Strategy

With the benefit of our strong cash position we aim to continue to generate growth in shareholder value by

focusing on high impact international plays with the potential to discover significant hydrocarbon reserves. We look to acquire and invest in exploration and early development opportunities throughout the world, with a particular emphasis on our core areas of Africa and the Middle East where we have a strong technical understanding. By entering into regions early, we seek to obtain a large equity interest and operatorship.

Outlook

Our immediate focus is on Kurdistan where we continue to drill the Miran West-2 well and expect to announce full results from this shortly, including testing of a number of potential reservoir intervals. We have a very attractive prospective portfolio that has the potential to create significant shareholder value in the next year through several high impact exploration wells. In addition, the proceeds received from the disposal of the Ugandan assets leave the Company with a strong balance sheet capable of supporting our current plans and also we are actively looking for new acquisitions and opportunities.

Michael J. Hibberd

Chairman and Non-Executive Director

Anthony Buckingham

Chief Executive Officer

FINANCIAL REVIEW

Selected Operational and Financial Data

		Six months ended 30 June 2010	Restated ¹ Six months ended 30 June 2009	Change
Production	bopd	583	231	152%
Sales volume	bopd	580	311	86%
Average realised price	\$/bbl	23.4	15.0	56%
Petroleum and natural gas revenue	\$ million	2.5	0.8	213%
Loss from continuing operations	\$ million	(12.3)	(12.1)	(2%)
Loss from discontinued operations	\$ million	(1.9)	(0.7)	(171%)
Net loss	\$ million	(14.2)	(12.8)	(11%)
Total cash capital expenditures – continuing operation	\$ million	(29.3)	(19.4)	
		As at 30 June 2010	As at 31 December 2009	
Period end cash balance	\$ million	140.8 ²	208.1	

1 Uganda and Oman have been classified as discontinued operations (see note 4 of the condensed financial statements).

2 Post the sale of Uganda and payment of the special dividend the Company has cash balances of approximately \$700 million.

Trading Performance

Production

Following the disposal of the Oman operations with effect from 1 January 2009, all production and revenue is generated from the Zapadno Chumpasskoye Field in Russia.

Average daily production increased by 152% from 231 bopd in the six months ended 30 June 2009 to 583 bopd in the six months ended 30 June 2010. This increase resulted from the work over of existing wells, which improved flow rates, and because production was shut-in for most of the first quarter of 2009 due to unfavourable market conditions in Russia. Production in the first half of 2010 was 35% higher than the second half of 2009.

Revenue

Petroleum and natural gas revenue increased by 213% to \$2.5 million due to both higher volumes of crude oil sales from the Zapadno Chumpasskoye Field in Russia and higher average realised prices. The average realised price in the first half of 2010 of \$23.43 per barrel was 56% higher than in the first half of 2009 due to increased average commodity prices in Russia in 2010.

Operating Results

Petroleum and natural gas operating costs of \$1.0 million in the six months ended 30 June 2010 were 40% higher than in the same period last year, due to higher crude oil production. The average operating cost reduced from \$17.60 per barrel in the first half of 2009 to \$9.80 per barrel in the first half of 2010, in part due to higher levels of production and the fixed nature of certain costs.

Production tax increased from \$0.4 million in the first half of 2009 to \$1.3 million in the first half of 2010 as a result of both higher volumes of production and increased average commodity prices in 2010, both of which are used in the calculations to determine production tax.

General and administrative expenses increased from \$6.4 million in the first half of 2009 to \$8.1 million in the first half of 2010. This is due principally to expenses relating to corporate initiatives undertaken in the first

half of 2010 which were not completed and therefore expensed. If non-cash share-based compensation and expenses related to aborted corporate initiatives and acquisitions are excluded, general and administrative expenses increased from \$4.2 million in the first half of 2009 to \$4.8 million in the first half of 2010.

Depletion, depreciation and amortisation expenses increased by 37% to \$1 million in the first half of 2010, primarily due to increased production volumes.

Exploration expenditures expensed and not capitalised increased from \$0.03 million in the first half of 2009 to \$0.9 million in the first half of 2010.

Interest income of \$0.3 million in the first half of 2010 was \$0.2 million higher than in the same period in 2009 as a result of both higher average cash balances and interest rates in 2010. Cash and cash equivalents are typically held in interest bearing treasury accounts.

Other finance costs decreased from \$2.5 million in the first half of 2009 to \$1.4 million in the first half of 2010, due primarily to bondholders converting \$30.6 million of convertible bonds in 2009 thereby foregoing the right to earn any interest. The level of interest costs capitalised, at \$6.4 million, was higher in the first half of 2010 compared to the same period in 2009 (\$5.9 million) due to increased cumulative amounts of capital expenditures financed from interest bearing borrowings.

The Company incurred foreign exchange losses of \$0.9 million in the first half of 2010 (first half of 2009 – \$0.7 million), primarily because of an intercompany US dollar denominated loan provided to the Russian subsidiary 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 2010. 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 income statement.

Heritage recognised an unrealised loss on the fair value of its investment in Afren plc ("Afren") warrants of \$0.4 million during the first half of 2010, compared to a \$0.7 million gain in the first half of 2009. The gain or loss is determined by the performance of the share price of Afren in which Heritage holds 1,500,000 warrants with an exercise price of £0.60 per warrant, received as partial consideration from the sale of Heritage Congo Limited in 2006. The warrants have a term until 22 December 2011. At 30 June 2010, Afren's share price was £0.85 per share.

Heritage's net loss from continuing operations in the first half of 2010 was \$12.3 million, compared to \$12.1 million in the first half of 2009. The adjusted net loss in the first half of 2010 was \$7.6 million compared to \$7.5 million in the first half of 2009 if certain non-cash items (share-based compensation expense, impairment of investment in unlisted securities, foreign exchange losses and unrealised gain/loss on revaluation of Afren warrants) and the one-off aborted corporate initiatives and acquisition costs are excluded.

Disposals

On 18 December 2009, Heritage announced that the Company, and its subsidiary Heritage Oil & Gas Limited ("HOGL"), had entered into the SPA, with Eni for the sale of its 50% interests in Blocks 1 and 3A in Uganda. On 17 January 2010, Tullow exercised its right to pre-empt the sale of the Assets on the same terms and conditions as agreed with Eni. The transaction completed on 26 July 2010 and Tullow paid cash of \$1.45 billion, of which Heritage has received and retained \$1.045 billion (see "Important Events Since 30 June 2010" section of the financial review).

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 were received in 2009. The Company acquired Eagle Energy, which had 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 in Uganda and Oman have been classified as discontinued operations. The loss on disposal of discontinued operations in Uganda was \$1.9 million in the first half of 2010 being expensed (the gain on disposal will be recognised in the second half of 2010). The loss on disposal of discontinued operations in Oman was \$0.7 million in the first half of 2009.

In the first half of 2010 the basic and diluted loss per share was \$0.05 which is the same as the basic and diluted loss per share of \$0.05 in the first half of 2009.

Cash Flow and Capital Expenditures

Cash used in operating activities of continuing operations was \$13 million in the first half of 2010 compared to \$12.2 million in the first half of 2009. Total cash capital expenditures for continued operations in the first half of 2010 were \$29.3 million compared to \$19.4 million in the first half of 2009. The following major work programmes were undertaken in the first half of 2010:

- The Miran West-2 well, Kurdistan, commenced drilling on 26 November 2009 and drilling continued throughout the first half of 2010. The well is being drilled to a target depth of 4,600 metres and is expected to be completed by the end of September/beginning of October 2010; and
- 336 kilometres of 2D seismic were acquired on the Zamzama North Licence, Pakistan.

Financial Position

Liquidity

Heritage had a net decrease in cash and cash equivalents during the first half of 2010 of \$67.3 million. At 30 June 2010, Heritage had a working capital surplus of \$302.4 million, including cash and cash equivalents of \$140.8 million. Subsequent to 30 June 2010, the Company completed the sale of its interests in Uganda and received net proceeds of \$1.045 billion from Tullow, after \$121,477,500 was deposited with the URA and \$283,447,500 was retained in escrow pending resolution of the tax dispute. In addition, the Company paid a special dividend of approximately \$490 million (see note 4 of the condensed financial statements).

Capital Structure

Heritage's financial strategy has been to fund its capital expenditure programmes and any potential acquisitions by selling assets, 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). Share issue costs were \$11,820,609 (£7,157,379).

On 26 July 2010, the Company completed the disposal of the Assets in Uganda for cash consideration of \$1.35 billion and an additional contractual settlement amount of \$100 million.

At 30 June 2010, Heritage had a working capital surplus of \$302.4 million. It also had a net cash deficit of \$15.7 million (cash and cash equivalents less total liabilities) and 4% gearing (net debt as a percentage of total shareholders' equity) compared with net cash of \$41.7 million and nil gearing at 31 December 2009.

Important Events Since 30 June 2010

On 18 December 2009, Heritage announced that the Company and HOGI had entered into the SPA, with Eni for the sale of the Assets and on 17 January 2010, Tullow exercised its rights of pre-emption. The sale of the Assets completed on 26 July 2010 and Tullow paid cash of \$1.45 billion (including \$100 million from a contractual settlement), of which Heritage received and retained \$1.045 billion.

The URA has assessed tax payable on this disposal of \$404,925,000 which Heritage is disputing. Heritage

continues to work with the Government to agree a way forward to resolve the tax dispute. Tullow paid cash consideration of \$1.35 billion and an additional contractual settlement amount of \$100 million. On closing, Heritage deposited \$121,477,500 with the URA, representing 30% of the disputed tax assessment which the URA determines arises from the sale. A further \$283,447,500 has been retained in escrow, pursuant to an agreement between Heritage, Tullow and Standard Chartered Bank pending resolution between Government and Heritage for a mechanism to resolve the tax dispute. This could include the provision of a guarantee or letter of credit from an international bank to Government to provide security for the remainder of the disputed amount. 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. The Company will pay any lawfully imposed tax.

The additional contractual settlement amount of \$100 million was paid by Tullow in full and final settlement of a potential contractual dispute between the parties on the interpretation of the SPA provisions relating to the contingent deferred amount, which could have been payable up to the amount of \$150 million dependent on certain conditions being achieved. On 19 August 2010, the URA issued an additional notice of assessment requesting Heritage to pay \$30 million which is 30% of the contractual settlement of \$100 million paid by Tullow. The Company will discuss with Government the way to resolve this additional assessment as part of the tax dispute resolution process described above.

There are now no further monies due to Heritage under that agreement apart from a working capital adjustment with respect to the Assets, at the effective date of the transaction of 17 January 2010, which is expected to be agreed in the next few months with Tullow.

On 2 August 2010, Heritage announced the declaration of a special dividend of 100 pence per ordinary share of the Company and Heritage Oil Corporation ("HOC"), a wholly owned subsidiary, also announced the declaration of a special dividend of Cdn\$1.62 per exchangeable share of HOC, calculated at an exchange rate of £1.00:Cdn\$1.62. The dividend was paid on 27 August 2010 to those on the register on 13 August 2010 and is considered to be an eligible dividend for Canadian tax purposes.

The special dividend has also been paid to Bondholders. As disclosed in an announcement on 31 December 2009, certain amendments to the terms of the \$165,000,000 8.00% convertible bonds due 2012 (the "Bonds") were approved by Bondholders. Pursuant to such amendments, no adjustments will be made to the conversion rights under the terms of the Bond (the "Conversion Rights") in respect of any dividend paid or made by the Company. Instead, the Company agreed to pay the holder of each Bond outstanding on the record date for such dividend a pass-through dividend (the "Pass-through Dividend") which is equal to the dividend which would be received by the holder of a number of ordinary shares of the Company ("Ordinary Shares") equal to the number of Ordinary Shares to which the Bondholder would have been entitled if it had exercised its Conversion Rights on the record date for the relevant dividend. The record date for these purposes was 13 August 2010.

The aggregate principal amount of Bonds outstanding at the record date of 13 August 2010 was \$127,100,000. These Bonds are convertible into 27,042,553 Ordinary Shares pursuant to the Conversion Rights and accordingly the Company paid to Bondholders a Pass-through Dividend of £27,042,553 on the dividend payment date.

Primary Risks and Uncertainties Facing the Business

Heritage's business, financial standing and reputation may be impacted by various risks, not all of which are within its control. The Group identifies and monitors the key risks and uncertainties affecting the Group and operates in a way that minimises the impact of such risks where possible. The primary risks to the business include:

- Exploration and development expenditures and success rates – the Group has experienced management and technical teams with a track record of finding attractive oil discoveries and has a diversified portfolio of exploration, development and production assets. Considerable technical work is undertaken to reduce related areas of risk and maximise opportunities.
- Factors associated with operating in developing countries, political, fiscal and regulatory instability – the

Group maintains close contact with Governments in the areas within which it operates and, where appropriate, invests in community projects. Considerable work is undertaken before commencing operations in any new territory.

- Title disputes - notwithstanding potential challenges in the DRC, Kurdistan and Malta, the Group believes that it has good title to its oil and gas properties. However, the Group 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. Naturally the Group strives to employ the best internal and advisory knowledge available to help to minimise this risk associated with its activities.
- Oil and gas sales volumes and prices – whilst not under the direct control of the Company, a material movement could impact on the Group. The Group did not hedge oil prices in the first half of 2010.
- Loss of key employees – remuneration packages are regularly reviewed to ensure key executives and senior management are properly remunerated. Long-term incentive programmes have been established.
- Foreign Currency Exposure - generally, it is the Group's policy to conduct and manage its business in US dollars, its reporting currency. Cash balances 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.

More detailed information on the Group's key risks is provided on pages 34 to 37 of the 2009 Annual Report issued on 30 April 2010. There is further information on the risks facing the Company in the Directors' Report on pages 62 to 64 and also in note 3 of the financial statements on pages 83 to 84 of the 2009 Annual Report and Accounts.

Paul Atherton
Chief Financial Officer

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

We confirm on behalf of the Board 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:
 - 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
 - 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.

For and on behalf of the Board

Anthony Buckingham

Chief Executive Officer

27 August 2010

Paul Atherton

Chief Financial Officer

27 August 2010

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 2010 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, 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 half-yearly financial report 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 IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report 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 2010 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

15 Canada Square

Canary Wharf

London E14 5GL

27 August 2010

Condensed Consolidated Income Statement

	Six months ended 30 June 2010 \$	Six months ended 30 June 2009 \$
Revenue		
Petroleum	2,457,618	846,629
Expenses		
Petroleum operating	(1,034,027)	(739,893)
Production tax	(1,332,960)	(378,362)
General and administrative	(8,075,970)	(6,379,304)
Depletion, depreciation and amortisation	(1,030,888)	(751,742)
Exploration expenditures	(862,566)	(28,113)
Operating loss	(9,878,793)	(7,430,785)
Finance income/(costs)		
Interest income	275,597	86,987
Impairment of investment in unlisted securities	–	(2,352,825)
Other finance costs	(1,415,856)	(2,501,375)
Foreign exchange losses	(926,149)	(658,581)
Unrealised (loss)/gain on other financial assets	(371,085)	743,564
	(2,437,493)	(4,682,230)
Loss from continuing operations	(12,316,286)	(12,113,015)
Loss on disposal of discontinued operations (note 4)	(1,852,306)	(698,763)
Net loss for the period attributable to owners of the Company	(14,168,592)	(12,811,778)

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

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June 2010 \$	Six months ended 30 June 2009 \$
Loss for the period	(14,168,592)	(12,811,778)
Other comprehensive loss		
Exchange differences on translation of foreign operations	(382,830)	(1,059,783)
Cumulative gains on available-for-sale investments transferred to income statement on impairment of investments	–	(168,000)
Other comprehensive loss, net of income tax	(382,830)	(1,227,783)
Total comprehensive loss for the period	(14,551,422)	(14,039,561)
Attributable to:		
Owners of the Company	(14,551,422)	(14,039,561)
Net loss per share from continuing operations		
Basic and diluted	(0.04)	(0.05)
Net loss per share from discontinued operations		
Basic and diluted	(0.01)	–
Net loss per share		
Basic and diluted	(0.05)	(0.05)

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

Condensed Consolidated Balance Sheet

	30 June 2010 \$	31 December 2009 \$
ASSETS		
Non-current assets		
Intangible exploration assets (note 5)	145,816,822	121,278,468
Property, plant and equipment (note 5)	59,679,331	59,297,735
Other financial assets (note 6)	783,140	1,154,225
	206,279,293	181,730,428
Current assets		
Inventories	23,289	12,969
Prepaid expenses	505,490	568,166
Assets of a disposal group classified as held for sale (note 4)	183,082,200	163,414,518
Trade and other receivables	2,956,020	2,203,707
Cash and cash equivalents (note 7)	140,797,193	208,094,355
	327,364,192	374,293,715
	533,643,485	556,024,143
LIABILITIES		
Current liabilities		
Liabilities of a disposal group classified as held for sale (note 4)	13,383,938	12,558,727
Trade and other payables	10,675,737	23,278,030
Borrowings (note 7)	884,641	615,892
	24,944,316	36,452,649
Non-current liabilities		
Borrowings (note 7)	131,144,894	129,553,752
Provisions	372,140	355,073
	131,517,034	129,908,825
	156,461,350	166,361,474
Net Assets	377,182,135	389,662,669
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		
Share capital (note 8)	460,279,555	460,279,555
Reserves	84,234,755	82,546,697
Retained deficit	(167,332,175)	(153,163,583)
	377,182,135	389,662,669

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

Condensed Consolidated Statement of Changes in Equity

Six months ended 30 June 2010

	Share Capital \$	Foreign currency translation reserve \$	Share-based payments reserve \$	Retained deficit \$	Equity portion of convertible debt \$	Total equity \$
Balance at 1 January 2010	460,279,555	(815,746)	58,713,288	(153,163,583)	24,649,155	389,662,669
Total comprehensive income for the period						
Loss for the period	–	–	–	(14,168,592)	–	(14,168,592)
Other comprehensive loss						
Exchange differences on translation of foreign operations	–	(382,830)	–	–	–	(382,830)
Total other comprehensive loss	–	(382,830)	–	–	–	(382,830)
Total comprehensive loss for the period	–	(382,830)	–	(14,168,592)	–	(14,551,422)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share-based payment transactions and exercise of share options	–	–	2,070,888	–	–	2,070,888
Total transactions with owners	–	–	2,070,888	–	–	2,070,888
Balance at 30 June 2010	460,279,555	(1,198,576)	60,784,176	(167,332,175)	24,649,155	377,182,135

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

Condensed Consolidated Statement of Changes in Equity

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 \$
Balance at 1 January 2009	218,283,881	(220,784)	168,000	54,564,393	(113,816,696)	30,641,750	189,620,544
Total comprehensive income for the period							
Loss for the period	–	–	–	–	(12,811,778)	–	(12,811,778)
Other comprehensive loss income							
Exchange differences on translation of foreign operations	–	(1,059,783)	–	–	–	–	(1,059,783)
Cumulative gains on available-for-sale investments transferred to income statement on impairment of investments	–	–	(168,000)	–	–	–	(168,000)
Total other comprehensive loss	–	(1,059,783)	(168,000)	–	–	–	(1,227,783)
Total comprehensive loss for the period	–	(1,059,783)	(168,000)	–	(12,811,778)	–	(14,039,561)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
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 and exercise of share options	1,569,947	–	–	1,956,643	–	–	3,526,590
Total transactions with owners	237,399,902	–	–	1,956,643	–	–	233,945,755
Balance at 30 June 2009	455,683,783	(1,280,567)	–	56,521,036	(126,628,474)	25,230,960	409,526,738

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

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June 2010 \$	Restated ¹ Six months ended 30 June 2009 \$
Cash provided by (used in)		
Operating activities		
Net loss from continuing operations for the period	(12,316,286)	(12,113,015)
Items not affecting cash		
Depletion, depreciation and amortisation	1,030,888	751,742
Finance costs–accretion expenses	473,543	2,176,301
Foreign exchange losses/(gains)	481,039	(1,569,577)
Share-based compensation	1,561,743	1,329,436
Loss/(gain) on other financial assets	371,085	(743,564)
Impairment of investment in unlisted securities	–	2,352,825
Increase in trade and other receivables	(188,181)	(188,933)
Decrease/(increase) in prepaid expenses	62,676	(1,894,030)
(Increase)/decrease in inventory	(10,320)	287,841
Decrease in trade and other payables	(4,451,560)	(2,574,733)
Continuing operations	(12,985,373)	(12,185,707)
Discontinued operations	(2,194,884)	–
	(15,180,257)	(12,185,707)
Investing activities		
Exercise of third party back-in rights for Miran	–	6,737,635
Property, plant and equipment expenditures	(1,412,484)	(698,988)
Intangible exploration expenditures	(27,892,906)	(25,445,541)
Continuing operations	(29,305,390)	(19,406,894)
Discontinued operations		
Net consideration on disposal	–	28,198,780
Property, plant and equipment and intangible exploration expenditures	(18,842,470)	(38,820,668)
	(18,842,470)	(38,820,668)
Financing activities		
Shares issued for cash	–	216,848,944
Shares issued for cash, proceeds from exercise of share options	–	964,934
Shares issue costs	–	(11,820,609)
Payment of consent fee to the Bondholders (note 7)	(2,378,000)	–
Repayment of long-term debt	(372,619)	(299,122)
	(2,750,619)	205,694,147
(Decrease)/increase in cash and cash equivalents	(66,078,736)	163,479,658
Cash and cash equivalents – beginning of period	208,094,355	90,620,385
Foreign exchange (loss)/gain on cash held in foreign currency	(1,218,426)	1,307,382
Cash and cash equivalents – end of period	140,797,193	255,407,425
Non-cash investing and financing activities (note 11)		
Supplementary information		
The following have been included within cash flows for the period under operating and investing activities:		
Interest received	272,266	139,026
Interest paid	5,246,866	7,135,964

1 Uganda has been classified as discontinued operations (see note 4).

The notes are an integral part of these condensed 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. The Company changed its name to Heritage Oil Plc on 18 June 2009. Its primary business activity is the exploration, development and production of petroleum and natural gas in Africa, the Middle East and Russia. 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 2010, include the results of the Company and all subsidiaries over which the Company exercises control (together referred to as the “Group”).

The Group had available cash of \$140.8 million at 30 June 2010. Subsequent to 30 June 2010, the Company completed the sale of its interests in Uganda and received net proceeds of \$1.045 billion from Tullow, after \$121,477,500 was deposited with the Uganda Revenue Authority (“URA”) and \$283,477,500 was retained in escrow pending resolution of the tax dispute, and paid a special dividend of approximately \$490 million (see note 4).

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 International Accounting Standard (“IAS”) 34 Interim Financial Reporting as adopted by the European Union (“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 2009.

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 consolidated interim 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 2009.

The condensed interim consolidated financial statements were approved by the Board and authorised for issuance on 27 August 2010. The comparative information at 30 June 2009 and 31 December 2009 is abridged and therefore not the Company’s statutory accounts for those financial periods.

3. Segment Information

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 (discontinued), Democratic Republic of Congo (“DRC”), Kurdistan Region of Iraq (“Kurdistan”), Pakistan, Tanzania, Malta, Mali and formerly in Oman (discontinued). The Group’s reporting segments comprise each separate geographical area in which it operates.

Six months ended 30 June 2010

	External Revenue \$	Segment result \$	Total Assets \$	Total liabilities \$	Capital additions \$	Depreciation, depletion and amortisation \$
Russia	2,457,618	(1,478,313)	49,678,901	787,743	2,032,394	(696,356)
DRC	–	–	1,693,203	–	30,587	–
Kurdistan	–	(11,842)	95,212,773	3,363,015	21,103,368	–
Pakistan	–	–	4,262,691	–	1,584,680	–
Tanzania	–	–	21,493,571	134,211	1,266,898	–
Mali	–	–	2,451,853	–	332,096	–
Malta	–	–	11,589,600	70,793	436,966	–
Uganda – discontinued operations	–	(1,852,306)	183,082,200	13,383,938	19,946,018	–
Total for reportable segments	2,457,618	(3,342,461)	369,464,792	17,739,700	46,733,007	(696,356)
Corporate	–	(10,826,131)	164,178,693	138,721,650	14,059	(334,532)
Elimination of discontinued operations	–	1,852,306	(183,082,200)	(13,383,938)	(19,946,018)	–
Total from continuing operations	2,457,618	(12,316,286)	350,561,285	143,077,412	26,801,048	(1,030,888)

Six months ended 30 June 2009 (restated¹)

	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)
DRC	–	–	1,646,778	–	40,013	–
Kurdistan	–	–	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	–
Uganda – discontinued operations	–	–	149,993,253	5,477,193	14,518,175	–
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	(149,993,253)	(5,477,193)	(15,018,175)	–
Total from continuing operations	846,629	(12,113,015)	419,451,733	154,441,055	22,839,862	(751,742)

¹ Uganda has been classified as discontinued operations (see note 4).

In June 2010 the DRC government took the extraordinary step of awarding Heritage's existing licences (Blocks 1 and 2) via Presidential Decree to two British Virgin Islands-registered companies. The operator has commenced legal proceedings to challenge that award. Heritage has assessed the situation and no impairment provision is deemed to be appropriate at this stage.

Corporate activities include the financing activities of the Group and is not an operating segment. There have been no changes to the basis of segmentation or the measurement basis for the segment results since 31 December 2009.

4. Discontinued Operations

Uganda

On 18 December 2009, Heritage announced that the Company and Heritage Oil & Gas Limited ("HOGL") had entered into the Sale and Purchase Agreement (the "SPA"), with ENI Holdings B.V. ("Eni") for the sale of its entire interests in Blocks 1 and 3A in Uganda (the "Assets") and on 17 January 2010, Tullow Uganda Limited ("Tullow") exercised its rights of pre-emption. The sale of the Assets completed on 26 July 2010 and

Tullow paid cash of \$1.45 billion (including \$100 million from a contractual settlement), of which Heritage received and retained \$1.045 billion (see subsequent events note).

The results of the Ugandan operations have been classified as discontinued operations. The segment was classified as held for sale or discontinued operations at 31 December 2009.

Expenses incurred by the Company as at 30 June 2010 in respect of this disposal are included within loss on disposal of discontinued operations as follows:

	Six months ended 30 June 2010 \$	Six months ended 30 June 2009 \$
Loss on disposal of discontinued operations	(1,852,306)	–
	(1,852,306)	–

The following table provides additional information with respect to the discontinued operations amounts included in the balance sheet at 30 June 2010.

	30 June 2010 \$
Assets	
Non-current assets	
Intangible exploration assets	178,464,565
	178,464,565
Current assets	
Accounts receivable	4,617,635
	4,617,635
Total assets	183,082,200
Current liabilities	
Trade and other payables	13,115,187
	13,115,187
Current liabilities	
Provisions	268,751
	268,751
Total liabilities	13,383,938
Net assets	169,698,262

Oman

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. Eagle Energy holds a 10% interest in Block 8, Oman.

The effective date of the transaction was 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 had 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 losses 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.

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 \$
Assets	
Non-current assets	
Intangible exploration assets	1,051,083
Property, plant and equipment	27,448,917
	28,500,000
Current assets	
Accounts receivable	246,783
Inventories	65,282
	312,065
Net assets	28,812,065

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

	7 April 2009 \$
Consideration received	
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

Capital Additions

During the six months ended 30 June 2010 the Group acquired property, plant and equipment and intangible exploration assets with a cost of \$46,747,066 (six months ended 30 June 2009 – \$37,858,037), including \$19,946,018 relating to discontinued operations (six months ended 30 June 2009 – \$15,018,175).

6. Other Financial Assets

	30 June 2010 \$	31 December 2009 \$
Investment in warrants	783,140	1,154,225
	783,140	1,154,225

The investment in Afren plc warrants is classified as held for trading.

7. Borrowings

	30 June 2010	31 December 2009
	\$	\$
Non-current borrowings		
Convertible bonds–unsecured	117,832,941	115,276,942
Non-current portion of long-term debt	13,311,953	14,276,810
	131,144,894	129,553,752
Long-term debt–secured		
Current	884,641	615,892
Non-current	13,311,953	14,276,810
	14,196,594	14,892,702

2007 Convertible Bonds

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 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 of the Company (“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 the 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. The contingent put option has been valued separately.

The fair value of the contingent put option has been estimated to be de minimis by the Company at 30 June 2010 (31 December 2009 – de minimis).

On 18 December 2009, the Company announced it had entered into the SPA for the sale of its entire interests in Blocks 1 and 3A in Uganda (note 4). The Company also announced that it would consider returning a portion of the disposal proceeds to shareholders through a special dividend on completion of the proposed transaction. Under the terms and conditions of the bonds, the Company was restricted from making or declaring a dividend or making any other distributions to its shareholders which constitute on a consolidated basis more than 30% of its earnings for the immediately preceding financial year.

In December 2009, the Company approached Bondholders with the proposal to agree to remove this restriction and to make some other changes in the terms and conditions of the bonds. In considerations the Company proposed to pay to those Bondholders who vote on the proposal the sum of \$2,000 per \$100,000 of

bonds held by such bondholders. The majority of the Bondholders voted in favour of this proposal at a meeting on 31 December 2009 and the restriction of making or declaring a dividend or making any other distributions to shareholders has been removed. On 15 January 2010, the Company paid \$2,378,000 to the Bondholders who voted. In accordance with IAS 39, this amendment to the terms and conditions of the bonds does not constitute a redemption and therefore this amount was offset against the convertible bonds liability and is recognised in the income statement over the period of the borrowings using the effective interest method.

Long-Term Debt

In January 2005, a wholly owned subsidiary of the Company received a sterling denominated loan of £4.5 million to refinance the acquisition of a corporate office. Interest on the loan was fixed at 6.515% for the first five years and is then variable at a rate of Bank of Scotland base rate plus 1.4%. The loan, which is secured on the property, is scheduled to be repaid by 240 instalments of capital and interest at monthly intervals, subject to a residual debt at the end of the term of the loan of \$3.5 million (£1,860,000). The principal balance outstanding as at 30 June 2010 was \$6,081,407 (£4 million) (31 December 2009 – \$6,573,584 (£4.1 million)).

In October 2007, a wholly owned subsidiary of the Company received a loan of \$9,450,000 to refinance the acquisition of the corporate jet. Interest on the loan is variable at a rate of LIBOR plus 1.6%. The loan, which is secured on the corporate jet, is scheduled to be repaid by 19 consecutive quarterly instalments of principal. Each instalment equals to \$117,500 with the final instalment being \$7,217,500. The Corporation provided a corporate guarantee to the lender. The additional security of \$2,454,000 was paid to the bank on 19 January 2010 to maintain the loan to value ratio specified in the loan agreement. This additional security is included in Cash and cash equivalents in the balance sheet.

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.

Ordinary Shares

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Number	Amount \$	Number	Amount \$
At 1 January	284,842,830	457,696,879	251,858,374	215,509,055
Issue of shares	–	–	25,400,000	205,028,335
Exchange of Exchangeable Shares of HOC (“Exchangeable Shares”) for Ordinary Shares	–	–	225,000	192,150
Issued on conversion of bonds	–	–	5,936,160	30,801,620
Issued on exercise of stock options	–	–	470,000	1,569,947
At 30 June	284,842,830	457,696,879	283,889,534	453,101,107

Special Voting Share

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Number	Amount \$	Number	Amount \$
At 1 January	1	–	1	–
Issued during the period	–	–	–	–
At 30 June	1	–	1	–

Exchangeable Shares Each Carrying One Voting Right in the Company

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Number	Amount \$	Number	Amount \$
At 1 January	3,024,108	2,582,676	3,249,108	2,774,826
Exchange of the Exchangeable Shares for Ordinary Shares	–	–	(225,000)	(192,150)
At 30 June	3,024,108	2,582,676	3,024,108	2,582,676
Balance of Ordinary Shares of the Company and Exchangeable Shares of HOC - at 30 June	287,866,938	460,279,555	286,913,642	455,683,783

9. Loss per Share

The following table summarises the weighted average Ordinary Shares and Exchangeable Shares used in calculating net loss per share:

	Six months ended 30 June	
	2010	2009
Weighted average Ordinary and Exchangeable Shares		
Basic	287,866,938	258,507,387
Diluted	305,330,803	287,660,501

The reconciling item between basic and diluted weighted average number of Ordinary Shares is the dilutive effect of stock options and the Long Term Incentive Plan (“LTIP”). A total of 27,042,553 of shares relating to the convertible bonds (30 June 2009 – 27,680,851) 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 2010, the Company incurred transportation costs of \$31,649 (30 June 2009 – \$59,175) with respect to the services provided by a company indirectly owned by Mr. Anthony Buckingham, CEO of the Company.

11. Non-Cash Investing and Financing Activities Supplementary Information

	30 June 2010	30 June 2009
	\$	\$
Capitalised portion of share-based compensation	(509,144)	(1,232,210)
Non-cash property, plant and equipment and intangible exploration assets additions relating to the capitalised portion of share-based compensation	509,144	1,232,210

12. Subsequent Events

On 18 December 2009, Heritage announced that the Company and HOGL had entered into the SPA, with Eni for the sale of the Assets and on 17 January 2010, Tullow exercised its rights of pre-emption. The sale of the Assets completed on 26 July 2010 and Tullow paid cash of \$1.45 billion (including \$100 million from a contractual settlement), of which Heritage received and retained \$1.045 billion.

Tullow paid cash consideration of \$1.35 billion and an additional contractual settlement amount of \$100 million. On closing, Heritage deposited \$121,477,500 with the URA, representing 30% of the disputed tax assessment of \$404,925,000 which the URA determines arises from the sale of the Assets. Heritage continues

to work with the Government of the Republic of Uganda (“Government”) to agree a way forward for the tax dispute to be resolved. A further \$283,447,500 has been retained in escrow, pursuant to an agreement between Heritage, Tullow and Standard Chartered Bank pending resolution between the Government and Heritage of a mechanism to resolve the tax dispute. This could include the provision of a guarantee or letter of credit from an international bank to Government to provide security for the remainder of the disputed amount.

The \$100 million contractual settlement amount was paid by Tullow in full and final settlement of a potential contractual dispute between the parties on the interpretation of the SPA provisions relating to the contingent deferred amount, which could have been up to \$150 million dependent on certain conditions being achieved. On 19 August 2010, the URA issued an additional notice of assessment requesting Heritage to pay tax of \$30 million which is 30% of the contractual settlement of \$100 million paid by Tullow. The Company will discuss with Government the way to resolve this additional assessment as part of the tax dispute resolution process described above.

There are now no further monies due to Heritage under that agreement apart from a working capital adjustment with respect to the Assets at the effective date of the transaction of 17 January 2010 which is expected to be agreed in the next few months with Tullow.

On 2 August 2010, Heritage announced the declaration of a special dividend of 100 pence per ordinary share of the Company and HOC, the Company’s wholly owned subsidiary, also announced the declaration of a special dividend of Cdn\$1.62 per exchangeable share of HOC, calculated at an exchange rate of £1.00:Cdn\$1.62. The special dividend was paid on 27 August 2010.

The special dividend resulted in a payment to Bondholders. As disclosed in the announcement of 31 December 2009, certain amendments to the terms of the \$165,000,000 8.00% convertible bonds due 2012 (the “Bonds”) were approved by Bondholders. Pursuant to such amendments, no adjustments will be made to the conversion rights under the terms of the Bond (the “Conversion Rights”) in respect of any dividend paid or made by the Company; instead, the Company agreed to pay the holder of each Bond outstanding on the record date for such dividend a pass-through dividend (the “Pass-through Dividend”) which is equal to the dividend which would be received by the holder of a number of Ordinary Shares equal to the number of Ordinary Shares to which the Bondholder would have been entitled if it had exercised its Conversion Rights on the record date of 13 August 2010.

The aggregate principal amount of Bonds outstanding on the record date was \$127,100,000. These Bonds are convertible into 27,042,553 Ordinary Shares pursuant to the Conversion Rights and accordingly the Company paid to Bondholders a Pass-through Dividend of £27,042,553 on 27 August 2010.

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.