



**30 April 2009**

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

**HERITAGE OIL ANNOUNCES ITS ANNUAL FINANCIAL REPORT FOR THE  
YEAR ENDED 31 DECEMBER 2008**

Heritage Oil Limited (LSE: HOIL), an independent upstream exploration and production company, announces the publication of its annual financial report for the twelve months ended 31 December 2008. All figures are in US dollars unless otherwise stated.

**Operational Highlights**

- Sufficient oil volumes have been discovered in the Albert Basin, Uganda, to exceed the commercial threshold for development
- Discovered the world-class Buffalo-Giraffe field in Block 1, Uganda
- Kingfisher-3 well, Block 3A, Uganda discovered oil in the three main reservoirs structurally higher than anticipated, increasing the areal extent of the field
- Miran West-1 in the Kurdistan Region of Iraq encountered oil over an interval of 1,100 metres in 2009 and is currently being tested
- Collected 2D seismic over the Kimbiji and Kisangire Blocks in Tanzania, where Heritage farmed-in earlier in the year
- Expanded the portfolio of properties: Farmed-in to two licences in Mali; four blocks in Tanzania and one licence in Pakistan

**Financial Highlights**

- Primary listing on the Main Market of the London Stock Exchange completed on 31 March 2008
- Joined the FTSE 250 Index on 23 June 2008
- Net production increased by 26% year-on-year
- Strong balance sheet with cash position of \$91 million as at 31 December 2008
- Sale of holdings in Oman, subsequent to the year end, realised cash of \$28 million to fund acceleration of work programmes in core activity areas
- In April 2009, third party back-in rights for 25% were exercised on the Miran Licence in the Kurdistan Region of Iraq. Heritage received \$6.7 million (25% of back costs)
- Termination of a refinery commitment for over \$140 million in return for making payments out of future oil and gas sales from the Miran Licence in the Kurdistan Region of Iraq

## **Outlook**

- Testing of the Miran West-1 well in the Kurdistan Region of Iraq is being undertaken
- Further drilling on the Miran Licence in 2009 will be considered following test results from the Miran West-1 well
- A further exploration and appraisal drilling programme is planned to commence in Block 1, Uganda, in the second half of 2009

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

*“Heritage has achieved tremendous operating success during 2008 and early 2009, leading to a world-class oil discovery in Uganda and very encouraging results from the Miran West-1 well in the Kurdistan Region of Iraq, which is currently being tested. We also achieved increases in production and expanded our portfolio of properties. Looking ahead, we believe we have the financial and technical capability, combined with the management flexibility, to pursue opportunities to enhance the interests of our shareholders.”*

Heritage’s 2008 Annual Report is available on its website at [www.heritageoiltd.com](http://www.heritageoiltd.com)

### **Analyst Conference Call**

Mr. Paul Atherton, Chief Financial Officer, will be hosting an analyst conference call at 15:00 (British Summer Time) on 30 April 2009. The presentation that accompanies the call will be available on the website ([www.heritageoiltd.com](http://www.heritageoiltd.com)) at 14.00 (British Summer Time). To access the call please dial the appropriate number below shortly before the call and ask for the Heritage Oil Ltd conference call. A replay facility will be available for up to seven days. The telephone numbers and access codes are:

#### **Live Event**

Dial-in number: +44 (0)20 7136 2053 (UK)  
+1 514 807 0007 (Canada)  
+1 212 444 0481 (US)  
Passcode: 2055340

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+1 718 354 1112 (Canada/US)  
Passcode: 2055340

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## CHAIRMAN'S STATEMENT

I am pleased to report that 2008 was another year of very strong progress for Heritage both operationally and in terms of positioning the Company for steady near- and long-term growth in shareholder value. Our strategy of seeking out and investing in exploration and early development opportunities with high-impact potential, while also expanding our exposure to European capital markets and the international oil and gas sector, is proving to be effective.

### **Operations**

Operating highlights include world-class discoveries in the Albert Basin, Uganda, and commencement of drilling of the Miran West-1 well in the Kurdistan Region of Iraq, which is now in the process of being tested.

Our considerable achievements in Uganda include continued drilling success in Block 3A, highlighted by Kingfisher-2 testing at a combined rate of 14,364 bopd, and successful drilling in Block 1. Our discovery of the Buffalo-Giraffe field in Block 1, Uganda, is believed, by management, to be the largest onshore oil field discovered in Sub-Saharan Africa in the last 20 years. Exceptional results from Uganda drilling have established a gross resource of approximately 600 million barrels. This is above the volume considered necessary for major infrastructure development for the Albert Basin. Our Albert Basin results indicate the outstanding potential of this region. This could transform the Company, especially as we continue with further exploration and development. Having operated in Uganda since 1997, Heritage, as operator with a 50% equity interest in Blocks 1 and 3A, is strongly positioned to be a major participant in the future development of this world-class resource.

Another notable highlight of 2008 was the excellent progress made in the Kurdistan Region of Iraq, a highly prospective, and as yet under-developed, oil-prone region. The undiscovered potential of the region has been estimated at 40 billion barrels of oil and 60 trillion cubic feet of natural gas, ranking it as one of the most highly prospective untapped energy resource regions in the world. It is reported that the exploration success rate in Iraq has historically averaged over 80%. Heritage has been active in Kurdistan since 2004 and we are strongly committed to the region. We were the second of 21 companies that have been awarded Production Sharing Contracts ("PSCs") by the Kurdistan Regional Government ("KRG") since their petroleum law was passed in August 2007.

On 25 March 2009 we announced drilling of the Miran West-1 well had completed and had reached a total depth of 2,935 metres. The well encountered oil shows over an interval of 1,100 metres with excellent oil shows in the three principal known productive reservoir formations in the region. We are in the process of undertaking a series of drill stem tests over a gross interval of approximately 500 metres. We believe our operations in this region also have the potential to transform the Company. Our commitment and enthusiasm for the Kurdistan Region of Iraq is reflected in the acceleration of our programmes.

### **London Listing**

Our most significant corporate achievement of 2008 was the primary listing of our shares on the Main Market of the London Stock Exchange, which was completed at the end of March, a move that was overwhelmingly supported by our shareholders. This listing initiative was undertaken to increase liquidity, unlock additional value creation for shareholders and also to enhance the Company's status and profile among European investors and within the international oil and gas sector as a whole.

The London listing, which was followed by the Company's inclusion as a member of the prestigious FTSE 250 Index, was accompanied by a reorganisation that saw the establishment of a new parent company, Heritage Oil Limited, in Jersey. Given the geographic spread of Heritage's operational activities and licences, we believed that it was appropriate for the

Company to be domiciled in the British Isles, where a substantial number of investors and the Company's management reside. Also, as part of the corporate reorganisation, the Company's shares were effectively split on a ten-for-one basis. This was designed to further enhance trading volumes and liquidity of our shares for the benefit of all shareholders.

### **Financial**

After the Company's success in raising significant amounts of capital in 2007, no additional financing was required in 2008. Heritage finished the year with a strong balance sheet and cash to finance planned operations in 2009. Nevertheless, our recent exceptional success means that we now intend to accelerate work programmes in Uganda and Kurdistan. With this in mind, we made a decision to dispose of our non-core interests in Oman. Oman disposal proceeds of \$28 million, plus \$400,000 in working capital adjustments, are to be used to fund accelerated programmes in our core areas. In regard to financing large-scale infrastructure programmes in Uganda, I am pleased to report that we have been approached by a number of parties. Initial proposals involve terms that would significantly reduce our financing requirements.

### **Social Responsibility**

As a company that operates in remote and comparatively undeveloped regions of the world, we recognise that our responsibilities to local communities go beyond simply providing funds and local employment. We are committed to implementing community programmes in health, education, public facility and environmental awareness, and we work actively with local communities to secure trust and mutual co-operation. Over the course of the last 18 months we have undertaken a significant investment in the Carl Nefdt Memorial Primary School, in Block 3A, Uganda. We intend to undertake similar projects in our other core interest areas as our operational activities expand.

### **Board of Directors**

During 2008 we were delighted to welcome Salim Hassan Macki and General Sir Michael Wilkes KCB, CBE to the Group as Non-Executive Directors. Both appointments are outstanding additions to the Board and both are already making valuable contributions to the Company.

### **Outlook**

As always, I am very grateful to our talented management team and employees for their dedication and contribution to the remarkable growth Heritage has enjoyed this past year. 2008 was a year of exceptional progress for Heritage and the outlook for 2009 and beyond is highly encouraging. Operations in Uganda and the Kurdistan Region of Iraq are particularly promising and we continue to look for further strong results from investments and activities in other operating areas. I would add that in the future, as in the past, our overriding objective is to create real and lasting value for our shareholders.

**Michael J. Hibberd**  
**Chairman**

## CHIEF EXECUTIVE'S REVIEW

Operational success has dramatically transformed Heritage. Our outstanding drilling successes in Blocks 1 and 3A in the Albert Basin, Uganda, mean we are now confident that sufficient volumes have been discovered to justify a major development. The work programme on the Miran Block in the Kurdistan Region of Iraq was accelerated following the completion of a seismic survey in the second quarter of 2008. The Miran West-1 well, which commenced drilling on 21 December 2008, reached a total depth of 2,935 metres on 25 March 2009. This well encountered oil shows over an interval of 1,100 metres with excellent oil shows over the three targeted reservoir intervals. A series of tests is being performed over a gross interval of approximately 500 metres. These achievements, coupled with listing on the Main Market of the London Stock Exchange and the corporate reorganisation that raised the Company's profile as a significant player in the international oil and gas industry, puts us in excellent shape for the achievement of near- and long-term growth in production and reserves and also in shareholder value.

2008 was a year of extreme volatility in international crude oil markets, with price fluctuations of a magnitude never seen before. Fortunately, as primarily an exploration company with international projects in proven light oil basins, Heritage was not dramatically affected by short-term price volatility and we remain confident that the longer-term outlook for oil and gas is positive. The world will continue to need hydrocarbons which will require new production from remote and challenging regions. At Heritage we remain committed to seeking out such opportunities and managing political and operational risk with a diverse portfolio and a prudent mix of exploration, development and production.

Our long-standing strategy of being an early entrant in prospective regions, demonstrating our management and technical expertise, and our commitment to building working relationships with local and international companies and governments, gives us the flexibility to react quickly to changing circumstances.

The combination of aggressive investment, prudent risk management and operating excellence has yielded exceptional results throughout 2008 and into 2009. This includes our discovery of the world-class Buffalo-Giraffe field in Block 1, Uganda where we are the operator with a 50% interest.

### **Africa** ***Uganda***

The world-class Kingfisher field in Block 3A was discovered in 2007. This significant discovery was surpassed with the discovery of the large Buffalo-Giraffe field, in Block 1, in January 2009. On current estimates, the Buffalo-Giraffe field has an area of approximately 48 square kilometres and an oil column of 140 metres. The structure may extend even further to include the Buffalo East prospect, creating a very large structure of up to 90 square kilometres. Initial estimates for the Buffalo-Giraffe field are recoverable resources of approximately 350 million barrels (gross), which is not only a major field in itself, but also significantly de-risks the many other potential targets in the block.

Operations in this basin have continued to achieve a 100% success rate as, to date, 21 successful exploration and appraisal wells have been drilled with all encountering hydrocarbons. Further appraisal work on the Kingfisher discovery produced some exciting results in 2008 with a record production test, for any well drilled in Uganda, of 14,364 bopd. Additionally, the same three reservoir intervals were encountered in all of the wells and, significantly, the areal extent of the field was increased as oil was found structurally higher than anticipated in the Kingfisher-3 appraisal well.

The Albert Basin will remain a high corporate priority in coming years as the recent drilling successes have raised the estimated resources of the basin above the threshold required for commercial development. This is transformational for Heritage. With a gross licence area in Uganda and the DRC in excess of 12,000 square kilometres – equivalent to approximately 55 North Sea blocks – the Albert Basin is now estimated to have multi-billion barrel reserve potential. We are considering a number of fast-track development scenarios for the Albert Basin, including the possibility of a phased development with first production in 2011 by utilising the existing railway network in East Africa. We are also considering an export pipeline to the coast as well as a scheme to service local markets.

In addition to the Kingfisher drilling activity, mapping of recent seismic data has identified a number of prospects offshore in Lake Albert within the Heritage operated Block 3A, including the structurally attractive Pelican prospect and the large Crane prospect. An offshore drilling programme that will include the Crane and Pelican prospects is currently expected to begin in the first half of 2010.

### ***Tanzania***

Heritage farmed-in to four licence areas in Tanzania in mid-2008, with a total area of approximately 25,000 square kilometres. In early 2009, Heritage completed the acquisition of 2D seismic in-fill data on two blocks in Tanzania. Future drilling locations will be identified once the data has been processed and interpreted.

### **The Middle East**

#### ***Kurdistan Region of Iraq***

The Kurdistan Region of Iraq is another primary focus area for Heritage, with the potential to find multi-billion barrels of oil. Based on excellent quality seismic data acquired by Heritage during 2008, management has confirmed that the Miran Block contains two anticlines that have the potential to contain billions of barrels of oil in place from multiple potential reservoir targets. Drilling of the Miran West-1 well began in December 2008, a significant accomplishment given that Heritage was awarded the licence less than 15 months prior, in October 2007.

In March 2009, we announced drilling of the Miran West-1 well had completed and reached a total depth of 2,935 metres. The well encountered oil shows over an interval of 1,100 metres, with excellent oil shows in the three principal proven reservoir formations in the region (the Shiranish, Kometan and Qamchuqua). Good quality light sweet oil was recovered to surface as part of the drilling operations. A series of drill stem tests over a gross interval of approximately 500 metres are being conducted during April 2009. A further announcement will be made when all tests have been completed.

The operating environment for oil and gas companies in the Kurdistan Region of Iraq remains relatively stable and secure, and Heritage management believes that any outstanding issues between the government of Iraq and the Kurdistan Regional Government will be resolved satisfactorily. To that end, the two parties formed a series of committees to resolve issues. There has been considerable progress recently with the likelihood that first oil from Kurdistan will be exported this year.

### ***Oman***

Following our exceptional success in Uganda and very encouraging drilling results in the Kurdistan Region of Iraq, we decided to sell our non-core 10% interest in Block 8 in Oman for \$28 million, plus \$400,000 in working capital adjustments. We believe that greater value can be generated by using this cash to finance accelerated work programmes in Uganda and the Kurdistan Region of Iraq.

### ***Pakistan***

In December 2008, Heritage received government approval for a farm-in to the Zamzama North Block in the Sindh Zone (Zone III) in southern Pakistan. Heritage is the operator and was awarded a 48% participating interest in the block. This has extended Heritage's operations in Pakistan, which also include a 54% interest in, and operatorship of, the Sanjawi Block in the Baluchistan Zone (Zone II) in Pakistan. This block contains a number of large anticlinal structures which could be potentially significant drilling targets.

### **Russia**

Development of the Zapadno Chumpasskoye Licence in western Siberia, in which Heritage holds a 95% equity interest, continued during 2008. A third exploration and appraisal well was completed in the first half of 2008, and average daily oil production increased to 379 bopd in 2008. Peak production of 900 bopd was achieved but the field was shut-in between December 2008 and February 2009 following a temporary reduction in the domestic oil price in Russia. Production has since recommenced at a level of approximately 150 bopd but we expect this to increase over the year.

In summary, Heritage has achieved tremendous operating success during 2008 and early 2009, leading to a world-class oil discovery in Uganda and very encouraging results from the Miran West-1 well in the Kurdistan Region of Iraq, which is currently being tested. We also achieved increases in production and expanded our portfolio of properties. Looking ahead, we believe we have the financial and technical capability, combined with the management flexibility, to pursue opportunities to enhance the interests of our shareholders. We look forward to making substantial further progress and increasing shareholder value in both the near- and the long-term.

I would like to thank our staff, my fellow Directors and our shareholders for their continuing support.

**Tony Buckingham**  
**Chief Executive Officer**

## FINANCIAL REVIEW

### Selected Operational and Financial Data

		2008	2007	Change
Production	bopd	450	356	26%
Sales volume	bopd	435	333	31%
Average realised price	\$/bbl	32.1	30.5	5%
Petroleum and natural gas revenue	\$ million	5.1	3.7	38%
Net loss	\$ million	(41.3)	(83.2)	50%
Net loss per share - basic and diluted	\$	(0.16)	(0.37)	57%
Total cash capital expenditures	\$ million	(103.2)	(75.3)	n/a
Year end cash balance	\$ million	90.6	230.1	n/a

### Corporate Performance

#### Production

Average daily production increased by 26% from 356 bopd in 2007 to 450 bopd in 2008. The increase in production was attributable to higher levels of production from Zapadno Chumpasskoye in Russia despite being shut-in during December 2008. This was offset by a 51% decline in production of condensate and LPG in Oman due to the temporary cessation of production in the second half of 2008. This was in part due to upgrading the Bukha platform to handle new production from the West Bukha field. The West Bukha field commenced production in February 2009.

#### Revenue

Petroleum and natural gas revenue increased by 38% to \$5.1 million, due to higher sales volumes in Russia offset by lower condensate and LPG sales from the Bukha field in Oman. Condensate sales from the Bukha field in Oman decreased by 38% to \$1 million due to the shut-in of Bukha production in the second half of 2008. Revenue from oil production in Russia increased by 124% to \$3.8 million. The average realised price of \$32.1 per barrel in 2008 was 5% higher than in 2007, attributable to higher average commodity prices in Russia, offset by lower average condensate and LPG sales prices in Oman.

#### Operating Results

Petroleum and natural gas operating costs increased by 22% to \$2.3 million in 2008, due to almost a full year of production in Russia compared to only seven and a half months of production in 2007. The increase is in line with the higher sales volumes but additionally some volume efficiencies were achieved. Average operating costs per barrel sold declined by \$0.69 to \$14.18 in 2008, compared to \$14.87 in 2007.

Production tax in Russia increased from \$1.1 million in 2007 to \$2.3 million in 2008. This increase was due to an increase in volumes of oil production in Russia and higher average commodity prices in 2008 used in the calculation of production tax.

General and administrative expenses decreased from \$41.3 million in 2007 to \$30.7 million in 2008, due principally to lower non-cash share-based compensation expenses arising from stock options granted or approved in 2007. General and administrative expenses in 2008 were also

inflated by one-off expenses of \$9.7 million relating to the corporate reorganisation and subsequent listing on the London Stock Exchange.

If share-based compensation and the one-off corporate reorganisation and subsequent listing expenses are excluded, net general and administrative expenses increased from \$12.2 million in 2007 to \$13.6 million in 2008. This 11% increase resulted from the Group employing additional staff and incurring increased expenses to support higher levels of exploration and development activities in the Group's activity areas.

In 2008, the Group capitalised \$6.3 million (2007 - \$10.3 million) of directly attributable general and administrative costs relating to exploration and development activities, including stock-based compensation of \$4.6 million (2007 - \$9.0 million).

Depletion, depreciation and amortisation expenses increased by 24% to \$2.3 million in 2008, primarily due to higher oil and liquids sales volumes.

Exploration expenditures expensed and not capitalised in the year decreased by 85% from \$5.4 million in 2007 to \$0.8 million in 2008. Exploration expenditures in 2008 related principally to potential new ventures in Russia (\$0.3 million) and activities in Tanzania (\$0.2 million). Exploration expenditures in 2007 related mainly to activities in the Kurdistan Region of Iraq (\$2.3 million) and potential new ventures in Russia (\$1.5 million).

In 2008, the Group recognised an impairment write-down of property, plant and equipment of \$4 million (2007 - \$1.8 million) comprised of two elements; the disposal of the Oman holdings and the write-down of a drilling rig. Subsequent to year end, the entire share capital of the Oman holdings was sold for \$28 million in cash and a working capital adjustment of approximately \$0.4 million. The Group wrote down the carrying value of interest in Oman to its year end fair value resulting in a charge of \$3.2 million. The carrying value of the Group's 50% interest in a drilling rig was written down to nil, resulting in a charge of \$0.7 million (2007 - \$1.8 million).

In 2008, interest income was \$4.0 million (2007 - \$4.0 million). Cash and cash equivalents are typically held in interest bearing treasury accounts. Cash generating this income was raised by a private placement of shares for gross proceeds of \$186.4 million (Cdn\$181.5 million) in November 2007 and the issue of \$165 million of 8% unsecured convertible bonds in February 2007.

Convertible bonds are separated into liability and derivative liability components (being the bondholders' conversion option) and each component is recognised separately. The change in the fair value of the convertible bonds' conversion options, which is primarily due to the performance of Heritage's share price, resulted in a gain of \$11 million in 2008 compared to a loss of \$21.3 million in 2007.

Other finance costs decreased from \$12.0 million in 2007 to \$11.3 million in 2008. These costs are mainly comprised of interest and accretion expenses relating to the issue of \$165 million of 8% unsecured convertible bonds in February 2007.

The Group had foreign exchange losses of \$5.6 million in 2008, primarily related to an intercompany US dollar denominated loan provided by the Group to the Russian subsidiary for the development of Zapadno Chumpasskoye. The revaluation of this loan in Russian roubles (the functional currency of the Russian subsidiary) created the foreign exchange loss due to the weakening of the Russian rouble against the US dollar during 2008. In accordance with the Group's accounting policy, the revaluation loss was recognised in the financial statements of the Russian subsidiary in Russian roubles and translated into US dollars at consolidation and recognised in the income statement.

Heritage recognised an unrealised loss of \$1.7 million in 2008 (2007 – \$0.9 million gain), in the fair value of its investment in Afren Plc (“Afren”) warrants. The gain or loss is determined by the performance of the share price of Afren. Heritage holds 1,500,000 warrants in Afren with an exercise price of £0.60 per warrant, received as partial consideration from the sale of Heritage Congo in 2006. The warrants have a term until 22 December 2011. At 31 December 2008, Afren’s share price was £0.26 per share.

Heritage’s net loss in 2008 was \$41.3 million, compared to \$83.2 million in 2007. The adjusted net loss in 2008 was \$23.7 million compared to \$29.7 million in the previous year if certain non-cash items (share-based compensation expense, gain/loss on derivative financial liability, property, plant and equipment impairment write-down, foreign exchange loss/gain and unrealised loss/gain on revaluation of Afren warrants) and the one-off reorganisation costs are excluded. In 2008 the basic and diluted loss per share was \$0.16, compared to basic and diluted loss per share of \$0.37 in 2007.

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

Cash used in operating activities was \$32.8 million in 2008 compared to \$2.5 million in 2007. Total cash capital expenditures in 2008 were \$103.2 million compared to \$75.3 million in 2007. The following work was undertaken in 2008:

- Work programmes continued to be accelerated in Uganda with five exploration wells drilled at a total net cost of approximately \$45.3 million (\$8.8 million in 2007);
- The successful Kingfisher-2 and -3 appraisal wells were drilled in Block 3A, Uganda, with the successful Kingfisher-3A sidetracked over the year end and completed in February 2009;
- A three well exploration programme was undertaken in Block 1, Uganda. The Warthog-1 well spud on 30 September 2008, followed by the Buffalo-1 well in December 2008 and the Giraffe-1 well at the end of December. The programme was completed in January 2009 and all three wells discovered oil;
- A 2D seismic programme of approximately 330 kilometres was acquired over the Miran Block, in the Kurdistan Region of Iraq, between April and June 2008 and the Miran West-1 exploration well spud on 22 December 2008;
- Development of the West Bukha field in Oman continued. Production commenced in February 2009 at a rate of 15,000 boepd. The West Bukha-3 development well was drilled in 2008, the existing West Bukha-2 well was deepened, the platform was installed and the sub-sea pipeline completed;
- The drilling of Heritage’s third exploration and appraisal well in the Zapadno Chumpasskoye field in Russia was completed in the first half of 2008. This well was brought into production later in the year. Production in Russia increased to a peak of 900 bopd and averaged 379 bopd for the year; and  
Heritage farmed-in to two licences, covering four exploration blocks, in Tanzania in 2008. Heritage commenced acquiring 2D seismic in the Kimbiji and Kisangire blocks in September 2008 and the programmes were completed in February 2009. The data is currently being processed.

The net decrease in cash and cash equivalents during 2008 was \$139.5 million for a year end cash balance of \$90.6 million.

## **Financial Position**

### ***Liquidity***

At 31 December 2008, Heritage had a working capital surplus of \$43.2 million, including cash and cash equivalents of \$90.6 million. As for most oil and gas exploration companies, Heritage raises financing for its activities from time to time using a variety of sources. Based on its current plans and knowledge and its projected capital expenditure and operating cash requirements, the Group has sufficient cash to finance its current plans for at least 12 months from the date of approval of the financial statements, but further financings are likely to be required to meet expenditures planned for the second half of 2010. Sources of funding for future exploration and development programmes will be derived from, *inter alia*, new credit facilities, reinvesting funds from operations, using existing treasury resources, disposal proceeds from the sale of non-core assets, such as the sale of the Company's holdings in Oman in 2009, farm-outs and, when considered appropriate issuing debt and additional equity. Accordingly the Group has a number of different sources of finance available and the Directors are confident that additional finance will be raised as and when needed. In addition, development of the Group's successful exploration projects may be financed separately.

### ***Capital Structure***

Heritage's financial strategy has been to fund its capital expenditure programmes and any potential acquisitions by selling non-core assets, reinvesting funds from operations, using existing treasury resources, finding new credit facilities and, when considered appropriate, either issuing unsecured convertible bonds or equity. Heritage raised cash of over \$350 million in 2007. \$165 million was raised in February 2007 by the issue of 8% unsecured convertible bonds, of which \$82.5 million plus interest was used to redeem existing 10% convertible bonds and the remainder was available for general corporate funding purposes. Gross proceeds of \$186.4 million (Cdn\$181.5 million) were received in November 2007 from an issue of 3,000,000 Common Shares by Heritage Oil Corporation ("HOC") at a price of Cdn\$60.50 per share.

In October 2007, Heritage received a loan of \$9.5 million to refinance the acquisition of a corporate jet. Interest on the loan is at a rate of London Interbank Offered Rate ("LIBOR") plus 1.6%. In January 2005, the Company received a sterling denominated loan of £4.5 million to refinance the acquisition of a corporate office. Interest on the loan is fixed at 6.515% for the first five years and is then variable at a rate of LIBOR plus 1.35%. Heritage had net debt of \$146.8 million and gearing of 47% at 31 December 2008 compared with net cash of \$13.7 million and nil gearing at 31 December 2007.

### **Important Events Since the Year End**

Following a strategic review the entire share capital of Eagle Energy (Oman) Limited, a wholly-owned subsidiary that owned a 10% working interest in Block 8, Oman, was sold to RAK Petroleum for \$28 million, plus \$0.4 million in working capital adjustments, on 7 April 2009.

In April 2009, in accordance with the option outlined in the Production Sharing Contract in the Kurdistan Region of Iraq the KRG nominated a third party participant in the Miran Licence. Additionally, the KRG has released the Company from the obligation to build a refinery in exchange for making payments totalling \$35 million from future oil and gas sales from the licence. The minimum financial commitment for the Company for building the refinery was \$140 million. The Company remains the operator with a 75% working interest in the Miran Licence and will receive the pro-rata share of 25% of all past work programme expenditures. The transaction was completed upon the receipt of approximately \$6.7 million in costs incurred by the Company to 31 January 2009. The third party participant is responsible for funding its share of all work programme expenditures.

The Group is not required to obtain a reserve report annually or to publish reserves data under the listing rules. No reserves report at 31 December 2008 was obtained as the Group's previous independent reserves report effective at 31 December 2007 is not considered to have changed significantly due to the relatively small production during 2008. Additionally, the Group was undertaking significant work programmes in Uganda and Kurdistan at the year end, which would not have been incorporated in a report at that date. Management is planning to update the reserve report in the second half of 2009 when the results from the recent drilling programmes in Uganda and the Kurdistan Region of Iraq have been completed and results analysed and interpreted.

## **Risk and Internal Controls**

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

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

- Exploration and development expenditure and success rates – the Company 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;
- Factors associated with operating in developing countries, political and regulatory instability – the Company maintains close contact with governments in the areas within which it operates and where appropriate gets involved in community projects.
- Heritage cannot completely protect itself against title disputes – in many of the countries in which the Group operates, land title systems are not developed to the extent found in many industrialised countries. Notwithstanding potential challenges in the DRC, the Kurdistan Region of Iraq and Malta, the Group believes that it has good title to its oil and gas properties. However, it cannot control or completely protect itself against the risk of title disputes or challenges and there can be no assurance that claims or challenges by third parties against the Group's properties will not be asserted at a future date;
- Oil and gas sales volumes and prices – whilst not under the direct control of the Company a material movement could impact on the Group;
- Loss of key employees – remuneration packages are regularly reviewed to ensure key executives and senior management are properly remunerated; and
- Generally, it is the Company's policy to conduct and manage its business in US dollars, which is its reporting currency. Cash balances in Group subsidiaries are primarily held in US dollars but small amounts may be held in other currencies in order to meet immediate operating or administrative expenses or to comply with local currency regulations.

The Board will continue to review its approach to commodity prices, interest rates and currency fluctuations in light of the Company's future capital commitments and ongoing obligations. Heritage may use derivative instruments to mitigate against its exposure to volatility in oil prices and foreign currency movements. In 2007 and 2008 the Group did not enter into any hedging arrangements.

### ***Internal Controls***

A system of internal controls was designed and tailored to ensure key risks are appropriately addressed and to provide assurance regarding the reliability of financial reporting and preparation of financial statements. Risk and internal controls are continually assessed. One possible weakness has been identified, concerning accounting for complex transactions, although the Company seeks third party advice to mitigate against this weakness.

As part of the Company's internal controls, any transactions with related parties are identified, scrutinised and appropriately disclosed in the financial statements.

Heritage maintains insurance policies in accordance with industry standards. Heritage believes that the level of insurance cover it maintains is adequate based on various factors such as the cost of the policies, industry standard practice and the risks associated with the exploration and development of oil and gas properties in the countries in which it operates. Heritage does not insure against political risk and, therefore, provides shareholders with full exposure to the risks and rewards of investing in its territories.

Heritage maintains a detailed financial model which allows the Company to plan future operating and capital activities in the most efficient manner.

**Paul Atherton**  
**Chief Financial Officer**

### **Financial Information Included in This Announcement**

The following information included in this Announcement does not constitute audited financial statements of the Group. The Accounts for the year ended 31 December 2008 have been audited and will be posted on the Group's website. The auditors have issued an unqualified opinion on those Accounts. The following financial information has been extracted from those Accounts.

These consolidated financial statements of the Group include the results of the Company and all subsidiaries over which the Company exercises control. The comparative figures represent the results of HOC and all its subsidiaries.

The Company's consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency.

The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied by HOC and all its subsidiaries in its consolidated financial statements as at and for the year ended 31 December 2007.

**HERITAGE OIL LIMITED**  
**CONSOLIDATED INCOME STATEMENT**

**Years ended 31 December 2008 and 2007**

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>Revenue</b>		
Petroleum and natural gas	5,095,808	3,709,503
<b>Expenses</b>		
Petroleum and natural gas operating	(2,250,771)	(1,843,540)
Production tax	(2,618,806)	(1,092,423)
General and administrative	(30,686,764)	(41,271,960)
Depletion, depreciation and amortisation	(2,349,484)	(1,892,290)
Exploration expenditures	(786,398)	(5,415,696)
Impairment of property, plant and equipment (note 6)	(3,997,033)	(1,799,762)
<b>Operating loss</b>	<u>(37,593,448)</u>	<u>(49,606,168)</u>
<b>Gain on disposal of subsidiaries</b> (note 4)	—	1,077,132
<b>Finance income (costs)</b>		
Interest income	3,954,749	3,958,219
Loss on redemption of liability component of convertible bonds	—	(7,155,622)
Gain /(loss) on derivative financial liability relating to convertible bonds	10,954,514	(21,279,964)
Other finance costs	(11,257,187)	(11,997,748)
Foreign exchange (losses)/gains	(5,648,179)	931,913
Unrealised (loss)/gain on other financial assets	(1,713,700)	906,643
	<u>(3,709,803)</u>	<u>(34,636,559)</u>
<b>Net loss for the year attributable to equity holders of the Company</b>	<u>(41,303,251)</u>	<u>(83,165,595)</u>
<b>Net loss per share</b>		
Basic and diluted (note 9)	<u>(0.16)</u>	<u>(0.37)</u>

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

**HERITAGE OIL LIMITED**  
**CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

**Years ended 31 December 2008 and 2007**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Changes in the fair value of available-for-sale financial assets (note 8)	—	168,000
Exchange differences on translation of foreign operations (note 8)	(651,364)	434,583
<b>Net (expense)/income recognised directly in equity</b>	<b>(651,364)</b>	<b>602,583</b>
Net loss for the year	(41,303,251)	(83,165,595)
<b>Total recognised loss for the year</b>	<b>(41,954,615)</b>	<b>(82,563,012)</b>

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

**HERITAGE OIL LIMITED**  
**CONSOLIDATED BALANCE SHEET**

**As at 31 December 2008 and 2007**

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible exploration assets (note 5)	211,346,037	102,862,754
Property, plant and equipment (note 6)	88,039,218	64,225,918
Other financial assets	3,330,501	5,044,201
	<u>302,715,756</u>	<u>172,132,873</u>
<b>Current assets</b>		
Inventories	395,110	199,465
Prepaid expenses	664,759	447,271
Trade and other receivables	6,901,511	6,759,261
Cash and cash equivalents	90,620,385	230,089,323
	<u>98,581,765</u>	<u>237,495,320</u>
	<u>401,297,521</u>	<u>409,628,193</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	54,751,768	24,646,531
Borrowings	595,418	623,640
	<u>55,347,186</u>	<u>25,270,171</u>
<b>Non-current liabilities</b>		
Borrowings	155,609,982	154,253,701
Derivative financial liability	25,785,476	36,739,990
Provisions	719,808	170,899
	<u>182,115,266</u>	<u>191,164,590</u>
	<u>237,462,452</u>	<u>216,434,761</u>
<b>Net Assets</b>	<u>163,835,069</u>	<u>193,193,432</u>
<b>SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		
Share capital (note 7)	218,283,881	217,672,243
Reserves (note 8)	54,511,609	43,178,359
Retained deficit (note 8)	(108,960,421)	(67,657,170)
	<u>163,835,069</u>	<u>193,193,432</u>

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

**HERITAGE OIL LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**

**Years ended 31 December 2008 and 2007**

	<u>2008</u>	<u>2007</u>
	\$	\$
<b>Cash Provided by (used in) Operating Activities</b>		
Net loss from operations for the year	(41,303,251)	(83,165,595)
Items not affecting cash		
Depletion, depreciation and amortisation	2,349,484	1,892,290
Finance costs—accretion expenses	4,183,874	3,619,198
Foreign exchange losses/(gains)	320,580	(153,174)
Share-based compensation	7,595,542	31,300,295
Loss on redemption of convertible bonds	—	7,155,622
(Gain)/loss on derivative financial liability	(10,954,514)	21,279,964
Gain on disposal of subsidiaries	—	(1,077,132)
Loss/(gain) on other financial assets	1,713,700	(906,643)
Impairment of property, plant and equipment	3,997,033	1,799,762
Decrease in trade and other receivables	1,136,624	5,195,888
(Increase)/decrease in prepaid expenses	(217,488)	84,002
Increase in inventory	(195,645)	(100,544)
(Decrease)/increase in trade and other payables	(1,432,138)	10,585,162
	<u>(32,806,199)</u>	<u>(2,490,905)</u>
<b>Investing Activities</b>		
Property, plant and equipment expenditures	(29,610,908)	(27,236,018)
Intangible exploration expenditures	(73,608,271)	(48,095,422)
Intangible development expenditures	—	(64,931)
Investment in shares	—	(200,000)
	<u>(103,219,179)</u>	<u>(75,596,371)</u>
<b>Financing Activities</b>		
Shares issued for cash	361,537	187,106,476
Share issue costs	—	(10,473,386)
Convertible bonds	—	165,000,000
Convertible bonds issue costs	—	(6,979,268)
Redemption of convertible bonds	—	(83,022,752)
Long-term debt	—	9,450,000
Long-term debt issue costs	—	(314,897)
Repayment of long-term debt	(616,118)	(155,537)
	<u>(254,581)</u>	<u>260,610,636</u>
<b>(Decrease)/increase in cash and cash equivalents</b>	(136,279,959)	182,523,360
<b>Cash and cash equivalents - beginning of year</b>	230,089,323	46,861,146
Foreign exchange (loss)/gain on cash held in foreign currency	(3,188,979)	704,817
<b>Cash and cash equivalents - end of year</b>	<u>90,620,385</u>	<u>230,089,323</u>
<b>Non-Cash Investing and Financing Activities (note 13)</b>		
<b>Supplementary information</b>		
The following have been included within cash flows for the year under operating activities		
Interest received	4,477,227	3,504,866
Interest paid	13,636,178	8,546,840

The following have been included within cash flows for the year under operating activities

Interest received	4,477,227	3,504,866
Interest paid	13,636,178	8,546,840

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Reporting Entity

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

On 24 March 2008, HOC entered into a corporate reorganisation (the “Reorganisation”) which resulted in the Company becoming the parent company of HOC and its subsidiaries. The Company’s corporate head office is now located in the Channel Islands. In connection with the Reorganisation, the Company listed its ordinary shares (“Ordinary Shares”) on the Official List of the United Kingdom Listing Authority (the “UKLA”) and trades on the Main Market of the London Stock Exchange plc (the “LSE”) (collectively, “Admission”). HOC delisted its existing Common Shares (“Heritage Shares”) from the Toronto Stock Exchange (the “TSX”) and obtained a listing for a new class of exchangeable shares (the “Exchangeable Shares”) on the TSX. As part of the Reorganisation, implemented by way of a court-approved plan of arrangement (the “Arrangement”) under the Business Corporations Act (Alberta), HOC split its stock such that each existing Heritage Share was exchanged for either ten Ordinary Shares or ten Exchangeable Shares in accordance with the terms of the Arrangement.

On 2 April 2008, HOC and the Company collectively, together with their subsidiaries and affiliates, announced Articles of Arrangement implementing the previously announced Arrangement involving HOC and the Company had been filed with the Registrar of Corporations for the Province of Alberta with an effective date of 31 March 2008. As a result, former holders of Common Shares of HOC were entitled to either ten Ordinary Shares of the Company or ten Exchangeable Shares of HOC for each Common Share held depending on the elections previously made by such shareholders. Effective at the opening of business on 3 April 2008, the Exchangeable Shares were listed and posted for trading in substitution for the previously listed Common Shares of HOC which were delisted at that time. The Exchangeable Shares were also admitted to trading on the Main Market of the LSE on 2 April 2008. Trading of Ordinary Shares commenced on the LSE on 31 March 2008.

The Exchangeable Shares are designed to have rights as near as possible equivalent to the Ordinary Shares of the Company. Each Exchangeable Share is exchangeable on a one-for-one basis for an Ordinary Share. The holders of Exchangeable Shares are entitled to Voting Rights equivalent to Ordinary Shares through the Special Voting Share (see below). Dividends to Ordinary Shareholders can only be declared or paid simultaneously with the declaration or payment of an identical dividend to Exchangeable Shareholders. On liquidation, dissolution or winding-up of HOC, the Exchangeable Shareholders will be given one Ordinary Share per Exchangeable Share held.

The Company has issued one Special Voting Share. The Special Voting Share has the number of votes, which may be cast at any meeting at which holders of Ordinary Shares are entitled to vote, equal to the number of Exchangeable Shares of HOC outstanding at the relevant time. The holders of Exchangeable shares are entitled to Voting Rights through the Special Voting Share held by the trustee of the Voting and Exchange Trust by the Company, and have the right to receive notice of, speak and vote at the general meetings of the Company (on the basis of one vote for every Exchangeable Share) on the same basis as if they had exchanged their Exchangeable Shares for Ordinary Shares.

In connection with this Reorganisation the Company has agreed that the 2007 convertible bonds outstanding were convertible into Ordinary Shares of the Company rather than Common Shares of HOC.

These consolidated financial statements include the results of the Company and all subsidiaries over which the Company exercises control. The Company together with its subsidiaries are referred to as the Group. The subsidiaries consolidated within these financial statements include, *inter-alia*, Heritage Oil Corporation, Heritage Oil & Gas Limited, Eagle Energy (Oman) Limited, Heritage Oil and Gas (U) Limited, Heritage Energy Middle East Limited, Heritage DRC Limited, Coatbridge Estates Limited, ChumpassNefteDobycha, Neftyanaya Geologicheskaya Kompaniya, Heritage Oil & Gas (Austria) GesmbH, Heritage Mali Block 7 Limited, Heritage Mali Block 11 Limited, Heritage Energy Holding GesmbH, Heritage Oil & Gas (Gibraltar) Limited, TISE-Heritage Neftegaz, Begal Air Limited, Heritage International Holding GesmbH, Heritage Oil & Gas Holdings Limited, Eagle Drill Limited, Heritage Oil (Barbados) Limited, Heritage Oil & Gas (Switzerland) SA, Heritage Oil International Malta Limited, 1381890 Alberta ULC, Heritage Oil Cooperatief U.A, Heritage Oil Holdings Limited, Heritage International VOF, Heritage (International) Holding (Gibraltar) Limited, Heritage Tanzania Kimbiji-Latham Limited and Heritage Tanzania Kisangire Limited.

## **2. Basis of Preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union.

The Reorganisation, which is not a business combination, was accounted for with reference to the principles of reverse acquisition accounting as in accounting terms, the substance of the Reorganisation is that the underlying economics of the business have remained unchanged. Accordingly, the Reorganisation has been accounted for on a carry over basis of the historical cost of assets and liabilities of HOC and the consolidated financial history of HOC becomes that of the Company.

Certain prior year balances have been reclassified to conform to the current year’s presentation.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value.

As for most oil and gas exploration companies, the Company raises financing for its activities from time to time using a variety of sources. Based on its current plans and knowledge, its projected capital expenditure and operating cash requirements, the Group has sufficient cash to finance its current plans for at least 12 months from the date of approval of the financial statements, but further finance is likely to be required to meet expenditure planned for the second half of 2010. Sources of funding for future exploration and development programmes will be derived from, *inter alia*, new credit facilities, reinvesting funds from operations, using existing treasury resources, disposal proceeds from the sale of non-core assets, farm-outs and, when considered appropriate, issuing debt and additional equity. Accordingly, the Group has a number of different sources of finance available and the Directors are confident that additional finance will be raised as and when needed.

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 annual report and accounts.

### 3. Segment Information

The Group has a single class of business which is international exploration, development and production of petroleum oil and natural gas.

In 2007 and 2008, the Group operated in a number of geographical areas based on the location of operations and assets; Russia, Oman, Uganda, DRC, Kurdistan Region of Iraq, Pakistan, Tanzania, Malta and Mali.

	<b>Year ended 31 December 2008</b>					
	<b>External revenue</b>	<b>Segment result</b>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Capital additions</b>	<b>Depreciation, depletion and amortisation</b>
	\$	\$	\$	\$	\$	\$
Russia	3,836,991	(7,643,812)	48,123,180	446,935	4,674,969	1,070,410
Oman	1,258,817	(2,850,270)	28,065,282	3,279,402	17,983,358	264,003
Uganda	—	—	154,684,138	30,485,069	55,791,804	—
DRC	—	—	1,606,765	—	760,545	—
Kurdistan Region of Iraq	—	—	43,774,646	6,467,567	41,781,416	—
Pakistan	—	—	1,560,330	—	607,924	—
Tanzania	—	(204,515)	13,785,019	659,604	13,129,738	—
Mali	—	—	1,682,381	—	1,012,320	—
Malta	—	(14,831)	8,685,637	3,469	2,052,831	—
Unallocated - Corporate	—	(30,589,823)	99,330,142	196,120,406	870,924	1,015,071
	<u>5,095,808</u>	<u>(41,303,251)</u>	<u>401,297,521</u>	<u>237,462,452</u>	<u>138,665,829</u>	<u>2,349,484</u>

**Year ended 31 December 2007**

	<b>External revenue</b>	<b>Segment result</b>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Capital additions</b>	<b>Depreciation, depletion and amortisation</b>
	\$	\$	\$	\$	\$	\$
Russia	1,717,717	(2,653,941)	46,384,681	2,874,575	24,306,477	558,604
Oman	1,991,786	1,027,069	13,817,039	331,379	4,408,453	370,868
Uganda <sup>1</sup>	—	(38,359)	92,398,347	6,036,508	32,993,911	—
DRC	—	—	1,296,220	—	710,751	—
Kurdistan Region of Iraq <sup>2</sup>	—	(2,273,220)	1,622,934	—	1,622,934	—
Pakistan	—	(311,778)	952,406	—	952,406	—
Mali	—	(159,947)	213,145	—	213,146	—
Malta	—	(32,846)	6,517,779	—	6,517,779	—
Unallocated - Corporate	—	(78,722,573)	246,425,642	207,192,299	11,765,343	962,818
	<u>3,709,503</u>	<u>(83,165,595)</u>	<u>409,628,193</u>	<u>216,434,761</u>	<u>83,491,200</u>	<u>1,892,290</u>

1 Uganda includes exploration activity as well as operating expenses relating to drilling services.

2 Kurdistan Region of Iraq information was not a separate geographic segment until October 2007. However, information is presented to conform with the current year presentation.

Exploration expenditures in respect of Exploration and Evaluation (“E&E”) assets relate to pre-licence costs which are expensed in accordance with IFRS 6.

#### 4. Disposals

On 9 March 2007, the Group disposed of its previously consolidated 65 per cent interests in Natural Pipelay Worldwide Limited (“NPWL”) and Naturalay Technologies Limited (“Naturalay”) in consideration for 605,000 common shares in a private company named SeaDragon. The fair value of the common shares consideration received of \$2,420,000, which was based on the most recent private placement by SeaDragon in October 2006, resulted in a gain of \$1,077,132 on the disposal. The Group’s CFO is a director and CFO of SeaDragon.

Below is an analysis of the assets and liabilities of NPWL and Naturalay as at 9 March 2007, the date of sale completion:

	<b>9 March 2007</b>
	<b>\$</b>
<b>Assets</b>	
Intangible development costs	<u>1,642,868</u>
<b>Liabilities</b>	
Trade and other payables	<u>300,000</u>
<b>Net assets</b>	<u>1,342,868</u>

The gain on disposal of the previously consolidated subsidiary has been derived as follows:

	<b>\$</b>
Consideration received or receivable	
Fair value of shares	2,420,000
Total disposal consideration	<u>2,420,000</u>
Less: carrying amount of net assets sold	<u>1,342,868</u>
Gain on disposal of subsidiaries	<u>1,077,132</u>

## 5. Intangible Exploration Assets

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Balance - beginning of year	102,862,754	54,767,332
Exchange differences	(1,448,654)	251,338
Additions	115,136,798	57,337,190
Assets transferred to property, plant and equipment (note 6)	(5,204,861)	(9,493,106)
Balance - end of year	<u>211,346,037</u>	<u>102,862,754</u>

No assets have been pledged as security.

The balances at the end of the years are as follows:

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Russia	11,365,662	18,019,174
Oman	551,083	550,867
Uganda	130,032,034	74,240,229
DRC	1,506,765	746,219
Kurdistan Region of Iraq	43,404,350	1,622,934
Pakistan	1,560,330	952,406
Malta	8,570,610	6,517,779
Mali	1,225,465	213,146
Tanzania	13,129,738	—
Balance - end of year	<u>211,346,037</u>	<u>102,862,754</u>

In many of the countries in which the Group operates, land title systems are not developed to the extent found in many industrial countries and there may be no concept of registered title. The risk of title disputes associated with the Kurdistan Region of Iraq, the DRC and Malta is described in note 12.

## 6. Property, Plant and Equipment

	<b>31 December</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Petroleum and natural gas interests	68,121,295	42,056,745
Drilling and barge equipment	3,544,969	3,544,969
Land and building	11,984,701	11,984,701
Other	15,323,857	14,452,933
Property, plant and equipment, at cost	98,974,822	72,039,348
Accumulated depletion, depreciation and amortisation	(10,935,604)	(7,813,430)
<b>Net book amount</b>	<u>88,039,218</u>	<u>64,225,918</u>

## Reconciliation of movements during the year

### *Petroleum and natural gas interests*

Cost - beginning of year	42,056,745	18,091,216
Accumulated depletion and depreciation - beginning of year	(3,981,438)	(3,051,966)
<b>Net book amount - beginning of year</b>	<b>38,075,307</b>	<b>15,039,250</b>
Net book value - beginning of year	38,075,307	15,039,250
Exchange differences	(3,426,524)	335,094
Additions	27,533,291	14,137,329
Assets transferred from intangible exploration (note 5)	5,204,861	9,493,106
Depletion and depreciation	(1,290,992)	(929,472)
Write-down of proved petroleum and natural gas interests	(3,247,078)	—
<b>Net book amount - end of year</b>	<b>62,848,865</b>	<b>38,075,307</b>
Cost - end of year	68,121,295	42,056,745
Accumulated depletion and depreciation - end of year	(5,272,430)	(3,981,438)
<b>Net book amount - end of year</b>	<b>62,848,865</b>	<b>38,075,307</b>

### *Drilling and barge equipment*

Cost - beginning of year	3,544,969	3,544,969
Accumulated depletion and depreciation - beginning of year	(2,147,503)	(347,741)
<b>Net book amount - beginning of year</b>	<b>1,397,466</b>	<b>3,197,228</b>
Net book amount - beginning of year	1,397,466	3,197,228
Additions	—	—
Depletion and depreciation	—	—
Impairment	(749,955)	(1,799,762)
<b>Net book amount - end of year</b>	<b>647,511</b>	<b>1,397,466</b>
Cost - end of year	3,544,969	3,544,969
Accumulated depletion and depreciation - end of year	(2,897,458)	(2,147,503)
<b>Net book amount - end of year</b>	<b>647,511</b>	<b>1,397,466</b>

### *Land and building*

Cost - beginning of year	11,984,701	11,984,701
Accumulated depletion and depreciation - beginning of year	(452,329)	(313,151)
<b>Net book amount - beginning of year</b>	<b>11,532,372</b>	<b>11,671,550</b>
Net book amount - beginning of year	11,532,372	11,671,550
Depletion and depreciation	(139,178)	(139,178)
<b>Net book amount - end of year</b>	<b>11,393,194</b>	<b>11,532,372</b>
Cost - end of year	11,984,701	11,984,701
Accumulated depletion and depreciation - end of year	(591,507)	(452,329)
<b>Net book amount - end of year</b>	<b>11,393,194</b>	<b>11,532,372</b>

### *Other*

Cost - beginning of year	14,452,933	2,687,590
Accumulated depletion and depreciation—beginning of year	(1,232,160)	(408,520)
<b>Net book amount - beginning of year</b>	<b>13,220,773</b>	<b>2,279,070</b>
Net book amount - beginning of year	13,220,773	2,279,070
Additions	870,924	11,765,343
Depletion and depreciation	(942,049)	(823,640)
<b>Net book amount - end of year</b>	<b>13,149,648</b>	<b>13,220,773</b>
Cost - end of year	15,323,857	14,452,933
Accumulated depletion and depreciation - end of year	(2,174,209)	(1,232,160)
<b>Net book amount - end of year</b>	<b>13,149,648</b>	<b>13,220,773</b>

The corporate office which represents the land and building category and the corporate jet serve as security for long-term loans.

The carrying value of the drilling rig was written down to nil because the management does not expect that there will be significant drilling services revenues generated from the use of the drilling rig. This resulted in an impairment write-down of \$749,955 (2007 - \$1,799,762) recognised in the income statement during the year ended 31 December 2008. Impairment tests were performed for development and producing assets for a variety of scenarios using after tax discount rates in the range from 10% to 15%. The trigger for the impairment tests was a decline in oil and gas prices during 2008. As a result of the impairment test, the carrying value of the petroleum and natural gas interest in Oman was written down to its fair value of \$28 million. This resulted in an impairment write-down of \$3,247,078 (2007 - nil) recognised in the income statement during the year ended 31 December 2008. The impairment tests indicated that the fair value of the Company's development and producing asset in Russia significantly exceeds its book value.

## 7. 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. At incorporation, there was one Ordinary Share issued at \$42. On 22 February 2008, a second Ordinary Share was issued at \$41.

As part of the Reorganisation (note 1), the Corporation split its stock such that each existing Common Share of the Corporation was exchanged for either ten Ordinary Shares or ten Exchangeable Shares. The Corporation was a US dollar functional currency entity as is the Company and therefore the balance of Share Capital was carried forward at its historical amount into the financial statements of the Company. The rights of different classes of shares are the same and therefore economically equivalent. As such, Ordinary and Exchangeable Shares were treated as one class of shares for loss per share calculation.

Information about movements in share capital issued before the Reorganisation is presented in the table below on the after split basis, i.e. taking into account, the one for ten split.

### *Ordinary Shares*

	Year ended 31 December 2008		Year ended 31 December 2007	
	Number	Amount	Number	Amount
		\$		\$
Balance - beginning of year	254,877,480	217,672,243	220,090,330	24,580,984
Issue of shares	2	83	30,000,000	175,963,414
Exchange of the Common Shares for Exchangeable Shares	(4,431,120)	(3,784,296)	—	—
Exchange of the Exchangeable Shares for Ordinary Shares	1,182,012	1,009,470	—	—
Issued on exercise of stock options (note 10)	230,000	611,555	520,000	1,079,031
Issued on conversion of bonds	—	—	4,267,150	16,048,814
Balance - end of year	<u>251,858,374</u>	<u>215,509,055</u>	<u>254,877,480</u>	<u>217,672,243</u>

***Special Voting Share***

	<b>Year ended</b>		<b>Year ended</b>	
	<b>31 December 2008</b>		<b>31 December 2007</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
		\$		\$
Balance - beginning of year	—	—	—	—
Issued during the year	1	—	—	—
Balance - end of year	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

	<b>Year ended</b>		<b>Year ended</b>	
	<b>31 December 2008</b>		<b>31 December 2007</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
			\$	\$
Balance - beginning of year	—	—	—	—
Exchange of the Common Shares for Exchangeable Shares	4,431,120	3,784,296	—	—
Exchange of the Exchangeable Shares for Ordinary Shares	(1,182,012)	(1,009,470)	—	—
Balance - end of year	<u>3,249,108</u>	<u>2,774,826</u>	<u>—</u>	<u>—</u>
<hr/>				
Balance of Ordinary Shares of the Company and Exchangeable Shares of HOC -end of year	<u>255,107,482</u>	<u>218,283,881</u>	<u>254,877,480</u>	<u>217,672,243</u>

## 8. Reserves and Retained Earnings/(Deficit)

### (a) Reserves

	31 December	
	2008	2007
	\$	\$
Available-for-sale investments revaluation reserve	168,000	168,000
Foreign currency translation reserve	(220,784)	430,580
	(52,784)	598,580
Share-based payments reserve	54,564,393	42,579,779
	<u>54,511,609</u>	<u>43,178,359</u>
<b>Movements</b>		
<i>Available-for-sale investments revaluation reserve</i>		
Balance - Beginning of year	168,000	—
Revaluation	—	168,000
Balance - End of year	<u>168,000</u>	<u>168,000</u>
<i>Foreign currency translation reserve</i>		
Balance - Beginning of year	430,580	(4,003)
Currency translation differences arising during year	(651,364)	434,583
Balance - End of year	<u>(220,784)</u>	<u>430,580</u>
<i>Share-based payments reserve</i>		
Balance - Beginning of year	42,579,779	2,641,061
Compensation costs - options issued	12,234,715	40,491,888
Transfer to share capital on exercise of options	(250,101)	(409,363)
Options forfeited	—	(143,807)
Balance - End of year	<u>54,564,393</u>	<u>42,579,779</u>

### (b) Retained Earnings/(Deficit)

	31 December	
	2008	2007
	\$	\$
Balance - Beginning of year	(67,657,170)	15,508,425
Net loss for the year	(41,303,251)	(83,165,595)
Balance - End of year	<u>(108,960,421)</u>	<u>(67,657,170)</u>

### (c) Nature and Purpose of Reserves

#### i) Available-for-Sale Investments Revaluation Reserve

Changes in the fair value and exchange differences arising on translation of available-for-sale investments such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve. Amounts are recognised in the income statement when the associated assets are sold or impaired.

#### ii) Foreign Currency Translation Reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve. The reserve will be recognised in the income statement when the net investment is disposed.

### *iii) Share-Based Payments Reserve*

The share-based payments reserve is used to recognise the fair value of options and Long Term Incentive Plan (“LTIP”) awards issued, but not exercised, to employees.

## **9. Loss Per Share**

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

	<b>Year ended 31 December</b>	
	<b>2008</b>	<b>2007</b>
<b>Weighted average Ordinary and Exchangeable Shares</b>		
Basic	254,969,021	227,504,282
Diluted	256,257,622	237,562,982

The weighted average number of shares has been adjusted to reflect the effective one for ten share split that took place as part of the corporate reorganisation described in note 17. The reconciling item between basic and diluted weighted average number of Ordinary Shares is the dilutive effect of stock options. A total of 22,232,010 options (31 December 2007 - nil), 4,926,429 of shares relating to the LTIP (31 December 2007 - nil) and 33,617,020 of shares relating to the convertible bonds (31 December 2007 - 33,617,020) were excluded from the above calculation, as they were anti-dilutive.

## **10. Share-Based Payments**

### *Stock Options*

The Company had a stock option plan whereby certain directors, officers, employees and consultants of the Group have been granted options to purchase Ordinary Shares. Under the terms of the plan, options granted normally vest one third immediately and one third in each of the years following the date granted and have a life of five years.

As part of the Reorganisation (note 1) the 2008 Replacement Share Option Scheme (the “2008 Scheme”) was adopted. The 2008 Scheme served as a replacement of the Stock Option Plan of HOC which was cancelled just after the Reorganisation of HOC and its subsidiaries companies which occurred on 31 March 2008. Pursuant to the Reorganisation, the HOC optionholders exchanged each outstanding option to acquire a Common Share in the capital of HOC for ten options to acquire ten Ordinary Shares in the capital of the Company. The HOC optionholders were put in substantially the same economic position in the Company that they were in prior to the Reorganisation. The exercise prices of the options to acquire Ordinary Shares in the capital of the Company are expressed in Pounds Sterling and represent the exercise prices of the HOC’s options, expressed in Canadian dollars, translated at the exchange rate at 31 March 2008.

Information about stock options granted before the Reorganisation is presented in the tables below on the same basis as it is stipulated by the 2008 Scheme, i.e. after taking into account the one for ten exchange and translation of exercise prices to Pounds Sterling.

Ordinary Share options outstanding and exercisable:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Number of options	Average exercise price (GBP) £	Number of options	Average exercise price (GBP) £
Balance - beginning of year	24,612,010	1.51	8,316,670	1.06
Granted	—	—	17,232,010	1.43
Exercised (note 7)	(230,000)	0.89	(520,000)	0.65
Forfeited	—	—	(416,670)	0.48
Balance - end of period	<u>24,382,010</u>	<u>1.51</u>	<u>24,612,010</u>	<u>1.51</u>
Exercisable - end of period	<u>23,040,343</u>	<u>1.45</u>	<u>15,693,010</u>	<u>1.38</u>

Exercise price (GBP)	Number of options		Remaining life (years)
	Outstanding	Exercisable	
£0.48	2,000,000	2,000,000	1.39
£0.81	150,000	150,000	2.48
£1.08—£1.43	18,207,010	18,207,010	2.95
£2.45—£2.51	4,025,000	2,683,333	3.93
	<u>24,382,010</u>	<u>23,040,343</u>	<u>2.98</u>

The share-based payment recognised with respect to the stock options in the period ended 31 December 2008 was \$9,805,167 (2007 - \$40,344,181) out of which \$3,671,537 (2007 - \$9,043,886) was capitalised.

#### **Long Term Incentive Plan (“LTIP”)**

On 19 June 2008, the AGM of the Company approved the 2008 Long Term Incentive Plan (the “LTIP”). Under the terms of the plan, the LTIP awards will be in the form of full-value shares (Performance Shares), subject to performance and time-vesting conditions. Eligible employees will normally be considered by the Remuneration Committee for an award once each year. Awards made to the executive directors of the Company under the LTIP are called First Awards. Participants in the First Award, however, will not be entitled to any further awards until the 2011 financial year. Awards will normally be made during the period of 42 days following the announcement of year-end or half-year financial results. Exceptionally, the First Awards under the plan on 19 June 2008, were permitted to be made within 42 days following approval of the LTIP at the June 2008 AGM.

The plan is intended to apply to executive directors and other employees in senior management or leadership roles. By exception, other higher performing and high potential employees may be considered for awards. Participants in the LTIP will not be entitled to any further awards under the 2008 Scheme.

The vesting of shares under award are subject to performance conditions agreed by the Remuneration Committee when the award is made. For the First Awards made in 2008 the performance conditions are relative TSR (capital gain plus dividends) performance of the Company versus that of a comparator group of international oil companies and a requirement

for the share price of the Company to have increased by 20% over the vesting period of three years. Furthermore is an additional holding period of one year following the awards vesting.

The Remuneration Committee in consultation with executive reward consultants, approved grants of shares to executive directors, senior management and other employees in leadership roles under the LTIP. The maximum annual, individual award for participants who are not executive directors is 250% of base package (expressed as the ‘face value’ of the shares). The First Award to executive directors is 1,200% of base package for the CEO and 800% of base package for the CFO.

The First Awards vest after three years provided that the performance conditions are met. The awards granted to senior management and other employees in leadership roles are in three tranches that vest after three, four and five years respectively, provided that the performance condition is met at that time.

The award would vest in line with the following schedule:

<b>TSR Performance vs Comparator Group of 18 Companies</b>	<b>First Awards proportion vesting</b>	<b>Senior management and other employees in leadership role awards proportion vesting</b>
3rd place and above	100% of the award	100% of the award
4th place	80%	100%
5th place	50%	100%
6th place	30%	100%
7th place and below	0%	100%
9th place (median)	0%	100%
10th place and below	0%	0%

TSR is measured in comparison to a peer group of 18 oil companies selected based on one of or a combination of size (market capitalisation, revenue, turnover, cash expenditure or a combination thereof), area of operations and country of domicile. The TSR measurement is conducted by independent consultants in discussion with the Remuneration Committee.

Since there are market-related conditions the awards of the shares under LTIP were fair valued using the Monte Carlo model which takes into account the market-based performance conditions which effectively estimate the number of shares expected to vest. No subsequent adjustment is made to the fair value charge for shares that do not vest in the event that these performance conditions are not met. Adjustments are, however, made for leavers. The fair value of the awards is recognised as an employee expense with the corresponding increase in equity. The total amount to be expensed is spread over the vesting period during which the employees become unconditionally entitled to the shares and options.

The table below summarises the main assumptions used to fair value the awards made under the above LTIP and the fair values of the shares granted.

Award date	First Awards		19 June	
	19 June 2008	19 June 2008	2008	19 June 2008
Vesting period	3	3	4	5
Exercise price	nil	nil	nil	nil
Share price at date of grant	£3.45	£3.45	£3.45	£3.45
Expected volatility	40%	40%	40%	40%
Expected dividend yield	0%	0%	0%	0%
Fair value as at grant date	£1.55	£2.49	£2.61	£2.70
Number of shares granted	3,507,246	473,061	473,061	473,061

The share-based payment recognised with respect to the awards granted in the period ended 31 December 2008 was \$2,429,547 out of which \$967,632 was capitalised.

## 11. Related Party Transactions

During the year ended 31 December 2008, the Company incurred transportation costs of \$134,978 (31 December 2007—nil) with respect to the services provided by a company indirectly owned by Mr. Anthony Buckingham, CEO and a director of the Company.

Mr. Atherton, a director and CFO of the Company, is also a director and CFO of SeaDragon. The Group acquired 605,000 common shares of SeaDragon on 9 March 2007 through the sale of its 65% interest in Pipelay and Naturalay Technologies.

## 12. Commitments and Contingencies

Heritage's net share of outstanding contractual commitments at 31 December 2008 was estimated at:

	<b>Total</b>	<b>Less than</b>			<b>After</b>
	<b>\$'000</b>	<b>1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>5 years</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Long-term debt	15,136	595	1,190	7,820	5,531
Convertible bonds <sup>3</sup>	158,000	—	—	158,000	—
Total repayments of borrowings	<u>173,136</u>	<u>595</u>	<u>1,190</u>	<u>165,820</u>	<u>5,531</u>
Operating leases	8,782	406	649	649	7,078
Other long-term obligations <sup>1</sup>	140,000	—	140,000	—	—
Work programme obligations <sup>2</sup>	166,053	17,446	116,863	31,744	—
Total contractual obligations	<u>314,835</u>	<u>17,852</u>	<u>257,512</u>	<u>32,393</u>	<u>7,078</u>

1 Other long-term obligations represent minimum financial commitment for the Group to build a refinery in the Kurdistan Region of Iraq in accordance with the Production Sharing Contract in the Kurdistan Region of Iraq. In April 2009, the Group was released from the obligation to build a refinery (note 14).

2 Work programme obligation includes minimum required financial commitment for the Group to fulfill the requirements of licences and production sharing contracts. A two year extension to the licences on two blocks in Mali was awarded in January 2009. The Company has applied for an extension to the initial exploration period for two blocks in Tanzania, which the Tanzanian Government has advised it is favourably considering. The Company included \$58.8 million relating to Tanzania work programme obligations in column "1-3 years".

3 In April 2009, bondholders with \$5.9 million of bonds gave notice of the exercise of 59 bonds. These bondholders received 1,255,317 Ordinary Shares (note 14).

The Company may have a potential residual obligation to satisfy any shortfall in officers' and former officers' secured real estate borrowings in the event of default, a shortfall on the proceeds from the disposal of the properties and the individuals being unable to repay the balance. The value of the residual obligation was estimated as insignificant.

In many of the countries in which the Group operates, land title systems are not developed to the extent found in many industrial countries and there may be no concept of registered title. Although the Group believes that it has title to its oil and gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges. 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. The Group received a letter from the Iraq Ministry of Oil dated 17 December 2007 stating that the PSC signed with the KRG without the prior approval of the Iraqi government is considered to be void by the Iraqi government as they have stated it violates the "prevailing Iraqi law". The Directors believe that the PSC is valid and effective pursuant to the applicable laws.

In addition, the DRC work programme pursuant to the PSC cannot be commenced prior to the grant of a Presidential Decree from the DRC government. There can be no assurance that final approval or ratification will ever be received in respect of the PSC or that the pre-agreed fiscal terms will not be re-negotiated at a later date by the DRC government. The Directors are confident that the title will be confirmed.

Furthermore, the Group received a letter from the chairman of the Management Committee of the National Oil Company of Libya dated 28 February 2008 stating that the Block 7 licence area lies within the Libyan continental shelf and a portion of this area has already been licensed to Sirte Oil Company. This letter also demands that the Group refrain from any activities over, or concerning, the Block 7 licence area and asserts the Libyan government's right to invoke Libyan and international law to protect its rights in the Block 7 licence area. The Directors believe that the Libyan government's claims are unfounded.

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

	<b>Year ended 31 December</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Capitalised portion of share-based compensation	(4,639,169)	(9,043,886)
Non-cash property, plant and equipment additions relating to the capitalised portion of share-based compensation	4,639,169	9,043,886
Disposal of subsidiaries (note 4)	—	(1,342,868)
Gain on disposal of subsidiaries (note 4)	—	(1,077,132)
Receipt of SeaDragon shares as a proceeds for disposal of subsidiaries (note 4)	—	2,420,000
Receipt of SeaDragon shares as a result of the issuance of the Company's guarantee for a third party's debt	—	435,000
Accrual of payable representing the fair value of the Company's guarantee issued for a third party's debt	—	(435,000)

### 14. Subsequent Events

On 7 April 2009, the Company entered into an agreement to sell Eagle Energy (Oman) Limited which held a 10% interest in Block 8 in Oman for approximately \$28 million. Cash was received on 7 April 2009 and the transaction was completed on that date.

In April 2009, in accordance with the option outlined in the PSC in the Kurdistan Region of Iraq the KRG nominated a third party participant in the Miran Licence. The Company remains the operator with a 75% working interest in the Miran Licence and will receive the pro-rata share of 25% of all past work programme expenditures and the third party will be responsible for paying its share of future costs. The transaction was completed upon the receipt of approximately \$6.7 million in costs incurred by the Company to 31 January 2009. Additionally, the KRG has released the Company from the obligation to build a refinery in exchange for making a payment of \$35 million from future oil and gas sales from the licence. The minimum financial commitment for the Company was \$140 million.

In April 2009, bondholders with \$5.9 million of bonds gave notice of the exercise of 59 bonds. These bondholders received 1,255,317 Ordinary Shares.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

A variety of material risk factors have been identified that could have an impact on the Company, including risks relating to operations, countries in which the Group operates, the Group structure and risks relating to the Ordinary Shares and the Exchangeable Shares. The most significant risk factors impacting on the Group are considered to be:

- exploration and development expenditure and success rates;
- factors associated with operating in developing countries, political and regulatory instability;
- title disputes;
- oil and gas sales volumes and prices; and
- reliance on key employees.

The above risk factors could adversely affect the cash flows to a material extent that the Group may, in certain circumstances, need to obtain further debt or equity financing in the future.

Further information on risks and internal controls can be found in the Financial Review on page 13.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual Report and the financial statements for the Group in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union and applicable law and regulations.

Company law requires the Directors to prepare Group financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable law.

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position of the Group and the performance for that period.

In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on a going concern basis unless, having assessed the ability of the Company to continue as a going concern, it is inappropriate to presume the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies (Jersey) Law 1991.

They have general responsibility for taking such steps as are reasonably open to them for safeguarding the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for the preparation of a Directors' Report, Remuneration Report and Corporate Governance Statement. The Directors are responsible for the maintenance and integrity of the statutory and audited information on the Company's website. Jersey legislation and United Kingdom regulation, governing the preparation and dissemination of financial statements, may differ from requirements in other jurisdictions.

### **GOING CONCERN**

After making due enquiries, the Directors have made an informed judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

### **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.