

Sterling Energy plc Interim Results 2005

Highlights

- Unaudited first half net profit of £2.4 million up 83% from the same period in 2004.
- Average daily production increased by 20% to 10.2 mmcfge (H1 2004: 8.5 mmcfge).
- Average realised price achieved up 11% at \$6.38/mcfge (H1 2004: \$5.76/mcfge).
- US gas forward sales of only \$5 million locked in at \$6.67/mcfge to March 2006 leaving large upside to recent higher prices for the bulk of the production.
- 2.1 million bbls related to the Chinguetti field with a floor price of c\$38/bbl and the excess over c\$50/bbl accruing to Sterling.
- Proven and probable reserves of approximately 21 million boe at mid-year, up 115% over the corresponding date.
- First production from the important Chinguetti development, offshore Mauritania, expected on time in February 2006.
- Major farmout of offshore Madagascar interests to ExxonMobil leaving Sterling with a 30% interest carried through seismic and up to four well programme.
- Possible development of heavy oil discoveries in Dome Flore enhanced by completed farmout, leaving Sterling with a 30% interest.
- Consolidation of Sterling's interests in the Philippines into Forum Energy plc which was listed on AIM in August 2005.
- West Africa and Gulf of Mexico exploration drilling programmes of up to 10 wells over the next year underway.

Chairman's Statement

I am again pleased to report the continuing development of your company during the first half of 2005.

The unaudited figures to mid 2005 show an increase over the corresponding period of 83% in net profit, an increase of 20% in daily production and 115% in proven and probable reserves over the corresponding period end.

Financial progress has continued to be good, with a gross profit of £4.0 million for the six months to 30 June 2005, up approximately 21% over the corresponding period in 2004. Gas prices strengthened and our realised prices averaged \$6.38/mcfge, up 11% in the period. Net profit was £2.4 million (H1 2004: £1.3 million).

The development of the Chinguetti field continues on schedule with oil production expected in February 2006. Production from this field will transform Sterling's cash flow and enable it to continue to expand its exploration activity and continue to build-up its appraisal and production activities in its core areas.

Our African exploration activities have progressed with the highlights being:

- The farmout of the Madagascar acreage to ExxonMobil. Sterling is carried for a 30% interest through a significant seismic programme and up to four wells.
- The farmout of our Dome Flore licence with a retained 30% interest, will optimise the evaluation of the 800-1,000 million bbl of in-place heavy oil discoveries on the licence.

We were disappointed with the results of the first two exploration wells offshore Mauritania and one offshore Gabon, which were non-commercial. Our policy of reducing risk there by farmouts meant that Sterling only paid c\$0.3 million in total on these wells.

In the USA our exploration and development programme has been held back by lack of availability in equipment and severe weather. This will be particularly so after the effects of Hurricane Katrina. Sterling was fortunate not to suffer damage from this storm. Despite the successes so far, the resulting delays mean that, in common with all of the industry in the Gulf, Sterling has had to

reduce its targets for the year-end. However, we have deliberately limited our forward sales and are able to reap the recent higher prices for the bulk of our production. In the first two months of the second half our average prices have been \$7.4/mcf and recent market spot prices have exceeded \$12/mcf, due partly to the effects of the hurricanes.

Outlook

With the start-up of Chinguetti production in February 2006, a sustained and largely carried exploration programme in Africa of 6-10 wells over the next year, progress in the US and strong oil and gas prices, Sterling is well positioned for an exciting period in its development.

This progress all relies on our staff and management and I extend my congratulations to them for their commitment and effort, the further benefits from which will accrue over the months and years ahead.

Richard O'Toole
Chairman

23 September 2005

Operational summary

The period since the start of 2005 has seen accelerating activity for Sterling in both its production and exploration activities. First production in Africa remains on target for February 2006, from the offshore Chinguetti field development. Important farmouts have been secured on the heavy oil discoveries on Dome Flore and the exploration acreage offshore Madagascar, though the early results of the largely carried exploration programme elsewhere in Africa have been disappointing. US production has risen by 20% over the corresponding period. The planned capital expenditure programme has seen success and production has increased to offset natural declines. In common with the industry, the programme has been delayed by lack of availability of services, mainly through exceptional weather impacts and higher activity levels.

Mauritania

The 140 million bbl Chinguetti field development is now over 88% completed. Production is expected to rise to a plateau of 75,000 bopd gross. The hull of the floating production vessel arrived in Singapore in December 2004 and by March 2005 the principal topsides had been installed. The turret section integration started at the end of June and "sail-away" to production location is scheduled for the end of this month. Meanwhile, on the Chinguetti field the lower completions of all 6 production wells and 5 water injection wells have been completed.

In April, Sterling opened an office in Nouakchott, the capital of Mauritania. Sterling is working closely with Oil Ministry and Groupe Projet Chinguetti (GPC), the company set up by the Mauritanian Government to help manage its 12% working interest in Chinguetti. Training and assistance from Sterling is intended to help in the development of the country's fledgling energy sector.

Sterling has two economic interests in the Chinguetti development. The first is through the Funding Agreement with the Mauritanian Government, signed in November 2004; Sterling receives an approximate 8% economic interest in production in return for funding its share of the past and development costs associated with the Government's 12% working interest. This has been facilitated through the provision of a \$130 million letter of credit which is being progressively drawn-down to meet the costs, c\$42 million of which has been drawn to date.

The second interest is through a wider agreement whereby Sterling is paid a royalty on a sliding scale on every barrel produced under a 6% working interest in PSC B, including the Chinguetti field. At recent oil prices of \$58-61/bbl, the royalty payment would be around \$7.75/bbl before adjustments. Sterling will receive royalties on production from all other fields developed in PSC B and under a 3% working interest in PSC A, as well as a cash bonus of \$2 million or 1 million respectively for each discovery declared commercial which is greater than 50 million bbls.

The Tiof discovery in PSC B, which is considerably larger than Chinguetti, is currently being evaluated following a further successful appraisal well in February 2005. Appraisal drilling on the Tevet discovery, adjacent to Chinguetti in PSC B, has also recently commenced. Exploration activity on PSC B & PSC A resumed in July. The high-risk exploration wells, Sotto in PSC A and Espadon in PSC B, were abandoned as dry. At least a further three exploration wells are planned by year-end.

AGC

In the AGC (joint zone between Senegal/Guinea Bissau), Sterling participates in two licences, the deep water exploration block Croix du Sud (88% interest and operator) and the Dome Flore block (30% interest). Dome Flore was farmed out in March 2005 to Markmore, a Malaysian company with interests in bitumen refining.

The Croix du Sud licence has been extended to January 2006 and discussions are ongoing with a number of companies interested in a drilling programme.

In the Dome Flore permit, Markmore, the operator, is undertaking a study of the feasibility of economic recovery of the heavy oil deposits of Dome Flore and Dome Gea, estimated at some 800-1,000 million barrels in place, with particular emphasis on steam assisted gravity drainage to facilitate the production of the heavy oil.

Cameroon

In consultation and cooperation with the Cameroonian authorities, Sterling has placed the Ntem Concession in Force Majeure. This period of suspension will allow Cameroon and Equatorial Guinea time to agree the maritime boundary between the two countries which runs along the southern edge of the licence. All of the work and financial obligations of the Ntem Concession have been suspended; however Sterling is continuing technical work in preparation for drilling an exploration well once this territorial issue has been resolved.

Gabon

Sterling currently operates three shallow water permits in southern Gabon; the Iris Marin and Themis Marin Production Sharing Contracts and recently acquired an exclusive Technical Evaluation Agreement over the Ibekelia permit.

During August and September 2005 an exploration well was drilled in the Iris Marin PSC. The Iris Iboga Marin-1 well was drilled to total depth of 2,035m and intersected an excellent quality reservoir but no significant hydrocarbons were encountered. Sterling had a 20.57% interest but due to a farmout paid for only 2.57% of the well costs.

Processing of the 3D seismic data acquired in southern Themis Marin during 2004 is ongoing. This survey was acquired and is being processed in conjunction with the adjacent Gryphon Marin PSC and Etame Marin PSC. Drilling of one well is anticipated in mid 2006. Under the terms of a farm-out, Sterling will pay 2.57% for its 20.57% equity in this well.

In September 2005, Sterling and its partners negotiated an exclusive Technical Evaluation Agreement (TEA) for the Ibekelia permit which is contiguous with the Iris Marin and Themis Marin permits and is adjacent to the Gamba and Olowi oilfields. Sterling is the operator with 40% equity.

Madagascar

In the 34,000 sq km Ambilobe and Ampasindava PSCs our exploration studies are yielding positive results and we are planning to acquire 2D seismic in 2006. This prospectivity has been recognised by other companies and in July 2005, ExxonMobil farmed in to both blocks. Under the terms of the farm-in agreement, Sterling will retain a 30% interest in the licences and will be carried through an exploration work programme that, subject to certain milestones being achieved, will include 2D and 3D seismic acquisition and the drilling of up to two wells per licence.

Perth Office Closure

The Board has decided it will be more advantageous to manage all of the Group's African activities from its UK head office. Accordingly, the Perth office will close in January 2006. The relocation of activities and some key personnel from Perth to the UK will significantly reduce costs and provide for more streamlined and efficient operations. The Board would like to thank the staff of the Perth office for their contribution since the acquisition of Fusion in late 2003 and for their commitment during this handover period.

Forum Energy plc

During the first half, Sterling took a 15% interest in a new company, Forum Energy plc, which was floated on AIM in August, by exchanging its non-core GSEC 101 subsidiary for Forum shares. Based on the current market price, the implied value of this holding is approximately £5 million compared with a book cost of £0.7 million: no profit has been included on this transaction during the period.

USA

In the first half of 2005 the Houston office has focused on developing its Gulf of Mexico assets through drilling, recompletions and work-overs. These efforts will continue but drilling rigs, lift boats and other necessary equipment are in great demand and with lower availability due to the effects of the hurricanes and rising oil and gas prices, delays are inevitable. Two drilling rigs and a lift boat were contracted to handle the four development projects carried out in the period to date and with one project waiting on results. Activity has been focused on the Mustang Island and Matagorda Island properties of offshore Texas, and the Eugene Island property offshore Louisiana.

In the Mustang Island area, the 748 #1 well was successfully recompleted to a shallower zone and was brought on production in May at a sustained gross rate of 1.5 mmcf/d, which has exceeded expectations. Sterling has a 45% NRI in this property.

The Eugene Island 268 #1 well was successfully recompleted up-hole and brought onstream in July. It has established a gross rate of 3.5 mmcf/d. Sterling holds a 45% NRI.

The Mustang Island area, 749 GU #2 well was drilled for projected remaining attic reserves. To date the well has shown less than encouraging results with high water levels despite being "higher" than projected. The well will be put on production when services are available, to ascertain whether economic production can be established. Sterling promoted a 25% WI in this well to a local company to cover part of its costs and has retained a 56% NRI.

In Matagorda Island, the 520 #16 well was successfully worked over, re-establishing production from a wellbore in August that has not produced since late 1995. Initial production has been at a gross daily producing rate in excess of 1 mmcf/d. Sterling has a 46% NRI in this well.

There were also some operational restrictions in the period, with planned pipeline shut-ins, repairs, weather and closures for the above operations which restricted production to an average of 10.2 mmcf/d, up 20% on the corresponding period. In the second half to-date, production has not yet increased above the level of the first half due to shut-ins for further pipeline maintenance, weather interruptions, unavailability of equipment to deal quickly with day-to-day production issues and declines on other wells. Recently, further third party production throughput in our pipeline system has been secured and is progressively increasing, providing a growing source of income.

Sterling has farmed-in for a 28% WI in a well to be drilled in October in the Galveston offshore area close to existing Sterling production. Continuing shortages of necessary equipment have, as for all operators, hampered the planned development programme in the second half, though Sterling anticipates three non-operated new wells over the next six months.

The US office is currently expanding its portfolio of drilling and production opportunities through internal generation and by participating in outside generated opportunities.

Financial report for the six months to 30 June 2005

Summary

The six months to 30 June 2005 ("the period") have seen a sustained improvement in production levels and revenues over corresponding prior period levels, as well as a further increase in profitability. Profit on ordinary activities before taxation in the period of £3.3 million was up 65% over the £2.0 million of the corresponding period in 2004.

Profit & loss

In common with most AIM companies, Sterling has not adopted IFRS in the period, and has prepared these unaudited statements on a basis consistent with prior periods.

In the period, turnover increased to £6.7 million, up 26% on the level in the first half of 2004. This reflected an average production level up 20% on the first half of 2004 ("H1 04") and consistent with that in the second half of 2004. Over 80% of production for the period was gas. Realised prices continued to firm, with an average of \$6.38/mcfge in the period, 11% up on the year 2004. Sterling has continued to hedge part of its near-term production and at mid-year had sold a total of \$5 million of US production forward to March 2006 at an average price of \$6.67/mcf. Cost of sales in the period averaged \$2.8/mcfge (\$2.5/mcfge in 2004) reflecting inflation in service and maintenance costs, as well as higher projected future capital costs which increased depletion charges.

Gross profit in the period was £4.0 million, up 21% when compared with the £3.3 million in H1 04.

Administrative costs rose to a total of £1.3 million (H1 2004:£1.1 million), largely as the Group's staff has been expanded to accommodate a dedicated team for Mauritania and a further growth of the new ventures and exploration teams. As noted above, the Perth office is to be closed in January 2006 and a one-off cost of approximately £1.1 million will be taken in the second half.

Profit on ordinary activities before taxation in the period was £3.3 million compared with £2.0 million in H1 04, up 65%. This reflects the higher net interest income of £0.6 million, arising principally on cash deposits backing the letter of credit for Mauritania (H1 2004: net expense £0.2 million).

The taxation charge of £0.9 million principally relates to the US production operations, with a tax rate charged of approximately 34%. Partly due to the level of capital expenditures incurred on drilling, workovers and similar we do not estimate any significant current tax to be payable in the period but have provided for the resultant deferred tax in full.

Net profit for the period was £2.4 million, up 83% over H1 2004 and 80% of the total for the year 2004. Fully diluted earnings per share rose 13% over H1 2004 to 0.17p.

Balance sheet

At the end of the period equity shareholder funds had increased to approximately £160 million (end H1 2004: £60 million). This increase principally reflects the c£97 million share placing in November 2004, as well as unrealised exchange gains and reported net profits.

Tangible fixed assets increased to 74% of the total fixed assets compared with 44% in H1 2004.

At the period end net current assets were £55 million (end H1 2004: £10 million). Unrestricted cash has, as expected, fallen to £13.9 million at 30 June 2005 from £20.2 million at the end of 2004, mainly due to hedging premiums/margin calls. Of this total cash, £10 million was held in US\$ in the US operations at the end of the first half.

Total draws under the \$130 million letter of credit for the Chinguetti development were \$41.6 million at the end of June 2005 and are currently \$42.2 million. An accrual has been made for the estimated past costs to be drawn as part of this facility, which is currently being reviewed together with GPC.

The bank loan of \$32.5 million outstanding at the end of the period is classified as long-term as it is not currently repayable until mid 2007, although it is subject to twice-yearly review. A review is currently in progress: the "ring-fence" of the revenues generated in the US remains in place, though the ability to remit excess funds elsewhere in the Group has increased in the period.

Cash flow up

The cash flow shows that £4.2 million was generated from the operations and investment returns in the period (H1 2004: £3.6 million).

Payments related to forward contracts and US margin deposits of £8.9 million are included in the movement of debtors. Investments in tangible fixed assets made in the period of £18.9 million reflect principally the activity on the Chinguetti development as well as on the US assets. Other exploration costs, including new ventures, absorbed £2.7 million.

Outlook

Sterling is well positioned for continued sustained growth in the second half and in 2006, building on the record results of the first half.

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_____ Ticker Symbol: SEY

Sterling Energy plc – Consolidated profit and loss
For the six months to 30 June 2005

	<u>Six months to</u> <u>30 June 2005</u>	<u>Six months to</u> <u>30 June 2004</u>	<u>Year ended</u> <u>31 December</u> <u>2004</u>
	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(audited)</u>
Turnover			
Existing operations	6,735	2,895	5,138
Acquisitions	-	2,443	6,319
	<u>6,735</u>	<u>5,338</u>	<u>11,457</u>
Cost of sales			
Existing operations	(2,734)	(1,327)	(2,354)
Acquisitions	-	(720)	(2,316)
	<u>(2,734)</u>	<u>(2,047)</u>	<u>(4,670)</u>
Gross profit			
Existing operations	4,001	1,568	2,784
Acquisitions	-	1,723	4,003
	<u>4,001</u>	<u>3,291</u>	<u>6,787</u>
Administrative expenses			
Amounts written off intangible fixed assets	-	(50)	(50)
Other:			
Existing operations	(1,319)	(658)	(1,346)
Acquisitions	-	(368)	(656)
	<u>(1,319)</u>	<u>(1,076)</u>	<u>(2,052)</u>
Operating profit			
Existing operations	2,682	860	1,388
Acquisitions	-	1,355	3,347
	<u>2,682</u>	<u>2,215</u>	<u>4,735</u>
Interest receivable & similar income	997	85	312
Interest payable & similar charges	(412)	(316)	(883)
Profit on ordinary activities before taxation	3,267	1,984	4,164
Taxation (Note 6)	(896)	(690)	(1,197)
Profit on ordinary activities after taxation	2,371	1,294	2,967
Minority interest	-	1	2
Profit for the financial period	<u>2,371</u>	<u>1,295</u>	<u>2,969</u>
Earnings per share: (Note 7)			
Basic	<u>0.17p</u>	<u>0.16p</u>	<u>0.34p</u>
Diluted	<u>0.17p</u>	<u>0.15p</u>	<u>0.33p</u>

Sterling Energy plc – Consolidated balance sheet
As at 30 June 2005

	<u>As at</u> <u>30 June 2005</u>	<u>As at</u> <u>30 June 2004</u>	<u>As at</u> <u>31 December</u> <u>2004</u>
	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(audited)</u>
Fixed assets			
Intangible assets	34,140	40,502	30,629
Tangible assets	98,483	32,468	51,754
	<u>132,623</u>	<u>72,970</u>	<u>82,383</u>
Current assets			
Debtors	21,438	4,130	2,968
Cash at bank and in hand	65,135	7,910	89,556
	86,573	12,040	92,524
Creditors: amounts falling due within one year	(32,049)	(2,122)	(3,762)
	<u>54,524</u>	<u>9,918</u>	<u>88,762</u>
Net current assets			
	<u>54,524</u>	<u>9,918</u>	<u>88,762</u>
Total assets less current liabilities	187,147	82,888	171,145
	<u>187,147</u>	<u>82,888</u>	<u>171,145</u>
Creditors: amounts falling due after one year	(18,131)	(15,104)	(15,014)
Provisions for liabilities and charges	(7,839)	(6,620)	(6,671)
	<u>161,177</u>	<u>61,164</u>	<u>149,460</u>
Net assets			
	<u>161,177</u>	<u>61,164</u>	<u>149,460</u>
Capital and reserves			
Called-up share capital	13,933	8,227	13,933
Share premium account	141,600	54,750	141,600
Currency translation reserve	1,075	(2,076)	(8,271)
Profit and loss account	3,537	(508)	1,166
	<u>160,145</u>	<u>60,393</u>	<u>148,428</u>
Equity shareholders' funds			
	<u>160,145</u>	<u>60,393</u>	<u>148,428</u>
Equity minority interest	1,032	771	1,032
	<u>161,177</u>	<u>61,164</u>	<u>149,460</u>
Total capital employed			
	<u>161,177</u>	<u>61,164</u>	<u>149,460</u>

**Sterling Energy plc - Consolidated statement of total recognised gains and losses
For the six months to 30 June 2005**

	<u>Six months to 30 June 2005</u>	<u>Six months to 30 June 2004</u>	<u>Year ended 31 December 2004</u>
	<u>£000's (unaudited)</u>	<u>£000's (unaudited)</u>	<u>£000's (audited)</u>
Profit for the financial period	2,371	1,295	2,969
Currency translation adjustments	9,346	(194)	(6,389)
Total recognised gains/(losses) relating to the period	<u>11,717</u>	<u>1,101</u>	<u>(3,420)</u>

**Reconciliation of movements in Group shareholders' funds
For the six months ended 30 June 2005**

	<u>Six months to 30 June 2005</u>	<u>Six months to 30 June 2004</u>	<u>Year ended 31 December 2004</u>
	<u>£000's (unaudited)</u>	<u>£000's (unaudited)</u>	<u>£000's (audited)</u>
Profit for the financial period	2,371	1,295	2,969
Other recognised losses for the period	9,346	(194)	(6,389)
Shares issued (net of expenses)	-	4,418	96,974
(Decrease) in shares to be issued	-	(1,716)	(1,716)
Total movement in the period	<u>11,717</u>	<u>3,803</u>	<u>91,838</u>
Shareholders' funds at start of period	148,428	56,590	56,590
Shareholders' funds at end of period	<u>160,145</u>	<u>60,393</u>	<u>148,428</u>

**Sterling Energy plc – Consolidated statement of recognised gains and losses
For the six months to 30 June 2005**

Consolidated cash flow statement (see note 8)

For the six months ended 30 June 2005

	<u>Six months to</u> <u>30 June 2005</u>	<u>Six months to</u> <u>30 June 2004</u>	<u>Year ended</u> <u>31 December</u> <u>2004</u>
	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(audited)</u>
Net cash inflow/(outflow) from operations	(11,794)	887	8,145
Returns on investments and servicing of finance	750	(98)	(290)
Capital expenditure	(21,634)	(21,502)	(16,109)
Acquisitions	-	-	(18,763)
Cash outflow before financing	(32,678)	(20,713)	(27,017)
Financing	25,887	13,987	34,818
(Decrease)/increase in cash	<u>(6,791)</u>	<u>(6,726)</u>	<u>7,801</u>

Sterling Energy plc – Notes to the interim financial information
For the six months to 30 June 2005

1. There being no distributable reserves, no interim dividend can be paid for the six months to 30 June 2005.
2. This statement does not comprise statutory accounts as defined in Section 240 of the Companies Act 1985. Statutory accounts for the year ended 31 December 2004, on which the auditors gave an unqualified report, have been filed with the Registrar of Companies.
3. The interim financial information as at and for the six months ended 30 June 2005 have been neither audited nor reviewed 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 2004.
5. The Directors of the Company approved the financial information included in this interim result document on 23 September 2005.

**Sterling Energy plc – Notes to the interim financial information
For the six months to 30 June 2005**

6. The Group tax charge comprises:

	<u>Six months to</u> <u>30 June 2005</u>	<u>Six months to</u> <u>30 June 2004</u>	<u>Year ended</u> <u>31 December</u> <u>2004</u>
	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(audited)</u>
Current tax	470	-	226
Deferred tax—origination and reversal of timing differences	426	690	971
	<hr/>	<hr/>	<hr/>
	896	690	1,197
	<hr/>	<hr/>	<hr/>

The difference between the current tax charge of £470,000 and the amount calculated by applying the applicable standard rate of tax is as follows:

Group profit on ordinary activities before tax

	3,268	1,984	4,164
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Tax on Group profit on ordinary activities at standard US corporation tax rate of 34% (year 2004: 34%)

	1,111	675	1,416
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Effects of:

Expenses not deductible for tax purposes

	58	83	87
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Income not assessable for tax purposes

	-	(217)	-
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Capital allowances (in excess of)/exceeded by depreciation

	(548)	(1,594)	(136)
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Other temporary differences

	-	-	(245)
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Difference in overseas tax rates

	(35)	-	33
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Adjustment for tax losses (see below)

	(116)	1,053	(929)
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Group current tax charge for the period

	470	-	226
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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.

7. Basic earnings per share is based on the profit on ordinary activities after taxation of £2,371,000 (first half 2004: profit for the period, £1,295,000; year 2004: profit for the year £2,969,000) and the weighted average number of 1,393,325,558 ordinary shares of 1p each in issue during the period (first half 2004: 815,864,161; year 2004: 884,788,687). For the six months to 30 June 2005, the fully diluted earnings per share was 0.17p per share. This is computed based on 1,423,154,346 ordinary shares, being the total used for the computation of the basic earnings per share as adjusted in assuming the exercise of 29,828,788 of the 69,225,000 options outstanding as at the end of June 2005.

**Sterling Energy plc – Notes to the interim financial information
For the six months to 30 June 2005**

8. Notes to the cash flow statement

a. Reconciliation of operating profit to net cash flow from operations

	<u>Six months to</u> <u>30 June 2005</u>	<u>Six months to</u> <u>30 June 2004</u>	<u>Year ended</u> <u>31 December</u> <u>2004</u>
	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(unaudited)</u>	<u>£000's</u> <u>(audited)</u>
Operating profit	2,682	2,215	4,735
Depletion and depreciation	1,554	1,337	3,057
Amounts written off intangible fixed assets	-	50	50
Increase in debtors	(18,471)	(3,058)	(1,455)
Increase in creditors	2,441	343	1,758
Net cash inflow/(outflow) from operations	<u>(11,794)</u>	<u>887</u>	<u>8,145</u>
Returns on investments and servicing of finance			
Interest received	997	85	309
Interest paid and exchange differences	(247)	(183)	(599)
	<u>750</u>	<u>(98)</u>	<u>(290)</u>
Capital expenditure			
Purchase of intangible fixed assets	(2,688)	(1,219)	(3,618)
Purchase of tangible fixed assets	(18,946)	(20,283)	(12,491)
	<u>(21,634)</u>	<u>(21,502)</u>	<u>(16,109)</u>
Acquisitions	<u>-</u>	<u>-</u>	<u>(18,763)</u>
Financing			
Issue of ordinary shares, net of expenses	-	-	92,557
Drawdown under bank loan facility	2,887	13,987	13,191
Movements on restricted accounts	23,000	-	(70,930)
Net cash inflow	<u>25,887</u>	<u>13,987</u>	<u>34,818</u>

b. Analysis and reconciliation of net funds

	<u>At 1 January</u> <u>2005</u>	<u>Cash flow</u>	<u>Exchange &</u> <u>Other</u> <u>Movement</u>	<u>At 30 June</u> <u>2005</u>
	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>	<u>£000's</u>
Cash at bank and in hand*	20,233	(6,791)	441	13,883
Debt due after 1 year	(14,233)	(2,887)	(1,011)	(18,131)
Debt due within 1 year	-	-	-	-
Net funds/(debt)	<u>6,000</u>	<u>(9,678)</u>	<u>(570)</u>	<u>(4,248)</u>

The cash balance at 30 June 2005 excludes £51,252,000 of restricted cash (end of 2004: £69,323,000)

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9. Following the end of the period, a Board decision to close the Perth office and transfer management of related assets to the United Kingdom was made known to the staff. Discussions have been held with local staff to either relocate to the United Kingdom or to advise on terms of severance. No provision has been made in the financial statements as at the balance sheet date no legal or constructive obligation then existed. The amount of the provision is currently estimated at approximately £1.1 million and will be included in the full year financial statements.
10. Further copies of this interim statement are available from the Company Secretary, Sterling Energy plc, Mardall House, 7-9 Vaughan Road, Harpenden, Hertfordshire, AL5 4HU, United Kingdom. Telephone +44 (0) 1582 462121, Fax +44 (0) 1582 461221, info@sterlingenergyuk.com

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Definitions:

bbls: barrels of oil

bcf: billion cubic feet of gas

bcfge: billions of cubic feet of gas equivalent

boe: barrels of oil equivalent

bopd: barrels of oil per day

mcf: thousand cubic feet of gas

mcfged: thousand cubic feet of gas equivalent per day

mmbbl: millions of barrels

mmcfgd: million cubic feet of gas per day

mmcfged: million cubic feet of gas equivalent per day

NRI: net revenue interest

tcf: trillion cubic feet of gas

WI: working interest