

STERLING
ENERGY
PLC

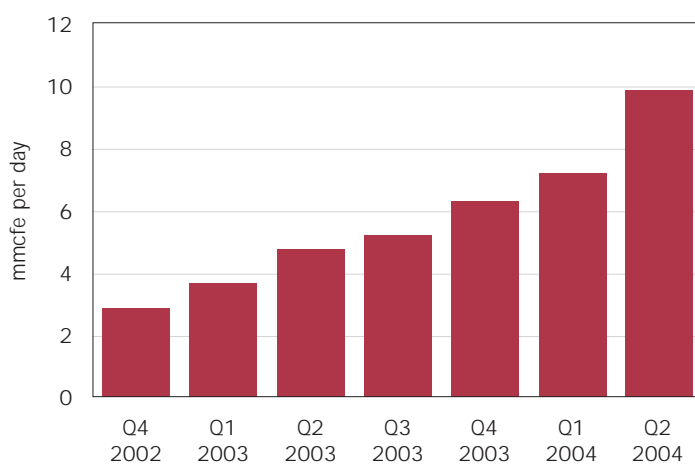
Interim Report

Experience in Depth

2004

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QUARTERLY PRODUCTION



DEFINITIONS

bbls	barrels of oil
bcf	billion cubic feet of gas
bcfge	billions of cubic feet 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
mmcfd	million cubic feet of gas per day
mmcfdged	millions of cubic feet of gas equivalent per day
tcf	trillion cubic feet of gas

ADVISERS

Brokers and financial advisers

Evolution Securities

Main bankers

Barclays, Bank of Scotland, Hibernia National Bank

Auditors

Deloitte & Touche LLP, London

Legal advisers

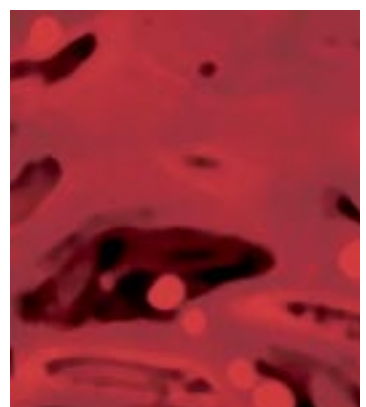
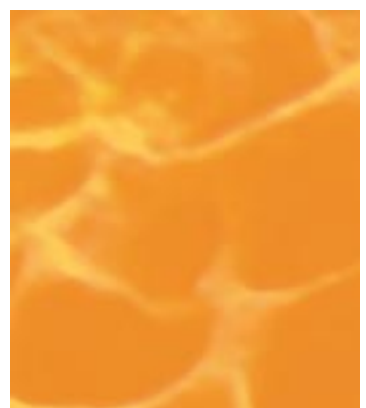
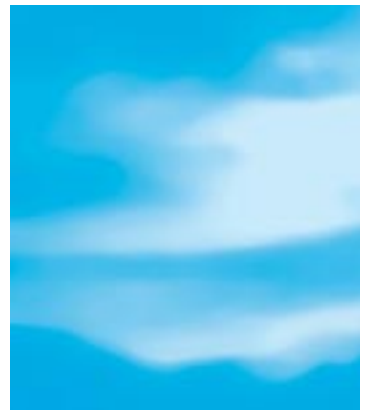
Ashurst

Registrars

Capita Registrars

HIGHLIGHTS

- Osprey acquisition helped double turnover to £5.34 million and increase pre tax profit by 78% to £1.98 million for the six months ended 30 June 2004.
- Daily production more than doubled to 8.6mmcfgd over the period and US reserves also increased more than 150% to 60 bcfge at 30 June 2004.
- Realised average gas price remained "high" at \$5.76/mcf over the period with a further \$13million of forward sales to April 2005 locked in at \$5.91/mcf.
- Chinguetti Field in Mauritania declared commercial - development plan approved.
- Two new exploration licences secured in Madagascar.
- West Africa and Gulf of Mexico drilling programmes commenced with over 20 wells planned over the next year, most of which are "carried" in Africa.



CHAIRMAN'S REPORT

I am pleased to report significant progress during 2004 which bodes well for the future of Sterling. The first half of the year has also been a period of significant consolidation for the Company following the acquisitions of Fusion and the Osprey assets.

I am delighted to say that the management teams have integrated well and work on all the assets is proceeding smoothly - this is no small achievement when one considers the impressive pace of growth that has been maintained. I am also happy to announce that Alan Levison, who has considerable high-level experience in the energy sector and in African affairs, has agreed to join the Board as an independent non-executive director.

Financial progress has been strong, with a gross profit of £3.29 million for the six months to 30 June 2004, almost double that for the corresponding period in 2003 of £1.71 million. This mainly reflects the inclusion of production from the Osprey fields for the first time from the end of February 2004 and the continued strong gas prices, which averaged \$5.76/mcf for the first half of the year. Average production in the period was 8.6 mmcfged (first half 2003; 4.2 mmcfged) resulting in turnover of £5.34 million.

“Financial progress has also been strong, with a gross profit of £3.29 million for the six months to 30 June 2004”

OUTLOOK

Sterling has just entered its most active drilling period to date, which will see the company participate in over 20 wells in Africa and the Gulf of Mexico over the next year.

The majority of the African wells are in Mauritania where our costs are fully carried. We have recently demonstrated our conviction in the prospectivity of the Ntem Cameroon license by committing to drill a well – we look forward to a high impact well on this block in the second half of 2005.



Richard O'Toole
Chairman

Although smaller than the African upside potential, the Gulf of Mexico drilling programme is expected to add incremental production and cashflow at lower risk. We continue to believe that balancing this risk and reward is key to the future success of Sterling.

Oil & gas prices have been high for some time now and it is tempting to believe that we will stay in this new price environment at least for the next few years. Our view is more cautious and consequently we are focusing on extracting maximum value from our existing assets through organic growth (drilling) rather than looking at new production acquisitions, which may become cheaper in the not too distant future. Of course there are always exceptions and we are constantly on the lookout for value adding deals. Meanwhile, we will continue to grow our production in the Gulf of Mexico and look for success in our Africa drilling. The next 18 months promise to be extremely exciting for Sterling.

Richard O'Toole
Chairman

29 September 2004

“We will continue to grow our production in the Gulf of Mexico and look for success in our Africa drilling. The next 18 months promise to be extremely exciting for Sterling”

OPERATIONS REPORT

Following the takeover of Fusion there has been a focus on consolidation. We were pleased to retain the services of the key personnel in the Perth office and have further strengthened the team, which will continue to handle our existing assets in Africa.

“The Chinguetti development programme has now commenced and first oil is expected in early 2006”

Our only active drilling within the period was the Sinapa 2 well, drilled by Premier Oil in offshore Guinea Bissau, which proved successful. Sterling has therefore exercised its option to participate at 5% in this project paying only its share of future costs. The well discovered light oil in sands of Albian age, located on the flanks of a large salt diapir. Additional work will be required before we know if there is a commercial development, but there are a number of similar features in this very under-explored area.

Sterling retains a 5% option to participate in the neighbouring Esperanca permit, which will only trigger once Premier has drilled the first well on that permit. In all, the two permits cover 5,840 km².

MAURITANIA

In Mauritania the highlight has been the Declaration of Commerciality and development approval for the Chinguetti field. The development programme has now commenced and first oil is expected in early 2006 at 75,000 bopd. Sterling's interest is held through the deal agreed with Premier by Fusion in 2003, whereby Premier will pay a sliding scale royalty on every barrel produced under Fusion's original 6% working interest in PSC B (containing Chinguetti and Tiof discoveries) and 3% working interest in PSC A.



Meanwhile a significant programme of exploration is planned on both PSC A and B, which will see at least 9 exploration and appraisal wells drilled in the coming months. Of immediate interest will be the Capitaine, Merou and Tevet wells, all in PSC B, which will be drilled to test Miocene objectives directly analogous to the existing discoveries. Sterling stands to receive from Premier a bonus of US\$2 million in PSC B, \$1 million in PSC A, for each further discovery of greater than 50 million barrels.

Also of note was Hardman's sale of an interest (13.08% in PSC A, 11.63% in PSC B) to BG Group for US\$132 million signalling interest in the development of what Sterling expects to be significant gas reserves offshore Mauritania. We expect the initial activity will focus on the Banda discovery which overlaps PSC's A and B, and which Sterling assess to have in excess of 2 tcf of gas in place.

AGC

In the AGC (joint zone between Senegal/Guinea Bissau), where Sterling participates in three exploration licenses, our focus has been on our operated Croix du Sud (88% interest) permit in deep water. New processing of the 2003 3D seismic data is showing significant improvement in data quality, and in prospectivity. Discussions are ongoing with a number of companies interested in joining us in a drilling programme for 2005/6.

In the neighbouring Cheval Marin permit in the AGC, where we hold a 10% interest, ExxonMobil has bought a 37% stake from ENI (Agip) and we expect a well to be drilled on this acreage in 2005.

In the Dome Flore permit (85%), which covers the entire shallow water area of the AGC, and includes the heavy oil deposits of Dome Flore and Dome Gea, Sterling has been very encouraged by the discovery of light oil in Sinapa 2, which has proven the play that Sterling is targeting here – lighter oil trapped around the flanks of the salt diapirs.

OPERATIONS REPORT

CAMEROON

Sterling has now entered the next phase of our deep water Ntem license (100% interest) and will be drilling a well in 2005/6. As in the Croix du Sud area, we have been successful in reprocessing the 2003 3D seismic to give much greater resolution and confidence in the prospects that have been mapped. There is very significant interest from a number of companies with the capacity to drill and develop in these water depths, and we hope to be able to announce a farmout deal in due course.

GABON

The Iris and Themis 3D surveys have concentrated on untangling the complex geology of the area and the work is therefore slightly behind schedule. Well locations have been defined and Sterling should be drilling in the first half of 2005.

MADAGASCAR

New Ventures activity has been high and culminated in the award in July of a 100 per cent interest in two new licenses in Madagascar covering some 34,000 km² of undrilled basin. Detailed geological review work will now commence on the Ambilobe and the Ampasindava blocks followed by seismic acquisition in 2005/6. Following this, Sterling has the option to extend each license by drilling an exploration well. The total license term in each case is 8 years. In the event of a commercial discovery, a 25 year production license will be granted.

“100 per cent interest
in two new licenses
in Madagascar”

These are very large unexplored areas in which all the necessary components for petroleum reserves are already established. Madagascar has been neglected mainly due to past concerns about the economic climate rather than fundamental exploration potential. The recent farm-in of ExxonMobil and Norsk Hydro to the Vanco block immediately to the southwest signals a significant change in the industry view of Madagascar.

PHILIPPINES

On our GSEC 101 (Reed Bank) project we have completed engineering studies and seismic reprocessing and are in discussion with several parties interested in joining us to acquire 3D seismic over the Sampaguita gas discovery and adjacent areas. This activity is planned for the first half of 2005, subject to the availability of suitable seismic vessels.



USA

In the USA the focus in the first half of 2004 has been on building a team of high quality experienced industry personnel and on delivering the \$39.5m Osprey production deal and its related bank finance.

Our US proven and probable reserves increased to more than 60 bcfge at mid-year from 23.3 bcfge at the end of 2003, based on a full evaluation carried out by independent consulting engineers. This increase reflects not only the Osprey purchase but also an overall increase in reserves in other fields. At current production rates these reserves are roughly equivalent to over 15 years of production.

The Osprey deal, completed in late February, brought with it Sterling's first operatorship, of the five fields, related pipelines and other infrastructure. The purchase more than doubled reserves, adding more than 30 bcfge in the proven and probable categories. It has also more than doubled production, which in the first six months of 2004 averaged 8.6 mmcfged. Recent production sales have been around 10.5 mmcfged.

With the staffing now up to its complement, Sterling has recently taken-over operatorship of all but two of its producing interests, thereby allowing it to better control the pace of any development work. The change to becoming operator is time consuming and highly regulatory but this transition has now largely been completed. A great deal of assessment work is well underway of the prospectivity and optimum development plans for these interests, in addition to the important matters of day-to-day operations.



We have recently operated our first two capital projects at a net cost of c\$0.9 million. Sterling's A-5 sidetrack on High Island A-68 targeted remaining attic reserves, but encountered non-commercial quantities.

A successful workover on High Island 52 -3 has stable production on a restricted choke. Detailed preparations are underway for drilling further wells and workovers by the end of this year and through next, with the aim still being to once again more than double the US production.

“US reserves increased to more than 60 bcfge”

FINANCIAL STATEMENT

The six months to 30 June 2004 ("the period") have seen a sustained improvement in production levels and revenues over prior year levels, as well as a further increase in profitability. Profit on ordinary activities before taxation in the period of £1.98 million exceeded the £1.81 million for the whole of 2003.

PROFIT & LOSS

Turnover double, prices strong: In the period, turnover increased to £5.3 million, double the level in the first half of 2003 and equivalent to 96% of the entire turnover for the 2003 year. This reflected an average production level in the period of 8.6mmcfge/d, more than double that of the first half of 2003 ("H1 03") and more than 60% up on the second half of 2003. Over 95% of production for the period and the whole of calendar 2003 ("year 2003") was gas. Realised prices continued to firm, with an average of \$5.76/mcf in the period, roughly 4% up on the year 2003. Sterling has continued to hedge part of its near-term production and at mid-year had hedged forward to April 2005 a total of 2.2 bcf at an average price of \$5.91/mcf.

Osprey deal has major impact: Approximately 46% of the period's production related to the \$39.5 million Osprey production purchase completed at the end of February 2004, shown on the profit & loss statement as "acquisitions" in the gross profit computations. This purchase more than doubled production levels, which have, since the end of the period, averaged some 10.5 mmcfge. It also brought with it a further 30+bcfge of proven and probable reserves.

Cost of sales in the period averaged \$2.27/mcfge (\$1.89/mcfge in H1 03 and \$2.10/mcfge for year 2003). The lower production costs of \$0.77/mcfge and increased depletion charge of \$1.40/mcfge largely reflect the impact of the Osprey purchase.

Gross profit almost doubled: After reflecting the impact of the stronger pound against the US dollar the gross profit was over £2.1/mcfge, up approximately 8% over the year 2003. Gross profit in the period was £3.3 million, almost doubled when compared with the £1.7 million in H1 03 and greater than the £3.19 million recorded for the whole of year 2003.

Administrative costs rose to a total of £1.08 million (year 2003 £1.48 million). This increase mainly reflects the increase in the operations team in the Houston office and the first-time impact of the Perth team acquired with the acquisition of Fusion Oil & Gas plc in December 2003. Included in costs in the first half was approximately £0.15 million for reorganisation costs associated with the Fusion deal.

Operating profit of £2.2m exceeds the total for the whole of 2003: Operating profit for the period was £2.2 million, double that of H1 03 of £1.1 million and greater than the whole of the year 2003 of £1.7 million. The impact of the \$25 million borrowed to help fund the Osprey deal was reflected in the higher interest payable and similar charges of approximately £0.3 million. The current interest rate on this loan is 4.75%. Profit on ordinary activities before taxation was £1.98 million compared with £1.1 million in H1 03.

The taxation charge of £0.69 million principally relates to the US production operations, with a tax rate charged of approximately 34%. Due to the level of capital expenditures on drilling and similar costs, as well as depletion, we do not estimate any significant current tax to be payable in the period. We have, however, provided for the resultant deferred tax in full.

Earnings per share lower at 0.15p: Profit for the period was £1.3 million and earnings per share 0.15p on a diluted basis. The lower earnings per share largely reflects the impact of the Fusion purchase, completed in April 2004, increasing the issued share capital to its current 822.6 million, together with its related funding. The assets acquired are a mixture of exploration, appraisal and development and so are not currently generating profits.

BALANCE SHEET

Shareholder funds £60.4 million: At the end of the period the equity shareholder funds had increased to £60.4 million. Following completion of the Fusion transaction a further approximately 42 million shares have been issued in the period. The equity minority interest in certain former subsidiaries has now largely been eliminated following completion of the disposal of the remaining shares in a subsidiary during the period, with a corresponding reduction in intangible fixed assets.

Net current assets £9.9 million: At the period end net current assets were £9.9 million (end 2003: £10.4 million). Unrestricted cash has fallen to £6.6 million at 30 June 2004 from £13.6 million at the end of 2003, largely due to the c\$15 million invested in the Osprey production purchase.

Bank loan: The bank loan of \$27.3 million outstanding at the end of the period is classified as long-term as it is not currently repayable until mid 2006. This is subject to a twice yearly review of the borrowing base, with one such review currently in progress which will help to determine how best to finance the US drilling programme. This includes a third party engineering review, and is expected to be completed in October 2004. There currently remains a "ring-fence" of the revenues generated in the US to use in the US operations, including this secured bank loan.

The increase in provisions to £6.6 million largely reflects the impact of providing for estimated future abandonment costs related to the Osprey deal.

CASH FLOW UP

The cash flow shows that over £3.5 million was generated from the operations in the period, before an increase in the debtors/creditors net balance of £2.7 million. This increase partly reflected the increase in working capital for the Osprey assets, the impact of taking over certain field operatorships in the US, as well as payments for production which were due in late June but not received until July.

Investment in tangible fixed assets made in the period of £20.3 million reflects mainly the Osprey purchase, net of revenues from the effective date of purchase up to the date of completion. The increase in long term loans of £14.0 million was that part of this purchase that was financed with an increased bank loan. The £1.2 million spent on intangible fixed assets related to the cost of work carried out mainly on the African licences, including related overhead costs.

The first half has been a period of huge change in the operations of the Sterling group, as is well exhibited in the attached unaudited financial statements and in the substantial increase in the volume and value of trading in its shares.

FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS FOR THE SIX MONTHS TO 30 JUNE 2004

	Six months to 30 June 2004 £000's (unaudited)	Six months to 30 June 2003 £000's (unaudited)	Year ended 31 December 2003 £000's (audited)
TURNOVER			
Existing operations	2,895	2,591	5,253
Acquisitions	2,443	-	280
	5,338	2,591	5,533
COST OF SALES			
Existing operations	(1,327)	(879)	(2,210)
Acquisitions	(720)	-	(138)
	(2,047)	(879)	(2,348)
GROSS PROFIT			
Existing operations	1,568	1,712	3,043
Acquisitions	1,723	-	142
	3,291	1,712	3,185
ADMINISTRATIVE EXPENSES			
Amounts written off intangible fixed assets	(50)	-	-
Other:			
Existing operations	(658)	(602)	(1,455)
Acquisitions	(368)	-	(26)
	(1,076)	(602)	(1,481)
OPERATING PROFIT			
Existing operations	860	1,110	1,588
Acquisitions	1,355	-	116
	2,215	1,110	1,704
Interest receivable and similar income	85	81	219
Interest payable and similar charges	(316)	(79)	(114)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,984	1,112	1,809
Taxation (Note 6)	(690)	(125)	(228)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	1,294	987	1,581
Minority interest	1	-	5
PROFIT FOR THE FINANCIAL PERIOD	1,295	987	1,586
EARNINGS PER SHARE: (Note 7)			
Basic	0.16p	0.27p	0.38p
Diluted	0.15p	0.24p	0.33p

**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2004**

	As at 30 June 2004 £000's (unaudited)	As at 30 June 2003 £000's (unaudited)	As at 31 December 2003 £000's (audited)
FIXED ASSETS			
Intangible assets	40,502	6,444	49,957
Tangible assets	32,468	6,058	10,433
	72,970	12,502	60,390
CURRENT ASSETS			
Debtors	4,130	1,839	1,512
Cash at bank and in hand	7,910	6,595	14,485
	12,040	8,434	15,997
CREDITORS: amounts falling due within one year	(2,122)	(2,070)	(5,600)
NET CURRENT ASSETS	9,918	6,364	10,397
TOTAL ASSETS LESS CURRENT LIABILITIES	82,888	18,866	70,787
CREDITORS: amounts falling due after one year (Note 9)	(15,104)	-	-
PROVISIONS FOR LIABILITIES AND CHARGES	(6,620)	(1,945)	(2,626)
NET ASSETS	61,164	16,921	68,161
CAPITAL AND RESERVES			
Called-up share capital	8,227	3,784	7,806
Shares to be issued	-	1,600	1,716
Share premium account	54,750	14,516	50,753
Currency translation reserve	(2,076)	(577)	(1,882)
Profit and loss account	(508)	(2,402)	(1,803)
EQUITY SHAREHOLDERS' FUNDS	60,393	16,921	56,590
Equity minority interest	771	-	11,571
TOTAL CAPITAL EMPLOYED	61,164	16,921	68,161

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE SIX MONTHS TO 30 JUNE 2004

	Six months to 30 June 2004	Six months to 30 June 2003	Year ended 31 December 2003
	£000's (unaudited)	£000's (unaudited)	£000's (audited)
Profit for the financial period	1,295	987	1,586
Currency translation adjustments	(194)	(404)	(1,709)
Total recognised gains/(losses) relating to the period	1,101	583	(123)

RECONCILIATION OF MOVEMENTS IN GROUP SHAREHOLDERS' FUNDS

FOR THE SIX MONTHS TO 30 JUNE 2004

	Six months to 30 June 2004	Six months to 30 June 2003	Year ended 31 December 2003
	£000's (unaudited)	£000's (unaudited)	£000's (audited)
Profit for the financial period	1,295	987	1,586
Other recognised losses for the period	(194)	(404)	(1,709)
Shares issued (net of expenses)	4,418	1,428	41,687
(Decrease)/increase in shares to be issued	(1,716)	-	116
Total movement in the period	3,803	2,011	41,680
Shareholders' funds at start of period	56,590	14,910	14,910
Shareholders' funds at end of period	60,393	16,921	56,590

CONSOLIDATED CASH FLOW STATEMENT (SEE NOTE 8)

FOR THE SIX MONTHS ENDED 30 JUNE 2004

	Six months to 30 June 2004	Six months to 30 June 2003	Year ended 31 December 2003
	£000's (unaudited)	£000's (unaudited)	£000's (audited)
Net cash inflow from operations	887	499	3,340
Returns on investments and servicing of finance	(98)	61	168
Capital expenditure	(21,502)	(2,544)	(5,660)
Acquisitions	-	-	(690)
Cash outflow before financing	(20,713)	(1,984)	(2,842)
Financing	13,987	1,428	10,925
(Decrease)/increase in cash	(6,726)	(556)	8,083

NOTES TO THE INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS TO 30 JUNE 2004

1. There being no distributable reserves, no interim dividend can be paid for the six months to 30 June 2004.
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 2003, 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 2004 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 2003.
5. The Directors of the Company approved the financial information included in this interim result document on 29 September 2004.
6. The Group tax charge comprises:

	Six months to 30 June 2004 £000's (unaudited)	Six months to 30 June 2003 £000's (unaudited)	Year ended 31 December 2003 £000's (audited)
Current tax	-	125	-
Deferred tax-origination and reversal of timing differences	690	-	228
	690	125	228

FINANCIAL STATEMENTS

NOTES TO THE INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS TO 30 JUNE 2004

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

	Six months to 30 June 2004 £000's (unaudited)	Six months to 30 June 2003 £000's (unaudited)	Year ended December 2003 £000's (audited)
Group profit on ordinary activities before tax	1,984	1,112	1,809
Tax on Group profit on ordinary activities at standard US corporation tax rate of 34% (year 2003: 34%)	675	378	615
Effects of:			
Expenses not deductible for tax purposes	83	5	64
Income not assessable for tax purposes	(217)	-	-
Capital allowances (in excess of)/exceeded by depreciation	(1,594)	138	(791)
Other temporary differences	-	(4)	12
Difference in overseas tax rates	-	-	1
Adjustment for tax losses (see below)	1,053	(392)	99
Group current tax charge for the period	-	125	-

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 2004 the Group has recognised the utilisation of all of SEI's US taxable losses arising in previous periods which the directors believe to be available for offset against taxable profits in this period.

- Basic earnings per share is based on the profit on ordinary activities after taxation of £1,295,000 (first half 2003: profit for the period, £987,000; year 2003: profit for the year £1,586,000) and the weighted average number of 815,864,161 ordinary shares of 1p each in issue during the period (first half 2003: 359,305,197; year 2003: 417,759,246). For the six months to 30 June 2004, the fully diluted earnings per share was 0.15p per share. This is computed based on 844,955,168 ordinary shares, being the total used for the computation of the basic earnings per share as adjusted in assuming the exercise of 29,091,007 of the 62,300,000 options outstanding as at the end of June 2004. A further 4,500,000 options were approved for issue at 15p per share, which are not exercisable within the first two years.

**NOTES TO THE INTERIM FINANCIAL INFORMATION
FOR THE SIX MONTHS TO 30 JUNE 2004**

8. Notes to the cash flow statement

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

	Six months to 30 June 2004 £000's (unaudited)	Six months to 30 June 2003 £000's (unaudited)	Year ended 31 December 2003 £000's (audited)
Operating profit	2,215	1,110	1,704
Depletion and depreciation	1,337	441	1,384
Amounts written off intangible fixed assets	50	-	-
Increase in debtors	(3,058)	(1,166)	(726)
Increase in creditors	343	114	978
Net cash inflow from operations	887	499	3,340
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received	85	81	209
Interest paid and exchange differences	(183)	(20)	(41)
		(98)	61
168			
CAPITAL EXPENDITURE			
Purchase of intangible fixed assets	(1,219)	(2,448)	(498)
Purchase of tangible fixed assets (Note 9)	(20,283)	(96)	(5,162)
		(21,502)	(2,544)
(5,660)			
ACQUISITIONS			
Purchase of subsidiary undertakings	-	-	(5,928)
Cash acquired with subsidiary undertakings	-	-	5,238
			-
(690)			
FINANCING			
Issue of Ordinary shares	-	1,428	10,925
Long Term Loan Finance (Note 9)	13,987	-	-
Net cash inflow	13,987	1,428	10,925

FINANCIAL STATEMENTS

NOTES TO THE INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS TO 30 JUNE 2004

b. Analysis and reconciliation of net funds

	At 1 January 2004 £000's	Cash Flow £000's	Exchange & Other Movement £000's	At 30 June 2004 £000's
Cash at bank and in hand*	13,629	(6,726)	(289)	6,614
Debt due after 1 year	-	(13,987)	(1,117)	(15,104)
Debt due within 1 year	(1,117)	-	1,117	-
Net funds/(debt)	<u>12,512</u>	<u>(20,713)</u>	<u>(289)</u>	<u>(8,490)</u>

* The cash balance at 30 June 2004 excludes £1,296,000 of restricted cash (end of 2003: £856,000)

9. On 27 February 2004, the Company announced that it had concluded the acquisition of five producing gas fields in the Gulf of Mexico, USA from Osprey Petroleum Partners LP for \$39.5 million in cash. The consideration was paid in cash and was funded from a new bank loan facility from Hibernia National Bank of \$27.5 million and from internal cash resources. The loan, which is repayable on or before 30 June 2006, contains a number of normal conditions such as a twice yearly borrowing base review and limitation on cash usage elsewhere in the Group and carries a current interest rate of 4.75%.
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

SHAREHOLDER NOTES



UK

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