

STERLING ENERGY PLC

Interim results of Sterling Energy plc for the six months ended 30 June 2003

The following is the full text of the unaudited interim results announcement of Sterling Energy plc ("Sterling" or the "Company") for the six months ended 30 June 2003:

"I am very pleased to report further excellent progress on many fronts since the end of 2002. The highlights are:

- We are reporting a profit before tax of £1,112,000 for the six months ended 30 June 2003.
- We have continued to add to our US gas reserves through acquisition, drilling and workovers.
- We have had success with our 60% interest in a new well on Eugene Island 268, with net reserves of over 4bcf. This tested at a gross level of 5 mmcf/d and was brought onstream in early September.
- The Gryphon 2 discovery was brought onstream as an important gas producer and we have recently signed a farmout agreement which may result in further carried wells being drilled in an expanded area.
- Our side-track on El Gordo tapped four separate gas zones. We expect the first zone to be on production within a few weeks.
- We were awarded a 100% interest in a new licence to the south of our High Island A68/A83 area, adding to the potential reserves accessible from our facilities.
- We have also concluded a throughput agreement with Forest Oil to use our existing High Island 52 facilities to process their gas from their neighbouring High Island 53 discovery. This is expected onstream next month.
- By the end of June we had increased our production by almost a third from the year-end level and recorded a positive cash flow from operations for the six month period then ended.
- Last week we agreed to purchase a 20.37% stake in Fusion Oil & Gas plc in a share-for-share exchange. The seller, Westmount Energy Limited, has agreed to a lock-in of the Sterling Shares it receives for at least a year.
- We have today announced a share offer for the issued share capital of Fusion Oil & Gas plc that we do not already own, valuing the entire issued share capital of Fusion at approximately £39.5 million. This is being announced separately and a copy of that announcement is being sent to all Sterling shareholders.

- We have also today announced a £10 million placing of shares with major institutions to provide funds for a partial cash alternative to Fusion shareholders. This is, in my view, a major vote of confidence in the underlying value of the Company, its prospects and in its management team who collectively are the largest shareholder in the Company.

Operations

The highlight of the first half of the year was bringing onstream the Gryphon C-2 well in High Island Block 52, in the Gulf of Mexico. Sterling owns a 7.58 per cent. overriding royalty interest in this well, and it has been producing solidly at 25 million cubic feet per day (“mmcf”) since February. With gas prices reaching as high as \$19/mcf on day trading in February, revenues from this asset have been exceptional. Current production from the two Gryphon wells is in excess of 35 mmcf, or 2.65 mmcf net to Sterling.

Elsewhere in the Gulf of Mexico Sterling acquired a 60 per cent. working interest in the Eugene Island 268 lease and participated in the setting of a new production platform and the recompletion of the #1 well originally drilled by UMC in 1997. The well was flow tested at 5 mmcf, and we anticipate production at or above this rate. Gas sales commenced on 10 September 2003.

Since the interim date, Sterling has participated in various workover and recompletions on its existing assets, and has also participated in the Western Gulf of Mexico Lease Sale, held in August, where it was successful in its only bid, for High Island Block A-94, which lies adjacent to its existing production at High Island A68/A83. This area is the subject of an ongoing technical review, which it is hoped will result in a programme of development drilling on the field, plus the delineation of large exploration prospects, that have been identified on existing 2D seismic data.

As previously announced, the El Gordo #4 sidetrack resulted in the drilling of four potentially commercial gas reservoirs. The deepest of these zones was completed and placed on production, but has suffered from early sand production. Currently plans are being made to recomplete this zone using a low cost sand-control solution.

There remain a number of drilling and recompletion opportunities that the Company is planning for the latter part of 2003 or early 2004, dependent upon partner approval and rig availability. These include a sidetrack well in High Island 52 in which Sterling owns a 45 per cent. working interest, and new drilling in Galveston 303, in which Sterling has a 17.5 per cent. working interest. We have also recently entered into a further agreement with Gryphon granting them an option to fund the drilling of up to two additional deep wells within the High Island 52 and 53 Production Unit, wherein we would receive a royalty until payout, and then have the right to back-in for a working interest in the well. We are hopeful that a well will be drilled early in 2004.

Internationally, aside from the Fusion offer, work is ongoing on the Reed Bank project in the Philippines and new exploration acreage is under negotiation in four separate countries.

Financial report for the six months to 30 June 2003 (“the period”)

During 2002, the Group was transformed by the reverse takeover of Sterling Energy Limited. The financial impact of this transaction on the six months to 30 June 2003 is illustrated in a number of the “Financial Highlights” shown below.

Financial Highlights:

- The Group recorded a profit before taxation of £1,112,000 in the period compared with a loss before taxation in the corresponding period in 2002 of £102,000.
- Turnover increased to £2,591,000 in the six months to 30 June 2003 from £22,000 in the first six months of 2002.
- Production averaged 4.2 million cubic feet equivalent per day (“mmcfe/d”) in the first half, with an average of over 4.4 mmcfe/d in the second quarter.
- Direct operating and related costs averaged \$0.94 per thousand cubic feet equivalent per day (“mcfe”), whilst depletion and amortisation were \$0.95/mcfe in the first half of 2003.
- Gross profit in the period was £1,712,000 compared with £3,000 in the corresponding period in 2002.
- Basic earnings per share (after tax) were 0.27p per share in the period compared with a loss of 0.2p in the corresponding period.
- Net current assets were transformed: end June 2003 total of £6,364,000 (end June 2002: £192,000).
- Shareholders' funds rose to £16,921,000 at the period end from £14,910,000 at the end of 2002.
- Net cash generated from operations of £499,000 in the period (six months 2002: outflow £9,000).
- Capital expenditures of £2,544,000 in the period on new wells and other works.
- Over £1,400,000 raised from the exercise of nearly 100% of the outstanding warrants in the period.

Commentary:

The attached interim financial information shows improvement in a wide range of performance areas. The improvement in the Group's financial position has been gratifying with the benefits of our strategy showing through.

I am very pleased to report the further and continuing transformation of the Group's financial performance in the six months to 30 June 2003. We saw an excellent and continued improvement in gross profit to £1,712,000 in the period, both compared with the corresponding period in 2002 and the second half of 2002. This mainly reflects the purchase of SEL and Galveston 303 in October 2002 on

the re-admission to AIM, the commencement of production from the Gryphon-2 well in March and the strong gas prices.

Turnover of £2,591,000 reflected our much increased average production in the period to 4.2 mmcfe/d, compared with 3.3mmcfe/d at the end of 2002 and virtually nil in the corresponding period of 2002. Approximately 95 per cent. of this production was gas, sold at an average price in the period of \$5.55/mcf, with an exchange rate of US\$1.65:£.

Direct operating and related costs averaged \$0.94/mcfe, whilst depletion and amortisation were \$0.95/mcfe. After deducting overheads, the operating profit was £1,110,000 compared with losses in both halves of 2002. An improvement in interest income, due to positive cash balances, offset interest expenses on a bank loan and on the unwinding of the discount on provisions for decommissioning.

A taxation charge of £125,000 arose mainly on the US income and is computed assuming the use of certain taxable US losses arising in prior periods. The future tax payable will depend on a number of factors, not least the level and composition of capital expenditures. It should be expected that, having taken into account deferred tax, the rate of charge will be more normal in future.

Despite a fall in the US\$ exchange rate of some 6 per cent. in the first half, the net profit was £987,000 with basic earnings per share of 0.27p in the period (first six months 2002: loss 0.2p).

Net current assets at the period end of £6,364,000 was mainly comprised of cash balances. Period-end debtors and prepayments of £1,839,000 were largely offset by a bank loan and creditors of £2,070,000. We are in the final stages of renewing the bank loan of over £1,200,000 and expect to increase the facility level and extend part of its repayment terms past one year, reflecting, amongst other things, recent drilling results.

Most of the capital expenditures of over £2,500,000 incurred in the period, which were mainly on the two wells announced as successful since the period-end and expected onstream shortly, have been shown as additions to intangible fixed assets. These and related costs are expected to be transferred into depletable tangible pools in the second half of the year.

After the exercise of almost 100 per cent. of the outstanding warrants to raise some £1,400,000, shareholders' funds at the period end rose to £16,921,000, with the issued ordinary share capital being approximately 378.4 million ordinary shares. The 40.0 million deferred consideration shares shown as "shares to be issued" are expected to be allotted in full at the end of 2003.

Outlook

Our progress has been fast and the results from our portfolio of prospects have shown some of the potential to be realised. Although gas prices have recently shown their usual summer retreat, with the recent drilling success, especially on our Eugene Island well, I remain optimistic of further operational progress and improvement.

I am hopeful of a successful outcome to our offer for Fusion, which we see as a sensible building block which will create a geographically focused portfolio of production, appraisal and exploration assets with enhanced opportunities for all shareholders. We also believe that by creating a larger independent oil company with a stronger balance sheet, we will be able to extract greater value from the existing exploration portfolio. We continue to look to acquire additional production in the Gulf of Mexico, if and when suitable opportunities arise.

We will, however, not overpay for acquisitions. We will cautiously add to our production and exploration portfolios organically and through deals, allowing our skills and professional approach to again yield the excellent results that our management team has so far secured for the Company.

Richard O'Toole
Chairman

25 September 2003

Sterling Energy plc - Consolidated profit and loss account

For the six months to 30 June 2003

	<i>Six months to 30 June 2003 £000's (unaudited)</i>	<i>Six months to 30 June 2002 £000's (unaudited)</i>	<i>Year ended 31 December 2002 £000's (audited)</i>
Turnover			
Existing operations	2,591	8	22
Acquisitions	=	<u>14</u>	<u>566</u>
	<u>2,591</u>	<u>22</u>	<u>588</u>
Cost of sales			
Existing operations	(879)	(8)	(13)
Acquisitions	=	<u>(11)</u>	<u>(365)</u>
	<u>(879)</u>	<u>(19)</u>	<u>(378)</u>
Gross profit			
Existing operations	1,712	-	9
Acquisitions	=	<u>3</u>	<u>201</u>
	<u>1,712</u>	<u>3</u>	<u>210</u>
Administrative expenses			
Amounts written off intangible fixed assets	-	(10)	-
Other:			
Existing operations	(602)	(64)	(131)
Acquisitions	=	=	<u>(157)</u>
	<u>(602)</u>	<u>(74)</u>	<u>(288)</u>
Operating profit/(loss)			
Existing operations	1,110	(74)	(122)
Acquisitions	=	<u>3</u>	<u>44</u>
	<u>1,110</u>	<u>(71)</u>	<u>(78)</u>
Investment income	81	7	22
Interest payable and similar charges	<u>(79)</u>	<u>(38)</u>	<u>(42)</u>
Profit/(loss) on ordinary activities before taxation	<u>1,112</u>	<u>(102)</u>	<u>(98)</u>
Taxation (Note 6)	<u>(125)</u>	=	=
Profit/(loss) for the financial period	<u>987</u>	<u>(102)</u>	<u>(98)</u>
Earnings/(loss) per share (Note 7): basic	<u>0.27p</u>	<u>(0.2p)</u>	<u>(0.1p)</u>
: diluted	<u>0.24p</u>	<u>(0.2p)</u>	<u>(0.1p)</u>

Sterling Energy plc - Consolidated balance sheet
As at 30 June 2003

	<i>As at 30 June 2003 £000's (unaudited)</i>	<i>As at 30 June 2002 £000's (unaudited)</i>	<i>As at 31 December 2002 £000's (audited)</i>
Fixed assets			
Intangible assets (Note 8)	6,444	33	4,096
Tangible assets	<u>6,058</u>	<u>142</u>	<u>6,560</u>
	<u>12,502</u>	<u>175</u>	<u>10,656</u>
Current assets			
Debtors	1,839	33	673
Cash at bank and in hand	<u>6,595</u>	<u>651</u>	<u>7,334</u>
	8,434	684	8,007
Creditors: amounts falling due within one year	<u>(2,070)</u>	<u>(492)</u>	<u>(1,006)</u>
Net current assets	<u>6,364</u>	<u>192</u>	<u>7,001</u>
Total assets less current liabilities	<u>18,866</u>	<u>367</u>	<u>17,657</u>
Creditors: amounts falling due after one year	-	-	(808)
Provisions for liabilities and charges	<u>(1,945)</u>	-	<u>(1,939)</u>
Net assets	<u>16,921</u>	<u>367</u>	<u>14,910</u>
Capital and reserves			
Called-up share capital	3,784	1,347	3,538
Shares to be issued	1,600	-	1,600
Share premium account	14,516	2,377	13,334
Currency translation reserve	(577)	36	(173)
Profit and loss account	<u>(2,402)</u>	<u>(3,393)</u>	<u>(3,389)</u>
Shareholders' funds	<u>16,921</u>	<u>367</u>	<u>14,910</u>
Shareholders' funds may be analysed as:			
Equity interests	16,921	(524)	14,910
Non-equity interests	=	<u>891</u>	=
	<u>16,921</u>	<u>367</u>	<u>14,910</u>

Sterling Energy plc - Consolidated statement of recognised gains and losses

For the six months to 30 June 2003

	<i>Six months to 30 June 2003 £000's (unaudited)</i>	<i>Six months to 30 June 2002 £000's (unaudited)</i>	<i>Year ended 31 December 2002 £000's (audited)</i>
Profit/(loss) for the financial period	987	(102)	(98)
Currency translation adjustments	<u>(404)</u>	=	<u>(209)</u>
Total recognised gains/(losses) relating to the period	<u>583</u>	<u>(102)</u>	<u>(307)</u>

Reconciliation of movements in Group shareholders' funds

For the six months ended 30 June 2003

	<i>Six months to 30 June 2003 £000's (unaudited)</i>	<i>Six months to 30 June 2002 £000's (unaudited)</i>	<i>Year ended 31 December 2002 £000's (audited)</i>
Profit/(loss) for the financial period	987	(102)	(98)
Other recognised losses for the period	(404)	-	(209)
Shares issued (net of expenses)	1,428	-	13,147
Shares to be issued	=	=	<u>1,600</u>
Total movement in the period	2,011	(102)	14,440
Shareholders' funds at start of period	<u>14,910</u>	<u>470</u>	<u>470</u>
Shareholders' funds at end of period	<u>16,921</u>	<u>368</u>	<u>14,910</u>

Consolidated cash flow statement (see note 9)

For the six months ended 30 June 2003

	<i>Six months to 30 June 2003 £000's (unaudited)</i>	<i>Six months to 30 June 2002 £000's (unaudited)</i>	<i>Year ended 31 December 2002 £000's (audited)</i>
Net cash inflow/(outflow) from operations	499	(9)	(1,104)
Returns on investments and servicing of finance	61	(27)	(3)
Capital expenditure	(2,544)	(17)	(79)
Acquisitions	=	=	<u>405</u>
Cash outflow before financing	(1,984)	(53)	(781)
Financing	<u>1,428</u>	<u>138</u>	<u>6,574</u>
(Decrease)/increase in cash	<u>(556)</u>	<u>85</u>	<u>5,793</u>

Notes to the interim financial information for the six months to 30 June 2003

1. There being no distributable reserves, no interim dividend can be paid for the six months to 30 June 2003.
2. The interim financial information contained herein does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The results for the year ended 31 December 2002 have been extracted from the statutory accounts of the Group for the year then ended which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237 of the Companies Act 1985.
3. The interim financial information as at and for the six months ended 30 June 2003, including the comparatives for the 6 months ended 30 June 2002, has not been audited by Sterling Energy plc's auditors.
4. The financial information included in this document has been prepared on a consistent basis and using the same accounting policies as the audited financial statements for the year ended 31 December 2002.
5. The Directors of the Company approved the financial information included in this interim results document on 24 September 2003.
6. There is no provision for deferred tax at 30 June 2003 (30 June 2002 and 31 December 2002: £ nil). The difference between the current tax charge of £125,000 and the amount calculated by applying the applicable standard rate of tax is as follows:

	<i>Six months to 30 June 2003 £000's (unaudited)</i>	<i>Six months to 30 June 2002 £000's (unaudited)</i>	<i>Year ended 31 December 2002 £000's (audited)</i>
Group profit/(loss) on ordinary activities before tax	1,112	(102)	(98)
Tax on Group profit/(loss) on ordinary activities at standard US corporation tax rate of 34 per cent. (year 2002: 35 per cent.)	378	(36)	(34)
Effects of:			
Expenses not deductible for tax purposes	5	5	32
Capital allowances in excess of depreciation	-	-	(6)
Depletion and impairment of oil & gas properties	138	11	58
Other temporary differences	(4)	-	(18)
Adjustment for tax losses (see below)	<u>(392)</u>	<u>20</u>	<u>(32)</u>
Group current tax charge for the period	<u>125</u>	-	-

Subsequent to the acquisition of the whole of the issued share capital of Sterling Energy Limited ("SEL") and its US subsidiary, Sterling Energy, Inc. ("SEI") in October 2002 for approximately £7,880,000, the Group has generated its results primarily in the US. The tax rate in the above reconciliation for all periods presented is the standard rate for US corporation tax.

In deriving the tax charge for the six months to 30 June 2003 the Group has recognised the utilisation of all of SEI's US taxable losses arising in previous periods, including those prior to its acquisition, which the directors believe to be available for offset against taxable profits in this period.

7. Basic earnings/(loss) per share is based on the profit on ordinary activities after taxation of £987,000 (first half 2002: loss for the period, £102,000; year 2002: loss for the year £98,000) and the weighted average number of 359,327,058 ordinary shares of 1p each in issue during the period (first half 2002: 44,537,208; year 2002: 90,983,836). Diluted loss per share is the same as basic loss per share in both the six months to 30 June 2002 and for the year 2002.

For the six months to 30 June 2003, diluted earnings per share was 0.24p per share. This is computed based on 414,190,544 ordinary shares, being the total used for the computation of the basic earnings per share adjusted for 40,000,000 deferred consideration shares expected to be issued at the end of 2003 and assuming the exercise of 11,701,121 of the options and 3,162,365 of the warrants outstanding during the period respectively.

8. The additions to intangible fixed assets in the six months to 30 June 2003 of £2,448,000 is comprised principally of costs prepaid in relation to work on two wells which was carried out after 30 June 2003. The Group declared these wells to be productive in August 2003 and the costs were then accordingly transferred into tangible fixed assets.

9. **Consolidated cash flow statement**

(a) Reconciliation of operating profit/(loss) to net cash flow from operations

	<i>Six months to 30 June 2003 £000's (unaudited)</i>	<i>Six months to 30 June 2002 £000's (unaudited)</i>	<i>Year ended 31 December 2002 £000's (audited)</i>
Operating profit/(loss)	1,110	(71)	(78)
Depletion and depreciation	441	11	170
Amounts written off intangible fixed asset	-	10	-
(Increase)/decrease in debtors	(1,166)	(13)	(334)
(Increase)/decrease in creditors	<u>114</u>	<u>54</u>	<u>(862)</u>
Net cash inflow/(outflow) from operations	<u>499</u>	<u>(9)</u>	<u>(1,104)</u>
Returns on investments and servicing of finance			
Interest received	81	7	18
Interest paid	<u>(20)</u>	<u>(34)</u>	<u>(21)</u>
	<u>61</u>	<u>(27)</u>	<u>(3)</u>
Capital expenditure			
Purchase of intangible fixed assets	(2,448)	(17)	(33)
Purchase of tangible fixed assets	<u>(96)</u>	-	<u>(46)</u>
	<u>(2,544)</u>	<u>(17)</u>	<u>(79)</u>
Acquisitions			
Purchase of subsidiary undertakings	-	-	(202)
Cash acquired with subsidiary undertakings	-	-	<u>607</u>
	-	-	<u>405</u>
Financing			
Issue of Ordinary shares	<u>1,428</u>	<u>138</u>	<u>6,574</u>

(b) *Analysis and reconciliation of net funds*

	<i>At 1 January 2003 £000's</i>	<i>Cash Flow £000's</i>	<i>Exchange & Other Movements £000's</i>	<i>At 30 June 2003 £000's</i>
Cash at bank and in hand*	6,476	(556)	(223)	5,697
Debt due after 1 year	(808)	-	808	-
Debt due within 1 year	<u>(435)</u>	-	<u>(777)</u>	<u>(1,212)</u>
Net funds	<u>5,233</u>	<u>(556)</u>	<u>(192)</u>	<u>4,485</u>

* The cash balance at 30 June 2003 excludes £898,000 of restricted cash (end of 2002: £858,000)

10. Further copies of this interim statement are available from the Company Secretary, Sterling Energy plc, Mardall House, Vaughan Road, Harpenden, Hertfordshire, AL5 4HU, United Kingdom. Telephone +44 (0) 1582 462121, Fax +44 (0) 1582 461221.

11. Subsequent event

On 19 September 2003, the Company announced that it had agreed to buy the whole of the issued share capital of Westmount Resources Limited ("Westmount Resources"). Westmount Resources' assets consist of 20,000,000 ordinary shares in Fusion ("Fusion Shares"), whose shares are listed on AIM. These Fusion Shares represent 20.37 per cent. of Fusion's issued share capital. Westmount Resources also owns 500,000 partly paid shares in Fusion Oil & Gas NL, a wholly owned subsidiary of Fusion, which are each convertible into one Fusion share on payment of A\$0.199. The consideration payable for Westmount Resources is 71,375,000 new ordinary shares of 1p each in the Company. By reference to the closing mid-market price of a Fusion share of 39.25 pence on 18 September 2003, the Fusion Shares had a market value of £7.85 million."