

30th September 2008

STERLING ENERGY PLC
("Sterling" or the "Company")

2008 INTERIM RESULTS

PROGRESS TOWARDS POTENTIALLY COMPANY MAKING WELLS IN 2009

Highlights

- Addax farms in to Sangaw North PSC, Kurdistan, for a 33.33% (26.67% post third-party assignment) interest on excellent terms. Sterling will recover all past costs, enjoy a carry for the current seismic programme and for the first well, have access to rig in country and remain operator.
- Good progress made in the evaluation of the Ampasindava and Ambilobe PSC's, Madagascar, where several large structures have been identified, with Sifaka one of the largest. A site survey has been conducted on the Sifaka prospect and a potential drilling location identified.
- An independent review of two of Sterling's prospects in Kurdistan and Madagascar by RISC indicated "unrisked best estimate" prospective resources of over 450 million barrels of oil, with a high estimate of over 1.8 billion barrels of oil net to Sterling.
- Signed a conditional sale agreement with a prospective purchaser for the USA business, proposed sale of which was announced in April 2008.
- £13.5 million (\$24.3 million) gross equity placement agreed with major shareholders at 2p per share, subject to shareholder approval at EGM. Proceeds of the placing and the Kurdistan farmout will enable Sterling to meet debt repayments and provide working capital, while much of international work programme costs for the next year are now covered by carry arrangements.
- Group turnover for the period increased by 26% to \$56.7 million, net of hedge settlements of \$14.6 million, (2007: \$45.1 million, net of \$2.9 million of hedges).
- Average production in first half 2008 increased 6.8% to 5,242 boepd (2007: 4,910 boepd), with USA business accounting for 82%.
- Operating cash flow, prior to working capital, in 1H 2008 of \$33 million (2007: \$27 million) and a significant reduction in payables of over \$27 million in same period. In August \$10 million of bank debt was repaid reducing balance to \$143 million.
- Current cash balances, together with the funds due from the Kurdistan farmout, the recent Mauritania lifting and the net placing proceeds, total \$52.3 million.

Prospects and Outlook

- Seismic programme on Sangaw North, Kurdistan due to be completed November, initial results are very encouraging and could lead to an improved risking for the prospects on the block.
- Spudding of first well on Sangaw North, Kurdistan planned for mid-2009
- First well on the Sifaka prospect, Ampasindava PSC, Madagascar possibly Q3 2009.
- Farmout of interest in Ampasindava PSC, Madagascar in progress, interest is increasing with drilling becoming more imminent.
- Completion of sale of USA business anticipated late 2008 which would transform Sterling's financial status.
- Investment in Phase 2B development, Mauritania, to increase production will be completed by year-end and 2009 should see a cash inflow from those operations, which are now producing around 1,300 bpd net and expected to rise when the C-20 well comes onstream in late October.
- Aim to be drilling four material wells per year.
- Plan to return cash to shareholders through share buy-back when and if appropriate.

Richard Stabbins, Chairman of Sterling, said:

"The new management team has quickly identified and successfully addressed many of the important issues that were confronting the Group. I believe the next few months will see the financial strength of Sterling transformed and its focus become much sharper on high potential exploration assets. The independent review of two of our prospects in Kurdistan and Madagascar, which indicated "unrisked best estimate" net prospective resources to Sterling of over 450 million barrels of oil, with a high estimate of over 1.8 billion barrels of oil, indicates the transformational potential in our portfolio. Clearly, the realisation of such reserves depends on our exploration success, but I believe that we are now very well positioned to exploit that potential with the prospect of delivering significant returns to shareholders."

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STERLING ENERGY PLC

2008 INTERIM RESULTS

Chairman's Statement

Shareholders will be well aware of the exciting opportunities open to Sterling, not least our blocks in Kurdistan and Madagascar, both of which offer significant 'company making' upside. The management team has been hard at work pursuing our new strategy outlined at the time of the 2007 Annual Report and moving these large prospects towards the goal of drilling our first wells on them. I am pleased to report good progress.

You will read later, in the Chief Executive's review, more detail on each project. I am pleased to inform you that Addax, a large independent oil company, has farmed into our Kurdistan block for a 33.33% (26.67% post third-party assignment) interest on excellent terms. We will recover all our past costs, enjoy a carry for the current seismic programme and for the first well planned for mid-2009. Currently we retain a 66.67% (53.33% post third-party assignment) interest and the operatorship. Our new partner already has major interests in Kurdistan including the Taq-Taq development project. Our seismic programme on the block is progressing well with very encouraging early results and live oil seeps have been noted on the block. An independent review of the prospectivity of Sangaw North showed an unrisksed best estimate of gross prospective resources of more than 210 million bbls.

Several large structures have been identified on our Madagascar blocks. Planning for a well on the Sifaka prospect is advancing, possibly for Q3 2009 and a site survey has recently been conducted. This prospect has been independently assessed as having unrisksed best estimate prospective resources of more than 1.1 billion bbls.

We have been working diligently to strengthen our finances. Our twin aims of reducing our debt and improving working capital remain paramount.

I am pleased to announce that we have signed a conditional sale agreement with a prospective purchaser of our USA business. We have also today successfully agreed an equity placing of \$24.3 million at 2p per share with major shareholders, subject to shareholder approval at an EGM to be held in mid October. The proceeds of the placing and the Kurdistan farmout would enable us to meet a banking requirement to have \$30 million of cash on hand at the end of October and provide working capital, while much of our international work programme costs for the next year are now covered by carry arrangements.

The completion of the USA sale would transform our financial status and we plan to return the placing cash to shareholders though a share buy-back when we are able and if it is advisable to do so.

We will continue to focus on potentially transformational drilling activities in our core areas in Africa and the Middle East, aiming for four material wells per year. As part of this, we will take measured risks, whilst controlling our exploration capital exposure through farmouts and retaining material exposure to success. This is where we believe that our value can be enhanced significantly. This strategy will improve risk-reward ratios and will limit our cash exposure. We have shown with the farmouts in Gabon and Kurdistan so far this year that we can develop and add material value through our work.

The new management team has quickly identified and successfully addressed many of the important issues that were confronting the Group. I believe that we can successfully build on our high potential exploration assets and we are realistic about our goals and ambitions. Our aim remains to be strong in all departments and to have the "right-sized" resources for all our activities. I would like to place on record my sincere thanks to the Staff and Directors for their unstinting efforts for the Group in a trying and uncertain period. I also wish to announce that Harry Wilson, Executive Deputy Chairman and former CEO, will leave the Company no later than the end of September 2009. Harry was a founder of the company and has made a significant contribution to its development.

The Chief Executive's Statement sets out the main highlights and significant events.

Richard Stabbins
Chairman
30th September 2008

Chief Executive's Statement

Overview

A review earlier in the year of two of our prospects in Kurdistan and Madagascar by RISC, independent consultants, indicated "unrisked best estimate" net prospective resources of over 450 million barrels of oil, with a high estimate of over 1.8 billion barrels of oil for Sterling's current interests (post the Kurdistan farm out). Clearly, the realisation of such reserves depends on exploration success and on other factors, but it does indicate the transformational potential in our portfolio when compared to our end June 2008 2P reserves of some 20 million boe in the USA and Mauritania.

I am pleased to announce that we have farmed-out part of our interest in our Sangaw North PSC in Kurdistan to Addax, a major holder in the large Taq-Taq oil field. The farmout will reduce our interest from 100% to 66.67% and thence to 53.33% following the approval of the recently announced third-party assignment by the Kurdistan Regional Government ("KRG"). Our past costs will be repaid and we will be carried for our seismic programme which is due to finish in November. We will also be fully carried for an exploration well, which we expect to spud in mid 2009. There are many operational benefits for both parties. Initial results from the seismic data are very encouraging and could lead to an improved risking for the prospects on the block.

In Madagascar, we understand that the operator of the (9,860 km²) Ampasindava PSC, is seeking a rig to drill the giant Sifaka structure with gross prospective resources of 1 to 5 billion bbl. We believe that this could be drilled in the third quarter of 2009 and keenly await developments on this acreage. A farmout process is in progress here too and interest is increasing with drilling becoming more imminent. Currently, Sterling has a 30% interest and is partially carried through the well.

Technical work has been stepped-up on our highly prospective 100% interest offshore Cameroon block. Prospect confirmation and ranking is the primary focus. Recent drilling offshore has been very fruitful for other operators and we are optimistic that the Government of Cameroon will resolve the territorial issue with Equatorial Guinea over the block, as they have now done in the northern area previously disputed with Nigeria.

In AGC, where we have a 30% carry through a well in the Dome Flore Block, we continue to await ratification of the licence extension. A site survey has been conducted and a rig will be contracted when the extension is granted.

As previously announced, we retained BMO Capital Markets in April 2008 to seek a sale of our USA assets, a process which is still ongoing. We have recently signed a conditional agreement that meets our expectations and which will require shareholder approval if certain pre-conditions, including completion of funding, are met.

Our operating cash flow prior to working capital in the first half was \$33 million, up from \$27 million in the same period of 2007. We have progressively addressed working capital issues, partly through a one-off reduction in creditors of over \$27 million in the first half.

We have also reduced our bank debt by \$10 million to \$143 million since the period end. The future cash receipts expected from the equity placing announced today and following the completion of the Kurdistan farmout together with cash already on hand today, amounts to over \$52.3 million, which would enable us to meet a banking requirement to have \$30 million of cash on hand at the end of October. A further bank debt repayment of \$20 million will be made in early November.

Our investment in the Phase 2B development in Mauritania to increase production will be completed by year-end and 2009 should see a cash inflow from those operations, which are now producing 1,300 bpd net and expected to rise when the C-20 well comes onstream in late October. All of our committed international drilling costs in 2009 are carried. Completion of the USA sale would significantly improve our cash position, but absent such a sale its 25 mmcfge/d of production in the first half would, if repeated in the second half, be net cash flow generative after expected debt and capex costs and would remain so going forward. Other costs, such as overheads, are being reduced appropriately in the Group.

Oil and gas hedges to the end of 2009 were taken out as part of the bank refinancing last year at prices well below those prevailing for most of the year-to-date. These have been costly and a cash drain. Recent price falls, with gas down around 41% from its peak and oil by 25% have reduced their mark-to-market negative value by over \$50 million to \$20 million since the mid-year and Mauritanian production is now back well over the hedged position.

Recent months have been very trying for all of our stakeholders. We appreciate the continued support of the main shareholders, not only through the announced placing but also for their advice in this period of change. What is not always obvious is the tremendous effort being made by all staff towards the various initiatives to put the Group back onto a firm footing. We have made a lot of progress in the business over the last few months, with some major improvements and rewarding outcomes in our new strategy. There is still much to do but there is light at the end of the tunnel. I can assure you we are completely dedicated to our task and to renewed success.

Graeme Thomson
Chief Executive
30th September 2008

Operations

Madagascar

Drilling of the major Sifaka prospect planned for 2009

Good progress has been made in the evaluation of the Ampasindava and Ambilobe PSC's, where several large structures have been identified and one of the largest, the Sifaka prospect in the Ampasindava PSC, is being progressed for drilling, potentially in the second half of 2009. We await firm confirmation of the timing for the well.

Preparations are going well, potential drilling locations on the Sifaka prospect have been identified and a site survey was acquired in June 2008. The Sifaka prospect lies in water depths ranging from 500m to 1900m and has an unrisksed best estimate resource potential of 1.1 billion barrels (source: RISC, independent consultants), with an upside of 4.8 billion barrels (RISC). In addition, there are a number of large follow-on leads on block which together with Sifaka have the potential to establish Madagascar as a significant hydrocarbon producer.

The drilling of the Sifaka prospect will be the very first well to test the deepwater potential of Madagascar and comparisons have already been made to the prolific basins of Angola. Expected drilling costs will materially exceed Sterling's remaining carry in the Ampasindava PSC, and so we plan to further farm-down our interest in the permit. Sterling has a 30% WI in the two blocks, totalling 26,460 km² offshore north-west Madagascar, with ExxonMobil as a 70% partner in both blocks. In the smaller Ampasindava PSC, ExxonMobil is the operator, whilst Sterling is the operator in the larger Ambilobe PSC.

Kurdistan Region of Iraq

Sangaw North – farmout to Addax and fast tracked to drilling

We are pleased to report that we have farmed-out an interest in the Sangaw North PSC to Addax, in return for the repayment of Sterling's past costs and a carry for our seismic programme and the first exploration well on the block. Sterling's licence interest will be 66.67% and Addax's interest will be 33.33%, and following the completion of the assignment of a 20% third-party interest to the Korea National Oil Corporation ("KNOC") previously announced by the KRG on 25 June 2008 our interest will be 53.33% Addax's will be 26.67% and KNOC will have 20%.

Addax has a strong acreage position and commitment to Kurdistan and Sterling will benefit from their operational experience in the region, including their access to a rig in Kurdistan, which will facilitate our plans to expedite the exploration of the block.

The fast tracking of the exploration programme in the Sangaw North PSC is on target and we are on schedule to complete the acquisition of 310km of 2D seismic data within a year of having been awarded the PSC in November 2007. The seismic data is currently being acquired by the Canadian seismic contractor Terra Seis using a combination of vibroseis and dynamite sources. This will represent the first subsurface data on the very large but previously undrilled Sangaw surface anticline.

Initial results from the seismic field data have been very encouraging and the high quality data will greatly assist subsurface mapping of the structure. Final processing and subsequent interpretation of the data will be accelerated to enable delineation of a drillable prospect by 1st Quarter 2009. By accelerating the subsequent well planning and technical design through the first half of 2009 Sterling remains on course to spud the first exploration well in the Sangaw North PSC in mid 2009.

Further evidence of live oil seepage at surface at a number of locations within the licence, results from our ongoing campaign of field work and the initial results from the 2D seismic survey have significantly increased our confidence in classifying Sangaw North as a moderate risk, but high reward exploration project.

As part of our corporate and social responsibility programme, Sterling continues to look for appropriate opportunities to support the local communities in the Sangaw project area. Current activity in this respect, in conjunction with the seismic operation, includes medical visits to villages to hold clinics and the safe demarcation of ordnance in the area for clearance at a later date.

Cameroon

Border dispute: licence still suspended

The financial obligations and work programme for the Ntem concession area (100% WI) are currently suspended owing to a dispute between Cameroon and Equatorial Guinea over their maritime borders concerning up to 15% of this area. Both countries are working together to resolve the dispute.

Sterling had planned to farm-out this licence for drilling and it continues to attract a good level of industry interest. Sterling remains committed to assisting in the resolution of the dispute in the interests of all parties and technical work is underway on this highly prospective block in order to evaluate and rank the prospects identified.

A number of discoveries have been made in the region recently and these have only served to enhance its prospectivity.

Gabon

Iris Marin: Charlie well dry

The ICM-1 well spudded on 5th July 2008 and was drilled to a total depth of 1,640 m. The reservoir was encountered as planned, but was found to be water-bearing, and the well was therefore plugged and abandoned. Prior to drilling the well Sterling farmed out an 18% WI to Addax in exchange for Sterling receiving past costs of \$3.3 million and a carry on 18% of our remaining 32% WI in the licence. Consequently, Sterling's 14% paying interest in the well was more than covered by the past costs payment.

Sterling will also receive an 18% carry on a second well (subject to a monetary cap) should it be drilled.

A total of 351km of high resolution 2D seismic data was acquired in January 2008, covering the under-explored shallow water of Iris Marin, close to the large Gamba and Ivinga oil fields. This data has been processed and is undergoing interpretation and integration with the ICM-1 well result to evaluate the remaining potential of the block.

Ibekelia Technical Evaluation Agreement

Sterling and its partners are evaluating the neighbouring Ibekelia TEA to assess the merits of converting the TEA into a PSC. The TEA covers a 673 km² area which is contiguous with the Gamba and Olowi oil fields and with Sterling's Iris Marin licence.

AGC

Dome Flore extension sought

The Dome Flore concession lies within the AGC, a joint exploration zone between Senegal and Guinea Bissau. Sterling holds a 30% WI and Markmore, a Malaysian company with interests in bitumen refining, is the operator.

An exploration well to drill two stacked Maastrichtian light oil reservoirs is being planned. The shallower heavy oil accumulation will also be penetrated by this well and the interval cored to evaluate the production potential. The heavy oil deposits on Dome Flore and Dome Gea contain an estimated gross 0.8 to 1 billion barrels in place. Sterling's share of the drilling costs will be carried for this exploration well.

A site survey for this well has been conducted, but a rig could not be secured to allow the well to be drilled ahead of the then licence expiry date of January 2008. A licence extension has been requested and if this is granted Markmore will contract a rig.

Mauritania

Chinguetti Phase 2B development nearing completion

The Chinguetti field has undergone significant activity since May 2008 as part of the Phase 2B programme to increase production from the field. Three well interventions have been completed. C-19 the first of two new development wells was brought on stream in late August and recent production has been 13,000-13,500 bopd. Drilling of the C-20 well is making good progress and is expected to be brought onto production in late October 2008. Reserves will be re-appraised at the end of the year when the impact of this programme is clearer. Draft budgets for 2009 show no major capital costs are planned on the field so it should generate net cash flow and repay some of the considerable investment made.

In the first half of 2008, gross production from Chinguetti averaged approximately 10,000 bopd and resulted in Sterling's interest in the two crude oil liftings of 155,394 bbls generating revenues of \$9.8 million after the effect of hedges. Three further liftings are expected in the second half of 2008, of which the first for \$7.1 million took place in September and is due for payment in early October. In addition, the royalty interest held by Sterling over both PSC A and PSC B generated a further \$1.2 million.

Since acquiring Woodside's Mauritanian interests in December 2007 for \$418 million and becoming operator of the Chinguetti project, Petronas have undertaken a number of cost reduction initiatives in parallel with the Phase 2B development project.

Banda appraisal success

The appraisal well drilled on the Banda field during April provided positive information regarding the distribution of the reservoir sands and has led the joint venture to commit to the drilling of a second well, Banda East, in the fourth quarter of 2008. This well will be drilled at no cost to Sterling. A successful outcome of this well is expected to lead to preparation of field development plans. The partnership is reviewing a number of development options for Banda including compressed natural gas and also the potential development of the oil rim.

Sterling has a royalty interest over Blocks A and B, which includes Banda. Additional activity is also expected in PSC's A and B next year including decisions on the commercial viability of the Tiof discovery.

USA

As previously announced, a decision to seek a sale of the USA interests was taken in the period and a sales process initiated through BMO Capital Markets. A data room was set up, new independent reserve reports completed and potential parties contacted.

As of the date of this report a conditional Sale and Purchase Agreement has been entered into covering the subsidiary companies that hold all of the USA assets and liabilities. The target closing date is the end of November/early December, in line with original timing targets. If certain pre-conditions, including funding, are met then a vote of shareholders will be required to approve such a sale.

In the first half total net production averaged 25.7 mmcfge/d (2007 year: 25.8 mmcfge/d), of which 76% was gas and 24% was liquids. This period exit production was lower than budgeted as a result of deferred activity due to a changed emphasis on rectifying an over-stretched working capital position in the USA which arose from large 2007 drilling costs and also from sharper declines in four existing fields.

Average production in Q3 is estimated at 24.2 mmcfge/d, this being adversely affected by hurricane activity which has repeatedly caused shut-in's. Damage to our facilities has generally been minor, except to EI268 which accounts for less than 1.5% of production. Highlights year-to-date include:

- Completed the sale of two peripheral asset packages for a total of \$8.6 million.
- Proved and probable reserves at end June 2008 of 17.3 million boe, of which 61% are developed.
- Agreed the divestiture of the Sherman field which included the relinquishment of over \$3 million in near-term net abandonment cost exposure.
- Drilled and completed the fifth successful well in the Austin Chalk area, the Marlin #2, which came onstream this week at a net rate of 2.5 mmcfge/d
- Recently initiated a 6-well workover and recompletion project in the operated Windham field (93%+ WI), which was purchased in the second half of 2007.
- Subsequent to the end of the period, three projects have been completed that have added over 1 mmcf/d of net production.

In the period we have recognised an impairment charge of \$30 million against certain specific USA producing assets as a result of the field by field ceiling test required by IFRS, which does not permit surpluses over book value identified on the other fields in the USA pool to be reflected in the financial statements. This is against an overall increase in the discounted net present value of these producing assets in the period based on the independent reserve reports and mid-year prices.

FINANCIAL REPORT

In April 2008 Sterling announced that it had retained BMO Capital Markets to manage a sales process for its USA oil and gas exploration and production business. The rationale for this disposal was to reduce its debt level and improve the working capital position, with the aim of enabling Sterling to redeploy some of this capital on its high impact exploration projects, as well as to seek similar new business opportunities.

The loss for the first half of 2008 was \$21.9 million (H1 2007: \$1.4 million) after the non-cash USA impairment charge of \$30 million. Pre this USA charge the underlying Group loss before tax was \$1.1 million and EBITDA was \$33.0 million (H1 2007- \$27 million and \$56 million respectively).

Key Indicators

	H1 2008	H1 2007	Year 2007
Production (boepd, entitlement basis)	5,242	4,910	5,760
Realised Mauritania Oil Price per bbls (after hedging)	\$62.81	\$51.78	\$55.00
Realised USA Average Price (per mcf)	\$9.51	\$7.39	\$7.02

Operating performance

Production was 5,242 boepd for the first half of 2008, an increase of 6.8% over the 4,910 boepd in H1 2007 and was 9% below the average production rate of 2007.

The USA business accounted for 82% of production in H1 2008 (H1 2007: 65%), this is as a result of the full impact of the Whittier acquisition for the period and as a result of the reduced production from Chinguetti where first half production was 965 bopd, including royalty barrels, compared to H1 2007 level of 1,719 bopd. Currently, following the C-19 development well coming on stream, Sterling's share of net Chinguetti production is around 1,300 bopd as at end September.

Group turnover for the period increased by 26% to \$56.7 million, net of hedge settlements of \$14.6 million, compared to H1 2007 turnover of \$45.1 million (net of \$2.9 million of hedges). The proportion of turnover arising from Chinguetti fell from 38% in H1 2007 to 19% in H1 2008.

During the period various non core assets were disposed of in order to provide working capital. In the USA, assets with a net book value of \$7.2 million were sold for \$8.6 million resulting in a \$1.4 million profit. Sterling Energy (Iris Marin) Limited was sold during the period which had an investment value of \$nil realising a gain of \$2.5 million. The gain on the sale of Iris Marin has been off-set against assets held in the unsuccessful exploration and evaluation pool.

Cost of sales increased from \$33.6 million in 1H 2007 to \$45.3 million in 1H 2008. Chinguetti cost of sales (including depletion) are largely fixed in the short term and were \$69.2/bbl (H1 2007: \$54.2/bbl). Chinguetti depletion increased to \$43.5/bbl (H1 2007: \$32.4/bbl). USA cost of sales (including depletion) increased to \$7.10/mcfge (H1 2007: \$4.79/mcfge) and depletion costs increased to \$4.69/mcfge (H1 2007: \$3.25/mcfge).

Administrative expenses, net of third-party recharges for operating licences and costs capitalised, increased to \$9.5 million (H1 2007 \$6.6 million) including pre-licence expenditure as the increased staffing in the USA and on international exploration activity fed-through.

EBITDA totalled \$33 million (H1 2007: \$27 million, year 2007: \$57 million).

A \$9.7 million deferred tax credit arises in the period which is based on applying the USA annual effective tax rate to the USA interim loss before tax.

Finance items

Net finance expense for the first half of 2008 was \$4.4 million (H1 2007: \$2.9 million), reflecting a full half year's interest cost of the borrowing base loan (H1 2007 only three months of loan interest included). The charge is comprised of \$5.3 million of finance charges and \$0.9 million of interest revenue.

At mid-year 2008, gross debt was \$152.9 million (\$148.8 million in the balance sheet, net of pre-paid finance expenses of \$4.1 million), under the Group's long-term finance agreement comprising \$121.9 million drawn in full against its Senior facility, \$20.3 million drawn against its Junior facility, and \$10.7 million drawn against its Corporate

facility. \$4.1 million of long-term finance expenses were paid in advance in 2007. Net debt stood at \$118.2 million at 30th June 2008 (30th June 2007: net debt \$110.6 million; 31st December 2007: net debt \$103.5 million). Interest currently accrues on bank debt at an average rate of 6.57% before other financing fees.

On 20th August 2008 Sterling repaid \$9.7 million of debt that was scheduled under the existing borrowing base facility. The borrowing base review that was scheduled for 30th June 2008 was deferred to allow management and staff involved in the USA disposal process to focus their efforts on the possible sale of the USA business. Following this borrowing base review effective as of the end of September, a further repayment of \$20.3 million is due in early November, which will reduce total bank debt to \$122.9 million (before deducting prepaid expenses).

Given the current borrowing base model and its assumptions and predictions, it is forecast that Sterling will need to repay some \$7 million of debt in February 2009 and some \$6 million in August 2009. There will be borrowing base reviews in January and July of next year following which these numbers will be confirmed.

The future cash receipts expected from the equity placing announced today and the proceeds of the Kurdistan farmout together with cash already on hand today, amounts to over \$52.3 million, which would enable us to meet a banking requirement to have \$30 million of cash on hand at the end of October.

Cash flow

Net cash flow from operating activities pre-working capital, totalled \$33.0 million. After working capital net cash outflow from operating activities totalled \$0.4 million, the principle movement being repayment of net payables in the period of \$27.4 million.

Cash investments in oil and gas assets in the first half of 2008 totalled \$25.3 million (H1 2007: \$33.3 million). Of this \$19.0 million (gross) was invested in various USA assets, \$2.2 million was invested in Mauritania in respect of the Chinguetti-18 well and long lead items for the 2008 Phase 2B drilling programme, \$3.4 million was spent in Kurdistan and \$0.7 million in Gabon.

Oil and gas price hedge positions

Cash settlements of hedges in the period were \$14.6 million. The Group accounts for its derivatives as cash flow hedges.

Hedge positions held at 30th June 2008 can be summarised as follows:

	H2 2008	2009
Brent Oil Price		
Volume (bbl)	180,000	360,000
Current price hedge (per bbl)		
- Floor	\$74.30	\$74.30
WTI Oil Price		
Swap Volume (bbl)	78,000	168,000
Current price hedge (per bbl)		
- Swaps	\$70.00- \$86.77	\$69.90-\$85.35
Collar Volume (bbl)	36,000	-
- Collar price	\$60.00/\$72.30- \$83.00	n/a
Henry Hub Gas Price		
Swap volume (mcf)	1,463,000	910,000
- Swap price	\$8.00 - \$9.22	\$8.00 - \$9.22
Collar volume (mcf)	323,000	1,770,000
- Collar price	\$6.50-\$7.50 / \$9.75- \$10.90	\$7.00- \$8.00 / \$8.65 - \$9.00
Basis Swap Volume	730,000	560,000
- Basis Swap price	(\$0.39- \$0.21)	(\$0.31- \$0.30)

The Board regularly reviews the Group's exposure to oil and gas price movements.

Balance sheet movements

Group net assets at 30th June 2008 were \$209.9 million compared to \$278.3 million. This movement was primarily due to the mark to market of the Group's hedge liabilities at 30th June 2008 and the impairment of USA assets. The current portion of the mark to market hedges was \$51.3 million and the non current portion was \$21.0 million. This mark to market was undertaken when prices were \$140.19 WTI, \$140.30 Brent and \$13.108 Henry Hub gas prices. Since 30th June we have seen oil and gas commodity prices retreat significantly from these record highs. As of 24th September and using an oil price of \$105.49 bbl and a Henry Hub gas price of \$7.68, Sterling's potential hedge liabilities would total \$21.7 million (\$14.7 million Brent, \$6.9 million WTI, \$0.1 million Henry Hub).

Going Concern

After taking into account the expected cash receipts from the proposed placing, which is subject to shareholder approval in mid-October, together with forecasts of loan facility availability, the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future, to meet its debt obligations and to comply with the conditions of its banking agreements. In particular, the expected future cash proceeds from the planned equity placing, together with the cash due from the Kurdistan farm out, will enable the Group to meet a banking requirement to have \$30 million of cash on hand at the end of October, out of which the required bank repayment of \$20 million will be made in early November. However, absent the planned placing, there would be a significant doubt as to the Group's ability to meet these obligations. The requisite majority of shareholders have already confirmed their support for the placing and therefore the Directors are confident that the placing will complete as planned. Nonetheless, a material uncertainty remains, pending a formal shareholder vote and actual completion of the placing.

Disclaimer

This statement contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. Whilst the Group believes the expectation reflected herein to be reasonable in light of the information available to it at this time, the actual outcome may be materially different owing to factors either beyond the Group's control or otherwise within the Group's control but where, for example, the Group decides on a change of plan or strategy. Accordingly, no reliance may be placed on the figures contained in such forward-looking statements.

Definitions

2P	- proven and probable
bbls	- barrels of oil
bcf	- billion cubic feet of gas
bcfge	- billions of cubic feet gas equivalent
boe	- barrels of oil equivalent
boepd	- barrels of oil equivalent per day
bopd	- barrels of oil per day
mcf	- thousand cubic feet of gas
mcfge/d	- thousand cubic feet of gas equivalent per day
mmbbl	- millions of barrels
mmcfg/d	- million cubic feet of gas per day
mmcfge/d	- millions of cubic feet of gas equivalent per day
nri	- net revenue interest
orri	- overriding royalty interest
WI	- working interest
PSC	- production sharing contracts
TEA	- technical evaluation agreement
EBITDA	- earnings before interest, tax, depreciation and amortisation

Independent Review Report to Sterling Energy Plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the condensed consolidated income statement, the condensed consolidated balance sheet, the condensed consolidated statement of recognised income and expense, the condensed consolidated cash flow statement and related notes 1 to 9. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30th June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Emphasis of matter – Going concern

Without qualifying our review conclusion above, we draw attention to note 9 which describes a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern, which relates to a planned placing of shares which is necessary to meet obligations under the Group's loan facility, including a repayment falling due in early November 2008.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditor
30th September 2008
London, UK

Sterling Energy plc – Condensed consolidated income statement for the six months to 30th June 2008

	<u>Six months to</u> <u>30th June 2008</u> <u>\$000's</u> <u>(unaudited)</u>	<u>Six months to</u> <u>30th June 2007</u> <u>\$000's</u> <u>(unaudited)</u>	<u>Year ended</u> <u>31st December 2007</u> <u>\$000's</u> <u>(audited)</u>
Revenue	56,730	45,127	97,171
Cost of sales	(45,319)	(33,605)	(75,197)
Gross profit	11,411	11,522	21,974
Administrative expenses	(8,475)	(6,607)	(15,720)
Impairment provision	(30,442)	-	-
Profit on disposal of fixed asset	1,425	-	-
Pre-licence exploration costs	(998)	(1,621)	(4,462)
Operating (loss)/ profit	(27,079)	3,294	1,792
Interest revenue and finance gains	852	1,754	3,286
Hedging instruments	-	1,835	4,618
Finance costs	(5,296)	(4,610)	(12,642)
(Loss)/ profit before tax	(31,523)	2,273	(2,946)
Tax (Note 3)	9,658	(824)	693
(Loss)/ profit for financial period	(21,865)	1,449	(2,253)
(Loss)/earnings per share (Note 4):			
Basic	(1.33)USc	0.09USc	(0.14)USc
Diluted	(1.33)USc	0.09USc	(0.14)USc

Sterling Energy plc – Condensed consolidated balance sheet as at 30th June 2008

	<u>As at</u> <u>30th June 2008</u> <u>\$000's</u> <u>(unaudited)</u>	<u>As at</u> <u>30th June 2007</u> <u>\$000's</u> <u>(unaudited)</u>	<u>As at</u> <u>31st December 2007</u> <u>\$000's</u> <u>(audited)</u>
Non-current assets			
Intangible royalty assets	15,972	17,199	16,600
Intangible exploration and evaluation assets	153,678	103,040	155,581
Property, plant and equipment	297,319	349,214	342,917
Investments	7,394	4,456	6,985
	<u>474,363</u>	<u>473,909</u>	<u>522,083</u>
Current assets			
Inventories	5,915	1,116	5,036
Trade and other receivables	43,147	49,149	41,965
Derivative financial instruments	-	-	2,005
Current tax repayable	833	833	833
Cash and cash equivalents	30,617	31,075	49,866
	<u>80,512</u>	<u>82,173</u>	<u>99,705</u>
Total assets	<u>554,875</u>	<u>556,082</u>	<u>621,788</u>
Current liabilities			
Trade and other payables	(51,953)	(47,451)	(79,835)
Derivative financial instruments	(51,295)	(2,959)	(9,434)
Current tax liabilities	-	(295)	-
Bank loan (Note 7)	(34,800)	(85,667)	-
	<u>(138,048)</u>	<u>(136,372)</u>	<u>(89,269)</u>
Non-current liabilities			
Bank loan (Note 7)	(114,017)	(56,000)	(153,318)
Deferred tax liabilities	(47,229)	(66,360)	(69,512)
Derivative financial instruments	(21,002)	-	(7,174)
Long-term provisions	(24,727)	(23,149)	(24,245)
	<u>(206,975)</u>	<u>(145,509)</u>	<u>(254,249)</u>
Total liabilities	<u>(345,023)</u>	<u>(281,881)</u>	<u>(343,518)</u>
Net assets	<u>209,852</u>	<u>274,201</u>	<u>278,270</u>
Equity			
Share capital (Note 6)	31,846	30,109	31,811
Share premium account	341,515	319,806	341,414
Share option reserve	9,400	7,268	8,368
Investment revaluation reserve	835	2,145	657
Other reserves	(1,221)	1,388	658
Hedge reserve	(60,441)	-	(14,421)
Retained earnings	(112,082)	(86,515)	(90,217)
Total Equity	<u>209,852</u>	<u>274,201</u>	<u>278,270</u>

Sterling Energy plc – Condensed consolidated statement of recognised income and expense for the six months ended 30th June 2008

	<u>Six months to</u> <u>30th June 2008</u> <u>\$000's</u> <u>(unaudited)</u>	<u>Six months to</u> <u>30th June 2007</u> <u>\$000's</u> <u>(unaudited)</u>	<u>Year ended</u> <u>31st December 2007</u> <u>\$000's</u> <u>(audited)</u>
(Loss)/profit for the financial period	(21,865)	1,449	(2,253)
Movement on hedge reserve	(46,020)	-	(14,421)
Currency exchange adjustments	(1,879)	1,695	965
Movement on value of quoted company investment	179	(2,594)	(4,082)
Recognised income and expense for the period	<u>(69,585)</u>	<u>550</u>	<u>(19,791)</u>

Condensed consolidated cash flow statement for the six months ended 30th June 2008

	<u>Six months to</u> <u>30th June 2008</u> <u>\$000's</u> <u>(unaudited)</u>	<u>Six months to</u> <u>30th June 2007</u> <u>\$000's</u> <u>(unaudited)</u>	<u>Year ended</u> <u>31st December 2007</u> <u>\$000's</u> <u>(audited)</u>
Operating activities			
Cash generated from operations (Note 5a)	(431)	7,986	48,131
Taxation received/(paid)	-	416	416
Net cash flow from operating activities	<u>(431)</u>	<u>8,402</u>	<u>48,547</u>
Investing activities			
Capital expenditure	(25,282)	(33,304)	(87,945)
Corporate acquisitions	-	(145,368)	(145,368)
Proceeds on disposal of PP&E	11,102	-	-
Interest received	852	1,754	2,888
Net cash used in investing activities	<u>(13,328)</u>	<u>(176,918)</u>	<u>(230,425)</u>
Financing activities			
Net proceeds from issue of ordinary shares	136	49,211	72,521
Repayments/draw-downs on loan facilities	(420)	62,453	78,779
Interest paid	(5,141)	(3,973)	(11,354)
Net cash flow (used in) /from financing activities	<u>(5,425)</u>	<u>107,691</u>	<u>139,946</u>
Net (decrease) in cash and cash equivalents	<u>(19,184)</u>	<u>(60,825)</u>	<u>(41,932)</u>
Cash and cash equivalents at beginning of period	49,866	91,759	91,759
Effect of foreign exchange rate changes	(65)	141	39
Cash and cash equivalents at end of period	<u>30,617</u>	<u>31,075</u>	<u>49,866</u>

Sterling Energy plc – Notes to the interim report
For the six months to 30th June 2008

1. Accounting Policies

- a) The interim financial information in this report which is unaudited is prepared on the basis of the accounting policies set out in the 2007 Annual Report and Accounts which are consistent with International Financial Reporting Standards (IFRS) adopted for use by the European Union. The Interim Report is prepared in accordance with IAS 34 Interim Reporting.
- b) No interim dividend is proposed to be paid for the six months to 30th June 2008.
- c) The information for the year ended 31st December 2007 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis of matter without qualifying the report and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.
- d) The Directors of the Company approved the financial information included in this interim result document on 30th September 2008.

2. Segmental reporting

The Group operates in one business segment; the exploration for and production of oil and gas. The Group currently has interests in two geographical segments; North America and Africa.

	North America		Africa		Total	
	<u>H1 2008</u> <u>\$'000</u>	<u>H1 2007</u> <u>\$'000</u>	<u>H1 2008</u> <u>\$'000</u>	<u>H1 2007</u> <u>\$'000</u>	<u>H1 2008</u> <u>\$'000</u>	<u>H1 2007</u> <u>\$'000</u>
Revenue	45,796	27,685	10,934	17,442	56,730	45,127
Cost of sales	(33,170)	(16,755)	(12,149)	(16,850)	(45,319)	(33,605)
Gross profit/ (loss)	12,626	10,930	(1,215)	592	11,411	11,522
Impairment provision	(30,442)	-	-	-	(30,442)	-
Pre-licence exploration costs	(150)	-	(848)	(1,621)	(998)	(1,621)
Profit on disposals	1,425	-	-	-	1,425	-
Segment result	(16,541)	10,930	(2,063)	(1,029)	(18,604)	9,901
Unallocated corporate expenses					(8,475)	(6,607)
Operating profit					(27,079)	3,294

**Sterling Energy plc – Notes to the interim report
For the six months to 30th June 2008**

3. Taxation

The Group tax charge comprises:

	<u>Six months to</u> <u>30th June 2008</u> <u>\$000's</u> <u>(unaudited)</u>	<u>Six months to</u> <u>30th June 2007</u> <u>\$000's</u> <u>(unaudited)</u>	<u>Year ended</u> <u>31st December 2007</u> <u>\$000's</u> <u>(audited)</u>
Current tax charge/(credit)	-	-	(509)
Deferred tax—origination and reversal of timing differences charge/(credit)	(9,658)	824	(184)
	<hr/>	<hr/>	<hr/>
Total charge/(credit)	<u>(9,658)</u>	<u>824</u>	<u>(693)</u>

4. Earnings per share

Basic earnings per share is based on the loss on ordinary activities after taxation of \$21,864,540 (first half 2007: profit for the period, \$1,449,000) and the weighted average number of 1,649,384,618 ordinary shares of 1p each in issue during the period (first half 2007: 1,543,761,608). As the Group was loss making in the period there is no difference in the basic and diluted loss per share.

**Sterling Energy plc – Notes to the interim report
For the six months to 30th June 2008**

5. Cash flow

a) Cash flows from operating activities

	<u>Six months to 30th June 2008</u> \$000's (unaudited)	<u>Six months to 30th June 2007</u> \$000's (unaudited)	<u>Year ended 31st December 2007</u> \$000's (audited)
Operating activities			
Operating profit	(27,079)	3,294	1,792
Depletion and amortisation	28,606	21,353	50,310
Impairment expense	30,442	-	-
Pre-licence exploration costs	-	1,621	-
Share-based payment provision	1,032	817	1,918
	<hr/>	<hr/>	<hr/>
Operating cash flow prior to working capital	33,001	27,085	54,020
(Increase)/decrease in inventories	(880)	2,597	(1,323)
(Increase) in trade and other receivables	(5,114)	(18,315)	(12,387)
(Decrease)/increase in trade and other payables	(27,408)	(3,381)	7,821
	<hr/>	<hr/>	<hr/>
Net cash provided by/ (used in) operating activities	(431)	7,986	48,131

b) Cash and cash equivalents

Cash at bank and in hand, unrestricted	26,117	26,182	44,101
Cash held on a restricted account	4,500	4,893	5,765
	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents	30,617	31,075	49,866

6. Share capital

	<u>At 30th June 2008</u> \$'000	<u>At 31st December 2007</u> \$'000
Authorised:		
2,400,000,000 (2007: 2,400,000,000) ordinary shares of 1p each	46,078	46,078
	<hr/>	<hr/>
Called up, allotted and fully paid:		
1,650,410,585 ordinary shares of 1p each (year ended 2007 – 1,648,710,585 ordinary shares of 1p each)	31,844	31,811
	<hr/>	<hr/>

Movements during the period consisted of 1.7 million new ordinary shares which were issued on the exercise of share options at a price of 4p.

7. Bank loan facilities

	<u>Six months to</u> <u>30th June 2008</u> <u>\$'000</u>	<u>Year ended 31st</u> <u>December 2007</u> <u>\$'000</u>
Bank loan – current	34,800	-
Bank loan – non-current	114,017	153,318
	<u>148,817</u>	<u>153,318</u>

At 30th June 2008 the Group had a bank loan facility of \$250,000,000 (the “borrowing-base facility”) of which \$142,164,249 (Senior facility: \$121, 913,249, Junior facility: \$20,251,000) had been available and drawn down under this facility at the end of the period. The amount that is available to be drawn under this facility is determined by a twice-yearly borrowing base review. In addition, a further \$482,136 is pledged under a letter of credit. The facility was secured by a floating charge over the share capital of the subsidiaries of the Group and its property, plant and equipment. Interest was payable at a margin 2.25%- 4.5% over USA LIBOR rate. The facility also includes certain financial and non-financial covenants.

In addition to the borrowing-base facility, the Company has an unsecured corporate facility available of \$15,000,000 of which, at 30th June 2008, \$10,734,269 had been drawn.

At 30th June 2008 \$4.1 million of loan facility expenses are included as a prepayment within the bank loan balance. These costs are amortised over the remaining life of the facility, which is expected to be paid off on the sale of the USA business at the end of October 2008.

8. Subsequent Events

Since the balance sheet date, Sterling has disposed of Sherman, an offshore Gulf of Mexico USA platform and facility for a minor consideration and the assumption of abandonment liabilities estimated at over \$3 million.

On 1st July 2008 Sterling disposed of its 14% interest in Forum Energy plc for \$3.8 million cash.

Since the period end Sterling has farmed out a 26.7% interest in the Sangaw North PSC in Kurdistan, retaining a 53.3% interest in return for its past costs, a carried on its 2D seismic programme and on the first exploration well.

Since the balance sheet date Sterling has repaid a further \$8.1 million of its borrowing base facility. Following the completion of the recent borrowing base review, Sterling is due to repay \$20.3 million at the start of November.

On 30th September, £13.5 million (\$24.3 million) gross equity placement agreed with major shareholders at 2p per share, subject to shareholder approval at EGM.

9. Going Concern

After taking into account the expected cash receipts from the proposed placing, which is subject to shareholder approval in mid-October, together with forecasts of loan facility availability, the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future, to meet its debt obligations and to comply with the conditions of its banking agreements. In particular, the expected future cash proceeds from the planned equity placing, together with the cash due from the Kurdistan farm out, will enable the Group to meet a banking requirement to have \$30 million of cash on hand at the end of October, out of which the required bank repayment of \$20 million will be made in early November. However, absent the planned placing, there would be a significant doubt as to the Group's ability to meet these obligations. The requisite majority of shareholders have already confirmed their support for the placing and therefore the Directors are confident that the placing will complete as planned. Nonetheless, a material uncertainty remains, pending a formal shareholder vote and actual completion of the placing.

Further copies of this interim statement are available from the Company Secretary, Sterling Energy plc, 5 Chancery Lane, London, WC2A 1LG, United Kingdom. Tel: +44 (0)20 7405 4133, Fax: +44 (0)20 7440 9059, info@sterlingenergyuk.com.