

**STERLING  
ENERGY**  
| PLC

**RESTATEMENT OF INTERIM REPORT**  
SIX MONTHS ENDED 30 JUNE 2006

# RESTATEMENT OF INTERIM REPORT

## BASIS AND DESCRIPTIONS OF ADJUSTMENTS

As set out in the 2006 Annual Report, the company has decided to adopt International Financial Reporting Standards ("IFRS") and the 2006 Annual Report has been prepared in accordance therewith. The 2006 Interim Report, was presented under UK Generally Accepted Accounting Practice ("UK GAAP") and in accordance with AIM rules, this document is provided to present information on the restatement of the Interim UK GAAP financial results to be in accordance with IFRS.

The significant accounting policies adopted by the group under IFRS are set out in the 2006 Annual Report. The group converted to IFRS using a transition date of 1 January 2005 and prepared an opening balance sheet under IFRS as at that date, which was set out in the 2006 Annual Report, and incorporated those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the principal adjustments made by the group in restating its previously published UK GAAP financial statements for the six months ended 30 June 2005 and 30 June 2006.

In the 2006 Annual Report, Sterling also reported its financial results in US dollars for the first time. This document therefore also shows the restatement to US dollars of amounts previously presented in the interim reports in pounds sterling. The exchange rates substantively used for this purpose are:

	<b>2006</b>	<b>2005</b>
	\$	\$
Income Statement	1.7900	1.8512
Balance Sheet	1.8494	1.7925

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## Exemptions applied

IFRS 1 allows exemptions from the application of certain IFRS requirements to assist companies with the transition process. Accordingly the group has applied the following choices in respect of the optional exemptions from full retrospective application, as set out in IFRS 1.

### a) Business combinations exemption

The group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2005 transition date.

### b) Cumulative translation differences exemption

The group has elected to set the cumulative translation differences to zero at 1 January 2005. This exemption has been applied to all subsidiaries in accordance with IFRS 1.

### c) Share based payment transaction exemption

The company has elected not to apply the exemption to *IFRS 2 "Share Based Payments"* to equity instruments granted on or before 7 November 2002, and accordingly IFRS 2 has been applied to all such awards.

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## Main adjustments

In adopting IFRS, the main adjustments to the group's UK GAAP financial statements as translated into US dollars and reclassified to conform to IFRS financial statement formats can be explained as follows.

### 1. IFRS 2 – Share-Based Payments

The company operates a share option scheme for directors and staff of the group. Under previous UK GAAP no adjustment was made to the financial statements when options were granted as such options are granted at market value; adjustments were made to the financial statements only when the options were exercised.

FRS 20 was introduced into UK GAAP for accounting periods commencing on or after 1 January 2006. Consequently, Sterling applied FRS 20 in its 2006 Interim Report and restated its 2005 comparatives. FRS 20 requires such share-based payments to be fair valued at grant date using an option pricing model and charged through the income statement over the vesting period of the relevant awards and, in all material respects, is consistent with the requirements of IFRS 2. There are, therefore, no GAAP differences to be reported in this restatement.

### 2. IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRS 6 requires that all pre-licence costs, incurred before the group has obtained the legal rights to explore a specific area, are written off in the year that they are incurred. On transition to IFRS all such capitalised costs existing at 1 January 2005 were written off (net of related deferred tax) to retained earnings.

### 3. IAS 16 Property, Plant and Equipment and IAS 36 Impairment of Assets

The group applied the 'full cost' accounting policy under UK GAAP under which costs were carried in cost pools which may have included a number of individual fields and depreciated on a unit of production basis by reference to that cost pool. Under IFRS, the group still applies the full cost methodology to exploration and evaluation ("E&E") assets and the unit of production method for depreciating costs, but IAS 16 requires that proved properties are depleted on an individual property basis and not by reference to the cost pools.

IAS 36 further requires that impairment tests of proved properties are performed on an individual asset basis and not on a cost pool basis.

### 4. IAS 38 Intangible Assets

Under UK GAAP the group's over-riding royalty interests were accounted for as part of the group's tangible and intangible oil and gas interests. IFRS 6 and IAS 36 do not permit this treatment. The group has therefore determined to account for these interests in accordance with IAS 38, recognising amortisation of the individual carrying values of such interests on a unit of production basis when the related field comes into production and applying an impairment test to the individual carrying values of such individual assets when necessary.

On transition to IFRS, adjustments have been recorded to write off intangible royalty assets associated with unsuccessful prospects which were previously covered within the UK GAAP full cost pool, and to recognise related deferred tax effects.

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## Main adjustments (continued)

### 5. IAS 39 Financial Instruments: Recognition and Measurement

Under IAS 39 the group is required to “mark to market” its derivatives and certain other financial assets and liabilities to recognise them at fair value.

- a) On transition to IFRS, an adjustment has been made to recognise the fair values of the hedges and the liability in respect of the 2003 production royalty bonus scheme in the balance sheet and recognise the movement in fair value in the income statement.
- b) On transition to IFRS, adjustments have been made to recognise the fair value of the “available for sale” investment in Forum Energy plc by means of an adjustment to equity in each year.

### 6. IAS 12 Income Taxes

Under IAS 12, the group is required to calculate deferred tax on fair value adjustments that arise as a result of a business combination. On transition to IFRS, an adjustment has been made to recognise the deferred tax liability associated with such adjustments, with any subsequent movement in the ongoing deferred tax liability being recorded as an adjustment to the income statement.

### Reconciliations

The following reconciliations provide details of the impact of Sterling’s transition to IFRS on:

- Income statement for the six months ended 30 June 2005;
- Equity and net assets as 30 June 2005;
- Income statement for the six months ended 30 June 2006;
- Equity and net assets as 30 June 2006.

# RESTATEMENT OF INTERIM REPORT

## RECONCILIATION OF INCOME STATEMENT FOR SIX MONTHS ENDED 30 JUNE 2005

	UK GAAP £'000	UK GAAP US\$'000	IFRS Note	Effect of transition to IFRS US\$'000	IFRS US\$'000
<b>Revenue</b>	6,735	12,468		–	12,468
Cost of sales	(2,734)	(5,061)	3	419	(4,642)
<b>Gross profit</b>	4,001	7,407		419	7,826
Administrative expenses	(1,800)	(3,333)		–	(3,333)
Pre-licence exploration costs	–	–	2	(1,332)	(1,332)
<b>Operating profit</b>	2,201	4,074		(913)	3,161
Interest revenue and finance gains	997	1,846		–	1,846
Loss on hedging instruments	–	–	5	(19,951)	(19,951)
Finance costs	(412)	(763)		–	(763)
<b>Profit/(Loss) before tax</b>	2,786	5,157		(20,864)	(15,707)
Tax	(896)	(1,659)	3, 6	6,584	4,925
<b>Profit/(loss) attributable to equity holders of parent company</b>	1,890	3,498		(14,280)	(10,782)
	<b>p</b>	<b>USc</b>			<b>USc</b>
Earnings/(Loss) per share – basic	0.14	0.25			(0.77)
Earnings/(Loss) per share – diluted	0.13	0.25			(0.77)

# RESTATEMENT OF INTERIM REPORT

## RECONCILIATION OF EQUITY AND NET ASSETS

AS AT 30 JUNE 2005

	UK GAAP £'000	UK GAAP US\$'000	IFRS Note	Effect of transition to IFRS US\$'000	IFRS US\$'000
<b>Non-current assets</b>					
Intangible royalty assets	24,287	43,535	4	(1,000)	42,535
Intangible exploration and evaluation assets	16,049	28,800	2	(1,748)	27,052
Property, plant and equipment	92,287	165,424	3	371	165,795
	132,623	237,759		(2,377)	235,382
<b>Current assets</b>					
Trade and other receivables	21,438	38,426	5	(16,020)	22,406
Cash and cash equivalents	65,135	116,748		–	116,748
	86,573	155,174		(16,020)	139,154
<b>Total assets</b>	219,196	392,933		(18,397)	374,536
<b>Current liabilities</b>					
Trade and other payables	(31,213)	(55,894)		–	(55,894)
Derivative financial instruments	–	–	5	(4,175)	(4,175)
Current tax liabilities	(836)	(1,547)		–	(1,547)
	(32,049)	(57,441)		(4,175)	(61,616)
<b>Non-current liabilities</b>					
Long-term debt	(18,131)	(32,500)		–	(32,500)
Deferred tax liabilities	(1,713)	(3,071)	3,6	(8,765)	(11,836)
Long-term provisions	(6,126)	(10,980)	5	(3,300)	(14,280)
	(25,970)	(46,551)		(12,065)	(58,616)
<b>Total liabilities</b>	(58,019)	(103,992)		(16,240)	(120,232)
<b>Net assets</b>	161,177	288,941		(34,637)	254,304
<b>Equity</b>					
Share capital	13,933	26,751		–	26,751
Share premium account	141,600	271,859		–	271,859
Share option reserve	1,913	3,429		–	3,429
Currency translation reserve	1,075	(1,592)		–	(1,592)
Retained earnings	1,624	(13,487)		(34,637)	(48,124)
<b>Equity attributable to equity holders of the parent</b>	160,145	286,960		(34,637)	252,323
Minority interest	1,032	1,981		–	1,981
<b>Total equity</b>	161,177	288,941		(34,637)	254,304

# RESTATEMENT OF INTERIM REPORT

## ANALYSIS OF THE EFFECT OF TRANSITION TO IFRS

ON PROFIT AND NET ASSETS FOR THE PERIOD TO 30 JUNE 2005

	IFRS Note	Effect on profit US\$'000	Effect on net assets US\$'000
IFRS 6 Pre-licence costs	2	(1,332)	(1,748)
IAS 16 Depletion and impairment of oil and gas assets	3	277	245
IAS 38 Accounting for royalty interests	4	–	(1,000)
IAS 39 Oil and gas price hedges	5	(19,951)	(20,195)
IAS 39 2003 Production royalty bonus scheme	5	–	(3,300)
IAS 12 Income taxes	6	6,726	(8,639)
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Reduction in profit/net assets		(14,280)	(34,637)
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# RESTATEMENT OF INTERIM REPORT

## RECONCILIATION OF INCOME STATEMENT FOR SIX MONTHS ENDED 30 JUNE 2006

	UK GAAP £'000	UK GAAP US\$'000	IFRS Note	Effect of transition to IFRS US\$'000	IFRS US\$'000
<b>Revenue</b>	24,471	43,803	5	1,526	45,329
Cost of sales	(14,434)	(25,837)	3	(51)	(25,888)
<b>Gross profit</b>	10,037	17,966		1,475	19,441
Administrative expenses	(2,680)	(4,797)		–	(4,797)
Impairment provision	–	–	4	(1,000)	(1,000)
Pre-licence exploration costs	–	–	2	(10)	(10)
<b>Operating profit</b>	7,357	13,169		465	13,634
Interest revenue and finance gains	773	1,384		–	1,384
Loss on hedging instruments	–	–	5	(2,894)	(2,894)
Finance costs	(903)	(1,616)		–	(1,616)
<b>Profit before tax</b>	7,227	12,937		(2,429)	10,508
Tax	(2,354)	(4,214)	3, 6	1,932	(2,282)
<b>Profit/(loss) attributable to equity holders of parent company</b>	4,873	8,723		(497)	8,226
	<b>p</b>	<b>USc</b>			<b>USc</b>
Earnings/(Loss) per share – basic	0.35	0.62			0.59
Earnings/(Loss) per share – diluted	0.34	0.61			0.57

# RESTATEMENT OF INTERIM REPORT

## RECONCILIATION OF EQUITY AND NET ASSETS

AS AT 30 JUNE 2006

	UK GAAP £'000	UK GAAP US\$'000	IFRS Note	Effect of transition to IFRS US\$'000	IFRS US\$'000
<b>Non-current assets</b>					
Intangible royalty assets	24,513	45,335	4	(5,125)	40,210
Intangible exploration and evaluation assets	15,572	28,799	2	(1,792)	27,007
Property, plant and equipment	104,506	193,274	3	310	193,584
Investments	694	1,283	5	3,113	4,396
	<u>145,285</u>	<u>268,691</u>		<u>(3,494)</u>	<u>265,197</u>
<b>Current assets</b>					
Inventories	1,246	2,304		–	2,304
Trade and other receivables	19,537	38,197	5	(14,494)	23,703
Cash and cash equivalents	36,669	67,816		–	67,816
	<u>57,452</u>	<u>108,317</u>		<u>(14,494)</u>	<u>93,823</u>
<b>Total assets</b>	<u>202,737</u>	<u>377,008</u>		<u>(17,988)</u>	<u>359,020</u>
<b>Current liabilities:</b>					
Trade and other payables	(13,189)	(24,386)		–	(24,386)
Derivative financial instruments	–	–	5	(7,847)	(7,847)
Current tax liabilities	(1,839)	(3,292)		–	(3,292)
	<u>(15,028)</u>	<u>(27,678)</u>		<u>(7,847)</u>	<u>(35,525)</u>
<b>Non-current liabilities</b>					
Long-term debt	(10,187)	(18,840)		–	(18,840)
Deferred tax liabilities	(2,714)	(5,019)	3,6	(5,661)	(10,680)
Long-term provisions	(11,840)	(21,897)	5	(3,300)	(25,197)
	<u>(24,741)</u>	<u>(45,756)</u>		<u>(8,961)</u>	<u>(54,717)</u>
<b>Total liabilities</b>	<u>(39,769)</u>	<u>(73,434)</u>		<u>(16,808)</u>	<u>(90,242)</u>
<b>Net assets</b>	<u>162,968</u>	<u>303,574</u>		<u>(34,796)</u>	<u>268,778</u>
<b>Equity</b>					
Share capital	14,019	26,899		–	26,899
Share premium account	142,590	273,560		–	273,560
Share option reserve	2,879	5,468		–	5,468
Investment revaluation reserve	–	–		3,113	3,113
Currency translation reserve	(4,306)	(1,084)		–	(1,084)
Retained earnings	6,723	(3,250)		(37,909)	(41,159)
	<u>161,905</u>	<u>301,593</u>		<u>(34,796)</u>	<u>266,797</u>
<b>Equity attributable to equity holders of the parent</b>	<u>161,905</u>	<u>301,593</u>		<u>(34,796)</u>	<u>266,797</u>
Minority interest	1,063	1,981		–	1,981
<b>Total equity</b>	<u>162,968</u>	<u>303,574</u>		<u>(34,796)</u>	<u>268,778</u>

# RESTATEMENT OF INTERIM REPORT

## ANALYSIS OF THE EFFECT OF TRANSITION TO IFRS ON PROFIT AND NET ASSETS TO 30 JUNE 2006

	IFRS Note	Effect on profit US\$'000	Effect on net assets US\$'000
IFRS 6 Pre-licence costs	2	(10)	(1,792)
IAS 16 Depletion and impairment of oil and gas assets	3	(33)	205
IAS 38 Accounting for royalty interests	4	(1,000)	(5,125)
IAS 39 Oil and gas price hedges	5	(1,368)	(22,341)
IAS 39 Accounting for 'Available-for-sale financial assets'	5	–	3,113
IAS 39 2003 Production royalty bonus scheme	5	–	(3,300)
IAS 12 Income taxes	6	1,914	(5,556)
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Reduction in profit/net assets		(497)	(34,796)
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**UK – UNTIL JULY 13 2007**

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