

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document and/or the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, another appropriately authorised independent financial adviser.**

If you have sold or otherwise transferred all of your Ordinary Shares, please immediately forward this document, together with the accompanying Form of Proxy, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold only part of your holding of Ordinary Shares, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately.

The distribution of this document and/or the accompanying Form of Proxy in jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction.

The Directors, whose names appear on page 3 of this document, accept responsibility, collectively and individually, for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Ordinary Shares are admitted to trading on AIM. Application will be made to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on AIM. Conditional upon completion of the Proposed Placing, it is expected that admission to trading on AIM and dealings in the New Ordinary Shares will commence on 20 October 2008.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document. A prospective investor should consider carefully whether an investment in the Company is suitable for him in the light of his personal circumstances and the financial resources available to him. For a discussion of risks and other factors that should be considered in connection with an investment in the Company, prospective investors should read the section entitled "Risk factors" set out in Part III of this document.**

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# **Sterling Energy PLC**

*(Incorporated and registered in England and Wales under the Companies Act 1985 with registered No. 1757721)*

## **Proposed Placing of New Ordinary Shares and Notice of Extraordinary General Meeting**

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### **SHARE CAPITAL IMMEDIATELY FOLLOWING ADMISSION**

<i>Authorised</i>			<i>Issued and fully paid</i>	
<i>Number</i>	<i>Amount (£)</i>		<i>Number</i>	<i>Amount (£)</i>
3,000,000,000	£30,000,000	Ordinary shares of 1 pence each	2,325,510,585	£23,255,105.85

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Evolution Securities Limited, which is regulated by the Financial Services Authority, is acting as nominated adviser to the Company in connection with the matters described in this document. Persons receiving this document should note that Evolution Securities Limited will not be responsible to anyone other than the Company for providing the protections afforded to clients of Evolution Securities Limited or for advising any other person on the arrangements described in this document. Evolution Securities Limited has not authorised the contents of, or any part of, this document and no liability whatsoever is accepted by Evolution Securities Limited for the accuracy of any information or opinions contained in this document or for the omission of any information.

This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for any such securities in any jurisdiction in which such an offer or solicitation is unlawful and any failure to comply with these restrictions may constitute a violation of applicable securities laws in such jurisdictions. The New Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or under the securities laws of any state of the United States nor will they qualify for distribution under any of the relevant securities laws of Canada, Australia or Japan, nor has any prospectus in relation to the New Ordinary Shares been lodged with or registered by the Australian Securities and Investments Commission. The New Ordinary Shares are being offered and sold only outside the United States in transactions exempt from the registration requirements of the Securities Act in reliance on Regulation S under the Securities Act. Accordingly, absent registration or unless a relevant exemption from registration is available, the New Ordinary Shares may not be, directly or indirectly, offered, sold, taken up, delivered or transferred in or into the United States, Canada, Australia or Japan or in any country, territory or possession where to do so may contravene local securities laws or regulations. Overseas shareholders and any person (including, without limitation, nominees and trustees) who have a contractual or other legal obligation to forward this document to a jurisdiction outside the United Kingdom should seek appropriate advice before taking any action.

**Notice of an Extraordinary General Meeting of Sterling Energy PLC, to be held at the offices of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA at 9.00 a.m. on 17 October 2008, is set out at the end of this document. To be valid the accompanying Form of Proxy for use in connection with the meeting should be completed and returned as soon as possible and, in any event, so as to reach the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR, by not later than 9.00 a.m. on 15 October 2008. Completion and return of Forms of Proxy will not preclude Shareholders from attending and voting at the Extraordinary General Meeting should they so wish.**

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Richard Stabbins ( <i>Non-Executive Chairman</i> ) Harry George Wilson ( <i>Executive Deputy Chairman</i> ) Graeme Paul Thomson ( <i>Chief Executive Officer</i> ) Jonathan Robert Cooper ( <i>Finance Director</i> ) Andrew Joseph Grosse ( <i>Exploration and Technical Director</i> ) Peter Kellaway Wilde ( <i>Non-Executive Director</i> ) Christopher Allen Callaway ( <i>Non-Executive Director</i> )  all of:  5 Chancery Lane London WC2A 1LG
<b>Company secretary</b>	Jonathan Cooper
<b>Registered office</b>	5 Chancery Lane London WC2A 1LG
<b>Nominated Adviser and Broker</b>	Evolution Securities Limited 100 Wood Street London EC2V 7AN
<b>Solicitors to the Company</b>	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA
<b>Solicitors to Evolution</b>	Osborne Clarke One London Wall London EC2Y 5EB
<b>Registrars</b>	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4BR

## PLACING STATISTICS

Placing Price	2p
Number of Ordinary Shares in issue as at the date of this document	1,650,510,585
Number of Placing Shares being placed on behalf of the Company	675,000,000
Estimated proceeds receivable by the Company, net of expenses	£12.9 million
Number of Ordinary Shares in issue following Admission	2,325,510,585
Number of Placing Shares as a percentage of the enlarged issued ordinary share capital of the Company following the Placing	29.0 per cent.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Latest time and date for receipt of Forms of Proxy	9.00 a.m. on 15 October 2008
Extraordinary General Meeting	9.00 a.m. on 17 October 2008
Admission and dealings in the Placing Shares expected to commence on AIM	8.00 a.m. on 20 October 2008
Expected date for CREST stock accounts to be credited for Placing Shares in uncertificated form	20 October 2008
Expected date for posting of share certificates for Placing Shares	by 24 October 2008

## DEFINITIONS AND GLOSSARY

The following definitions apply throughout this document unless the context otherwise requires:

“Admission”	admission of the New Ordinary Shares to trading on AIM becoming effective in accordance with rule 6 of the AIM Rules
“AIM”	a market operated by the London Stock Exchange
“AIM Rules”	the AIM Rules for Companies published by the London Stock Exchange from time to time
“bpd”	barrels of oil per day
“Borrowing Base”	the amount calculated by reference to the net present value of future cash flows from included field interests used to determine availability (subject to commitments and subject to compliance with a projected debt service cover ratio) under the Borrowing Base Facility Agreement
“Borrowing Base Facility Agreement”	the US\$250 million borrowing base facility agreement dated 26 September 2007 (as amended) and made between the Company, Sterling Energy USA Inc and others and guaranteed by, <i>inter alios</i> , Sterling Energy, Inc
“Company” or “Sterling”	Sterling Energy PLC
“Corporate Facility Agreement”	the US\$15 million corporate facility agreement dated 26 September 2007 (as amended) of the Company and others
“Debt Facilities”	together, the facilities made available under the Borrowing Base Facility Agreement and the Corporate Facility Agreement
“Directors” or “Board”	the directors of the Company whose names are set out on page 3 of this document, or any duly authorised committee thereof
“EGM” or “Extraordinary General Meeting”	the extraordinary general meeting of the Company to be held at 9.00 a.m. on 17 October 2008
“EGM Notice”	the notice convening the EGM which is set out at the end of this document
“Evolution Securities”	Evolution Securities Limited, the Company’s nominated adviser
“Form of Proxy”	the form of proxy for use in connection with the EGM which accompanies this document
“Group”	the Company, its subsidiaries and its subsidiary undertakings
“London Stock Exchange”	London Stock Exchange plc
“mcf”	thousand cubic feet of gas
“mcfgd”	thousand cubic feet of gas equivalent per day
“mmcfgd”	million cubic feet of gas per day
“mmcfgd”	million cubic feet of gas equivalent per day
“New Ordinary Shares” or “Placing Shares”	the 675,000,000 Ordinary Shares to be issued in connection with the Proposed Placing

“Ordinary Shares”	ordinary shares of 1p each in the capital of the Company
“Placing Agreement”	the agreement dated 30 September 2008 between the Company and Evolution Securities relating to the Placing, details of which are set out in paragraph 4 of Part I of this document
“Placing Price”	2 pence per New Ordinary Share
“Proposed Placing” or “Placing”	the proposed placing of the New Ordinary Shares at the Placing Price pursuant to the Placing Agreement
“prospects”	undrilled geologic formations (whether structural or stratigraphic) that on the basis of geoscientific evidence and/or modelling are believed to have the potential to contain commercially viable quantities of hydrocarbon
“Resolution”	the resolution set out in the EGM Notice
“RISC”	Resource Investment Strategy Consultants Pty Ltd, independent consultants
“Shareholders”	holders of Ordinary Shares
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“\$” or “US dollar”	the lawful currency for the time being of the United States. For the purpose of currency calculations included in this document the Directors have used a rate of (£1 : \$1.8094), as derived from the Financial Times on 30 September 2008, being the latest practicable date prior to the publication of this document

## PART I

### Letter from the Chairman of Sterling

## STERLING ENERGY PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985 with registered no. 1757721)*

*Directors:*

Richard Stabbins *(Non-Executive Chairman)*  
Harry George Wilson *(Executive Deputy Chairman)*  
Graeme Paul Thomson *(Chief Executive Officer)*  
Jonathan Robert Cooper *(Finance Director)*  
Andrew Joseph Grosse *(Exploration and Technical Director)*  
Peter Kellaway Wilde *(Non-Executive Director)*  
Christopher Allen Callaway *(Non-Executive Director)*

*Registered and head office:*

5 Chancery Lane  
London  
WC2A 1LG

1 October 2008

Dear Shareholder,

### **Proposed Placing of New Ordinary Shares and Notice of Extraordinary General Meeting**

#### **1. Introduction and summary**

Your Board announced yesterday that it proposes to raise £13.5 million (approximately US\$24.4 million) (before expenses) by way of a placing of 675,000,000 New Ordinary Shares at a price of 2 pence per share. The net proceeds of the Placing will strengthen the Company's balance sheet, enabling the Group to complete its current committed business plan and provide general working capital for the Group. The Placing is conditional, *inter alia*, upon the Company obtaining approval from its Shareholders to increase the share capital of the Company, grant the Board authority to allot the Placing Shares and to disapply statutory pre-emption rights which would otherwise apply to, *inter alia*, the allotment of the Placing Shares. The Placing, which has been arranged and fully underwritten by Evolution Securities pursuant to the terms of the Placing Agreement, is also conditional upon Admission.

**The purpose of this document is to provide you with information about the background to and the reasons for the Placing, to explain why the Board considers the Placing to be in the best interests of the Company and its Shareholders as a whole and why the Directors recommend that you vote in favour of the Resolution to be proposed at the Extraordinary General Meeting, notice of which is set out at the end of this document and to seek your approval for the issue of the Placing Shares.**

#### **2. Information on Sterling**

Sterling is a UK AIM listed exploration and production company, which is redefining its strategy in order to focus its resources on higher impact opportunities in Africa and the Middle East.

Further information on Sterling Energy can be found in the Company's interim results for the six months ending 30 June 2008, reproduced in full in Part II of this document, and on the Company's website ([www.sterlingenergyuk.com](http://www.sterlingenergyuk.com)).

#### **3. Background to and reasons for the Placing**

As part of the regular re-determination of the Borrowing Base, the Borrowing Base, effective as of 30 September 2008 is being reduced by US\$20.3 million to US\$112.6 million and, accordingly, the Company will need to make a repayment under the Borrowing Base Facility Agreement of US\$20.3 million on 31 October 2008. The revised Borrowing Base has been calculated on the assumption that there will be

at least US\$30 million of cash on the Company's balance sheet at 31 October 2008, prior to the making of such US\$20.3 million repayment. The Company has also drawn US\$10.7 million on its corporate facility.

Whilst the Company will shortly benefit from the receipt of the farm-in payments from its new partner in the Sangaw North Block in Kurdistan, Addax Petroleum, and is awaiting the receipt of proceeds from its recent oil lifting in Mauritania, the Company might not have sufficient cash available to it in order to achieve the projected debt service cover ratio assumed in the calculation of the revised Borrowing Base, and accordingly to support a Borrowing Base of US\$112.6 million. In addition, whilst the Company has entered into a conditional sale and purchase agreement to sell its US assets, there can be no certainty that this transaction will ultimately proceed. The Directors have therefore decided that the Proposed Placing is required in order to strengthen the Company's balance sheet and improve its working capital position.

The Company intends to use the proceeds of the Proposed Placing together with the cash it will receive from its operating activities to fulfil a number of near term work commitments relating to the Phase 2B development of the Chinguetti Field in Mauritania and strengthen the working capital position of the Group. The Directors believe that raising new funds by way of the Placing is the most appropriate method of funding the Company at the present time.

The Board considers that a general offer to existing Shareholders by way of a rights or other pre-emption issue is not feasible due to the delays that would be incurred through the production and approval of a prospectus.

The Directors believe that the Company will have sufficient cash at the end of October 2008 (without recourse to the proceeds of the Proposed Placing) in order to make the required repayment of \$20.3m under the Borrowing Base Facility Agreement. However, if there is a shortfall in the Company's cash position as at the end of October 2008 (because, for example, the proceeds from its recent oil lifting in Mauritania are less than expected or there is a delay in the receipt of such proceeds), then the Directors would use part of the proceeds of the Proposed Placing to meet this shortfall.

#### *Significance of the Placing*

**In the event that Shareholders do not approve the Resolution, the Placing will not proceed and the Board will need to consider alternative sources of funding, which may or may not be forthcoming. In particular, the Company may not have sufficient cash on its balance sheet to enable it to achieve the projected debt service cover ratio assumed in the calculation of the revised Borrowing Base of US\$112.6 million, i.e. a lower Borrowing Base would then apply determined by reference to the actual projected debt service cover ratio. The Board would then need to consider alternative courses of action to reduce its outstanding debt under the Borrowing Base Facility Agreement to the further reduced Borrowing Base. Furthermore, the Company could seek to renegotiate the determination of the Borrowing Base and/or to secure appropriate alternative financing. If the Company was not able successfully to complete any of these alternative funding requirements or renegotiate the determination of the Borrowing Base, and was therefore unable to make the required further reduction in outstanding debt at 31 October 2008, the lenders under the financing arrangements could be in a position, as would normally be the case in agreements of this nature, to demand repayment in full of all of the outstanding debt under the Debt Facilities and the Company could potentially face the risk of insolvency.**

**The completion of the sale of the Company's US assets would transform its financial status and it plans to return the placing proceeds to Shareholders through a share buy-back when the Company is able and it is advisable to do so.**

#### **4. The Proposed Placing**

The Company proposes to raise approximately £12.9 million (approximately US\$23.3 million) (net of expenses) through the issue of the Placing Shares at the Placing Price. The Placing Price represents a discount of 33.3 per cent. to the price of the last reported trade of 3 pence on 29 September 2008 and a discount of 41.9 per cent. to the closing middle market price of 3.44 pence per Ordinary Share on 29 September 2008, being the last practicable date prior to the announcement of the Placing. The Placing Shares

will represent approximately 29.0 per cent. of the Company's issued ordinary share capital immediately following Admission.

### ***The Placing Agreement***

Pursuant to the terms of the Placing Agreement, Evolution Securities has conditionally agreed to use its reasonable endeavours, as agent for the Company, to place the Placing Shares at the Placing Price with certain institutional and other investors. The Placing has been fully underwritten by Evolution Securities. The Placing Agreement is conditional upon, *inter alia*, the Resolution being duly passed at the EGM and Admission becoming effective on or before 8.00 a.m. on 20 October 2008 (or such later time and/or date as the Company and Evolution Securities may agree, but in any event by no later than 8.00 a.m. on 31 October 2008).

The Placing Agreement contains warranties from the Company in favour of Evolution Securities in relation to, *inter alia*, the accuracy of the information contained in this document and certain other matters relating to the Group and its business. In addition, the Company has agreed to indemnify Evolution Securities in relation to certain liabilities it may incur in respect of the Placing. Evolution Securities has the right to terminate the Placing Agreement in certain circumstances prior to Admission, in particular, for *force majeure* or in the event of a material breach of the warranties set out in the Placing Agreement.

Under the Placing Agreement and subject to it becoming unconditional in all respects and not being terminated in accordance with its terms, the Company has agreed to pay Evolution Securities a commission of 4.5 per cent. on the value at the Placing Price of the Placing Shares, together with all reasonable expenses and any applicable value added tax.

### ***Settlement and dealings***

Application will be made to the London Stock Exchange for the Placing Shares to be admitted to trading on AIM. It is expected that such Admission will become effective and that dealings will commence on 20 October 2008.

The Placing Shares will, when issued, rank *pari passu* in all respects with the existing Ordinary Shares, including the right to receive dividends and other distributions declared following Admission. It is expected that CREST accounts will be credited on the day of Admission and that share certificates (where applicable) will be dispatched by first class post by 24 October 2008.

### ***Directors' participation in the Placing***

The following Directors have agreed to subscribe for Placing Shares at the Placing Price. Immediately after Admission, it is expected that these Directors will have the following shareholdings:

<i>Director</i>	<i>No. of Placing Shares subscribed for in the Placing</i>	<i>Total no. of Ordinary Shares held following the Placing</i>	<i>Percentage of the enlarged issued share capital</i>
Richard Stabbins	750,000	5,222,272	0.22%
Graeme Thomson	1,750,000	17,345,510	0.75%
Andrew Grosse	1,750,000	7,400,473	0.32%
Jon Cooper	500,000	500,000	0.02%
Peter Wilde	250,000	870,000	0.04%

## **5. Current trading and prospects**

Details of the Company's current trading are set out in its interim results for the six months ended 30 June 2008, the full text of which is contained in Part II of this document.

## **6. Working capital**

In the opinion of the Directors and assuming the completion of the Placing, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least 12 months following Admission. However, in the event that Shareholders do not approve the Resolution, the Placing will not proceed and the Board will need to consider alternative sources of funding, which may or may not be forthcoming.

Following the recent Borrowing Base review, further debt repayments of US\$7m and US\$6m are scheduled for February 2009 and August 2009 respectively under the Borrowing Base Facility Agreement. In January 2009 and July 2009, the Company's bankers will undertake a further review of the Company's Borrowing Base at which points the Borrowing Base may be increased or, in the event that the Company does not perform in line with expectations, the Company's bankers may seek to further reduce the Borrowing Base requiring additional payments from the Company. Any re-determination of the Borrowing Base will be based on the Company's bankers determination of certain economic and technical assumptions. However, in the event that the Company is able to achieve a successful sale of its US assets the Company expects to repay the outstanding debt under its Debt Facilities and the Company expects to have a surplus of cash available to fund its working capital requirements.

**Shareholders should be aware that in the event that the Company's Borrowing Base is further reduced by its bankers or the Board's revenue expectations are not met, the Company may require additional funding sooner than anticipated, which may or may not be forthcoming.**

#### **7. Related Party Transaction**

INVESCO plc ("INVESCO") is classified as a related party of the Company for the purposes of the AIM Rules. Accordingly, the issue of 199,000,000 Placing Shares to INVESCO pursuant to the Placing, representing 29.5 per cent. of the total Placing Shares to be issued and 8.6 per cent. of the enlarged issued share capital of the Company, will be classified as a related party transaction for the purpose of Rule 13 of the AIM Rules. The Directors, having consulted with Evolution Securities, consider that the terms of the subscription by INVESCO for Placing Shares are fair and reasonable insofar as Shareholders are concerned. In providing advice to the Directors, Evolution Securities has taken into account the Directors' commercial assessments.

#### **8. Extraordinary General Meeting**

Set out at the end of this document is a notice convening the EGM to be held on 17 October 2008 at the offices of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA, at 9.00 a.m., at which the Resolution will be proposed for the purposes of implementing the Proposed Placing.

The Resolution will be proposed as a special resolution to increase the authorised share capital of the Company, to authorise the Directors to allot New Ordinary Shares up to an aggregate nominal amount of £6,750,000 and to disapply Shareholders' statutory pre-emption rights up to the same aggregate nominal amount.

#### **9. Action to be taken**

**A Form of Proxy for use at the EGM accompanies this document. The Form of Proxy should be completed in accordance with the instructions thereon and returned to the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4BR, as soon as possible, but in any event so as to be received by 9.00 a.m. on 15 October 2008. The completion and return of a Form of Proxy will not preclude Shareholders from attending the EGM and voting in person should they so wish.**

#### **10. Additional information**

Your attention is drawn to the additional information set out in Parts II to III of this document.

#### **11. Recommendation**

The Directors, having consulted with Evolution Securities, the Company's nominated adviser, consider the Proposed Placing to be in the best interests of the Company and its Shareholders as a whole and accordingly unanimously recommend Shareholders to vote in favour of the Resolution to be proposed at the Extraordinary General Meeting as they intend to do in respect of their own beneficial holdings of Ordinary Shares amounting, in aggregate, to 29,350,257 Ordinary Shares, representing approximately 1.78 per cent. of the existing issued ordinary share capital of the Company.

**In the event that Shareholders do not approve the Resolution and the Placing does not proceed, the Board will need to consider alternative sources of funding, which may or may not be forthcoming.**

Yours faithfully

Richard Stabbins  
*Chairman*

## PART II

### Interim results of Sterling for the six months ended 30 June 2008

The following is the full text of the unaudited interim results announcement of Sterling for the six months ended 30 June 2008, released on 30 September 2008.

“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 though 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.”

**For further information contact:**

**Sterling Energy plc (+44 207 405 4133)**

Graeme Thomson, Chief Executive  
Jon Cooper, Chief Financial Officer

**Evolution Securities (+44 207 071 4311)**

Rob Collins

**Citigate Dewe Rogerson (+44 207 638 9571)**

Media enquiries: Martin Jackson  
Analyst enquiries: Emma Woollaston

[www.sterlingenergyplc.com](http://www.sterlingenergyplc.com)

Ticker Symbol: SEY

## 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 km<sup>2</sup>) 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 km<sup>2</sup> 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 km<sup>2</sup> 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 mmcfe/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**

	<i>H1 2008</i>	<i>H1 2007</i>	<i>Year 2007</i>
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 out-flow 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:

	<i>H2 2008</i>	<i>2009</i>
<b>Brent Oil Price</b>		
Volume (bbl)	180,000	360,000
Current price hedge (per bbl) – Floor	\$74.30	\$74.30
<b>WTI Oil Price</b>		
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
<b>Henry Hub Gas Price</b>		
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**

	<i>Six months to 30th June 2008 \$000's (unaudited)</i>	<i>Six months to 30th June 2007 \$000's (unaudited)</i>	<i>Year ended 31st December 2007 \$000's (audited)</i>
<b>Revenue</b>	56,730	45,127	97,171
Cost of sales	(45,319)	(33,605)	(75,197)
<b>Gross profit</b>	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)
<b>Operating (loss)/profit</b>	(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)
<b>(Loss)/profit before tax</b>	(31,523)	2,273	(2,946)
Tax (Note 3)	9,658	(824)	693
<b>(Loss)/profit for financial period</b>	(21,865)	1,449	(2,253)
<b>(Loss)/earnings per share (Note 4):</b>			
<b>Basic</b>	(1.33)USc	0.09USc	(0.14)USc
<b>Diluted</b>	(1.33)USc	0.09USc	(0.14)USc

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

	<i>As at 30th June 2008 \$000's (unaudited)</i>	<i>As at 30th June 2007 \$000's (unaudited)</i>	<i>As at 31st December 2007 \$000's (audited)</i>
<b>Non-current assets</b>			
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>
<b>Current assets</b>			
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>
<b>Total assets</b>	<u>554,875</u>	<u>556,082</u>	<u>621,788</u>
<b>Current liabilities</b>			
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>
<b>Non-current liabilities</b>			
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>
<b>Total liabilities</b>	<u>(345,023)</u>	<u>(281,881)</u>	<u>(343,518)</u>
<b>Net assets</b>	<u>209,852</u>	<u>274,201</u>	<u>278,270</u>
<b>Equity</b>			
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)
<b>Total Equity</b>	<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**

	<i>Six months to 30th June 2008 \$000's (unaudited)</i>	<i>Six months to 30th June 2007 \$000's (unaudited)</i>	<i>Year ended 31st December 2007 \$000's (audited)</i>
<b>(Loss)/profit for the financial period</b>	(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)
<b>Recognised income and expense for the period</b>	<u>(69,585)</u>	<u>550</u>	<u>(19,791)</u>

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

	<i>Six months to 30th June 2008 \$000's (unaudited)</i>	<i>Six months to 30th June 2007 \$000's (unaudited)</i>	<i>Year ended 31st December 2007 \$000's (audited)</i>
<b>Operating activities</b>			
Cash generated from operations (Note 5a)	(431)	7,986	48,131
Taxation received/(paid)	–	416	416
<b>Net cash flow from operating activities</b>	<u>(431)</u>	<u>8,402</u>	<u>48,547</u>
<b>Investing activities</b>			
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
<b>Net cash used in investing activities</b>	<u>(13,328)</u>	<u>(176,918)</u>	<u>(230,425)</u>
<b>Financing activities</b>			
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)
<b>Net cash flow (used in)/from financing activities</b>	<u>(5,425)</u>	<u>107,691</u>	<u>139,946</u>
<b>Net (decrease) in cash and cash equivalents</b>	<u>(19,184)</u>	<u>(60,825)</u>	<u>(41,932)</u>
<b>Cash and cash equivalents at beginning of period</b>	49,866	91,759	91,759
Effect of foreign exchange rate changes	(65)	141	39
<b>Cash and cash equivalents at end of period</b>	<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.

	<i>North America</i>		<i>Africa</i>		<i>Total</i>	
	<i>H1 2008</i>	<i>H1 2007</i>	<i>H1 2008</i>	<i>H1 2007</i>	<i>H1 2008</i>	<i>H1 2007</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>Revenue</b>	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)
<b>Gross profit/(loss)</b>	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	–
<b>Segment result</b>	(16,541)	10,930	(2,063)	(1,029)	(18,604)	9,901
Unallocated corporate expenses					(8,475)	(6,607)
<b>Operating profit</b>					(27,079)	3,294

### 3. Taxation

The Group tax charge comprises:

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

### 5. Cash flow

(a) Cash flows from operating activities

	<i>Six months to 30th June 2008 \$000's (unaudited)</i>	<i>Six months to 30th June 2007 \$000's (unaudited)</i>	<i>Year ended 31st December 2007 \$000's (audited)</i>
<b>Operating activities</b>			
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
<b>Operating cash flow prior to working capital</b>	<u>33,001</u>	<u>27,085</u>	<u>54,020</u>
(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
<b>Net cash provided by/(used in) operating activities</b>	<u>(431)</u>	<u>7,986</u>	<u>48,131</u>
(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
<b>Cash and Cash Equivalents</b>	<u>30,617</u>	<u>31,075</u>	<u>49,866</u>

## 6. Share capital

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

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

	<i>Six months to 30th June 2008 \$'000</i>	<i>Year ended 31st December 2007 \$'000</i>
Bank loan – current	34,800	–
Bank loan – non-current	<u>114,017</u>	<u>153,318</u>
	<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 drawdown 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](mailto:info@sterlingenergyuk.com).”

## **PART III**

### **Risk factors**

**AN INVESTMENT IN THE COMPANY IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK** due to the nature of oil and gas exploration. In addition to the usual risks associated with an investment in an oil and gas exploration business, the Directors believe that, in particular and in no order of priority, the following risk factors should be considered. It should be noted that this list is not exhaustive and that other risk factors may apply.

An investment in the Company may not be suitable for all recipients of this document. Investors are advised to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities before making a decision to invest.

#### **Exploration, production and general operational risks**

The exploration for and production of oil and other natural resources is speculative and involves a high degree of risk. In particular, the operations of the Company may be disrupted by a variety of risks and hazards which are beyond the control of the Company, including environmental hazards, industrial accidents, occupational and health hazards, technical failures, labour disputes, earthquakes, unusual or unexpected geological formations, flooding, earthquake and extended interruptions due to inclement or hazardous weather conditions, explosions and other accidents. These risks and hazards could also result in damage to, or destruction of wells or production facilities, personal injury, environmental damage, business interruption, monetary losses and possible legal liability.

The nature of reserve quantification studies means that there can be no guarantee that estimates of quantities and quality of oil discovered will be available for extraction.

Delays in the construction and commissioning of projects or other technical difficulties may result in the Company's current or future projected target dates for production being delayed or further capital expenditure being required. If the Company fails to meet its work and/or expenditure obligations, the rights granted therein will be forfeited and the Company may be liable to pay large sums, which could jeopardise its ability to continue operations.

#### **Risks related to the oil and gas industry**

##### ***Oil and gas drilling is speculative***

Drilling oil and gas wells is speculative, may be unprofitable and may result in a total loss of your investment. The Company may never identify commercially exploitable deposits or successfully drill, complete or develop oil and gas reserves. Completed wells may never produce oil or gas, or may not produce sufficient quantities to be profitable or commercially viable. An investment in the New Ordinary Shares is suitable only for individuals who are financially able to withstand a complete loss of their investment.

##### ***Oil and gas pricing and demand***

The price of and demand for oil and gas is highly dependent on a number of factors, including worldwide supply and demand levels, energy policies, weather, competitiveness of alternative energy sources, global economic and political developments and the volatile trading patterns of the commodity futures markets. Natural gas prices also continue to be highly volatile. Changes in oil and gas prices can impact on the Company's valuation of reserves. International oil and gas prices have fluctuated widely in recent years and may continue to do so in the future. Lower oil and gas prices will adversely affect the Company's revenues, business or financial condition and its valuation of its reserves. In periods of sharply lower commodity prices, the Company may curtail production and capital spending projects and may defer or delay drilling wells because of lower cash flows. In addition, the demand for and supply of oil and gas worldwide may affect the Company's level of production.

### ***Significant competition***

The Company's competitors include major and independent oil and gas companies. The oil and gas business is highly competitive in the search for and acquisition of reserves and in the gathering and marketing of oil and gas production and in the recruitment and employment of qualified personnel. In addition, the Company will compete with oil and gas companies in the bidding for exploration and production licences. The Company's competitors have significantly greater financial, technical and other resources than Sterling and are able to devote greater resources to the development of their businesses. If the Company is unable to successfully compete, its business will suffer.

### ***Increase in drilling costs and the availability of drilling equipment***

The oil and gas industry historically has experienced periods of rapid cost increases. Increases in the cost of exploration and development would affect the Company's ability to invest in prospects and to purchase or hire equipment, supplies and services. In addition, the availability of drilling rigs and other equipment and services is affected by the level and location of drilling activity around the world. An increase in drilling operations may reduce the availability of equipment and services to the Company. The reduced availability of equipment and services may delay its ability to exploit reserves and adversely affect the Company's operations and profitability.

### ***Delays in production, marketing and transportation***

Various production, marketing and transportation conditions may cause delays in oil production and adversely affect the Company's business. Drilling wells in areas remote from distribution and production facilities may delay production from those wells until sufficient reserves are established to justify construction of the necessary transportation and production facilities. The Company's inability to complete wells in a timely manner would result in production delays.

In addition, marketing demands, which tend to be seasonal, may reduce or delay production from wells. The marketability and price of oil and natural gas that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. The ability of the Company to market its natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. The Company is also subject to market fluctuations in the prices of oil and natural gas, deliverability uncertainties related to the proximity of its reserves to adequate pipeline and processing facilities and extensive government regulation relating to price, taxes, royalties, licences, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. Moreover, weather conditions may impede the transportation and delivery of oil by sea.

### ***Decommissioning costs***

The Company may become responsible for costs associated with abandoning and reclaiming wells, facilities and pipelines which it may use for production of oil and gas. Abandonment and reclamation of facilities and the costs associated therewith is often referred to as "decommissioning". There are no immediate plans to establish a reserve account for these potential costs, rather, the costs of decommissioning are expected to be paid from the proceeds of production in accordance with the practice generally employed in onshore and offshore oilfield operations. Should decommissioning be required, the costs of decommissioning may exceed the value of reserves remaining at any particular time to cover such decommissioning costs. The Company may have to draw on funds from other sources to satisfy such costs. The use of other funds to satisfy such decommissioning costs could have a materially adverse effect on the Company's financial position and future results of operations.

### ***Need for additional capital***

The Company may need to raise additional funds in the future in order to further develop exploration and development programmes. Additional equity financing may be dilutive to holders of the Company's then-existing Ordinary Shares and could contain rights and preferences superior to those of the Ordinary Shares. Debt financing may involve restrictions on the Company's financing and operating activities. In either case, additional financing may not be available to the Company on acceptable terms. If the Company is unable to

raise additional funds as needed, the scope of its operations may be reduced and, as a result, the Company may be unable to fulfil its long-term expansion programme.

### ***Limited diversification***

Generally, risk is reduced through diversification. Diversification is maximised by drilling a large number of wells over a large area of prospects having different geological characteristics. The drilling and development programme, therefore, will have only a limited amount of diversification with a correspondingly higher degree of financial risk for investors.

### ***Insurance coverage***

There are significant exploration and operating risks associated with drilling oil and gas wells, including blowouts, cratering, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, environmental risks and fire, all of which can result in injury to persons as well as damage to or destruction of oil and gas wells, equipment, formations and reserves, production facilities and other property. In addition, the Company will be subject to liability for environmental risks such as pollution and abuse of the environment. Although the Company will exercise due care in the conduct of its business and will maintain what it believes to be customary insurance coverage for companies engaged in similar operations, the Company is not fully insured against all risk in its business. The occurrence of a significant event against which the Company is not fully insured could have a material adverse effect on its operations and financial performance. In addition, in the future some or all of the Company's insurance coverage may become unavailable or prohibitively expensive.

### ***Risk of operations in Madagascar and Kurdistan***

There are inherent risks in foreign operations in the oil and gas industry. The majority of the Company's exploration assets are located in Madagascar and Kurdistan. As a result, the Company may be subject to political, economic and other uncertainties, including, but not limited to, terrorism, military repression, war, unrest or earthquakes, changes in energy policies and regulation or in the personnel administering them, nationalisation or expropriation of property, cancellation or modification of contractual rights, foreign exchange rates and restrictions, currency instability or non-convertibility, high rates of inflation, royalty and tax increases, changes in policies or laws governing foreign ownership and the operations of foreign-based companies and other risks arising out of foreign ownership and the operations of foreign-based companies and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted.

In the event of a dispute arising in connection with its foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign person to the jurisdiction of the courts in the Company's home jurisdiction or enforcing judgments obtained in its home jurisdiction in such other jurisdictions.

In addition, jurisdictions in which the Company operates may have relatively less developed legal systems than in more established economies. Local business, judicial or regulatory customs and practice may not favour strict adherence to legal requirements or the negotiated terms of contractual agreements. As a result, the Company's operations may be subject to a higher degree of uncertainty, and legal redress, if needed, may be limited or uncertain.

### ***Terrorism and the uncertainty of war***

The terrorist attacks on the United States on 11 September 2001, the US-led war on terrorism backed by the UK, the second Gulf Conflict and other acts of violence or war may affect the Company's operations and profitability. The potential near-term and long-term effects these attacks may have on the Company's business are uncertain. The consequences of any terrorist attacks or any armed conflicts which may result are unpredictable, and the Company may not be able to foresee events that could have an adverse effect on its business.

### ***Governmental regulation and control***

Governmental, legal and regulatory restrictions may have a negative impact on the Company's profitability. Increased restraints on the ability of the Company to remit funds may limit its ability to distribute profits. Changes in tax laws and tax withholding requirements may reduce the availability of funds to the Company. Foreign governments may freeze the Company's assets to collect taxes or as a penalty for the excessive repatriation of funds, which would limit the Company's ability to access its working capital and to distribute its profits. Restrictions on payments to intermediaries may make it more difficult to obtain equipment and supplies and to transport and market oil and gas. In addition, uncertainties arising from governmental sovereignty over the Company's operations creates additional risks, including the potential nationalisation of its operations. Regulations relating to labour may increase the Company's costs or otherwise alter the Company's relationships with its employees.

### ***Requirements for permits and licences***

The operations of the Company require licences, permits and in some cases renewals of existing licenses and permits from various governmental authorities. The Board believes that the Company has the benefit of all necessary licences and permits to carry on the activities which it conducts under applicable laws and that the Company is complying in all material respects with the terms of such licences and permits. However, the Company's ability to obtain, sustain or renew such licences and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable governments.

### ***Foreign currency exchange rates***

As an international operator, the Company's business transactions may not be denominated in the same currencies. To the extent that the Company's business transactions are not denominated in the same currency, the Company is exposed to foreign currency exchange rate risk. In addition, holders of the Company's shares are subject to foreign currency exchange rate risk to the extent its business transactions are denominated in currencies other than the US dollar. Fluctuations in foreign currency exchange rates may adversely affect the Company's profitability. At this time, the Company does not plan to actively hedge its foreign currency exchange rate risk.

### ***Working Capital***

The Directors believe the Company will have sufficient cash at the end of October 2008 (without recourse to the proceeds of the Proposed Placing) in order to make the required repayment of \$20.3m under the Borrowing Base Facility Agreement. However, if there is a shortfall in the Company's cash position as at the end of October 2008 (because, for example, the proceeds from its recent oil lifting in Mauritania are less than expected or there is a delay in the receipt of such proceeds), then the Directors would use part of the proceeds of the Proposed Placing to meet this shortfall.

Following the recent Borrowing Base review, further debt repayments of US\$7m and US\$6m are scheduled for February 2009 and August 2009 respectively under the Borrowing Base Facility Agreement. In January 2009 and July 2009, the Company's bankers will undertake a further review of the Company's Borrowing Base at which points the Borrowing Base may be increased or, in the event that the Company does not perform in line with expectations, the Company's bankers may seek to further reduce the Borrowing Base requiring additional payments from the Company. Any re-determination of the Borrowing Base will be based on the Company's bankers determination of certain economic and technical assumptions.

**Shareholders should be aware that in the event that the Company's Borrowing Base is further reduced by its bankers or the Board's revenue expectations are not met, the Company may require additional funding sooner than anticipated, which may or may not be forthcoming.**

### ***Significance of the Placing***

**In the event that Shareholders do not approve the Resolution, the Placing will not proceed and the Board will need to consider alternative sources of funding, which may or may not be forthcoming. In particular, the Company may not have sufficient cash on its balance sheet to enable it to achieve the projected debt service cover ratio assumed in the calculation of the revised Borrowing Base of**

**US\$112.6 million, i.e. a lower Borrowing Base would then apply determined by reference to the actual projected debt service cover ratio. The Board would then need to consider alternative courses of action to reduce its outstanding debt under the Borrowing Base Facility Agreement to the further reduced Borrowing Base. Furthermore, the Company could seek to renegotiate the determination of the Borrowing Base and/or to secure appropriate alternative financing. If the Company was not able successfully to complete any of these alternative funding requirements or renegotiate the determination of the Borrowing Base, and was therefore unable to make the required further reduction in outstanding debt at 31 October 2008, the lenders under the financing arrangements could be in a position, as would normally be the case in agreements of this nature, to demand repayment in full of all of the outstanding debt under the Debt Facilities and the Company could potentially face the risk of insolvency.**

*Other risk factors*

The Ordinary Shares are traded on AIM rather than the Official List of the UK Listing Authority. An investment in shares traded on AIM may carry a higher risk than an investment in shares listed on the Official List of the UK Listing Authority.

Investors should be aware that the value of the Ordinary Shares may be volatile and may go down as well as up and investors may therefore not recover their original investment, especially as the market in the Ordinary Shares on AIM may have limited liquidity.

The market price of the Ordinary Shares may not reflect the underlying value of the Company's net assets.

The price at which investors may dispose of their shares in the Company may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. Investors may realise less than the original amount invested.

The risks above do not necessarily comprise all those faced by the Company and are not intended to be presented in any assumed order of priority.

The investment offered in this document may not be suitable for all of its recipients. Investors are accordingly advised to consult an investment adviser, who is authorised under the Financial Services and Markets Act 2000 and who or which specialises in investments of this kind before making a decision to invest.

# NOTICE OF EXTRAORDINARY GENERAL MEETING

## Sterling Energy PLC

*(Incorporated and registered in England and Wales under the Companies Act 1985  
with registered no. 1757721)*

Notice is hereby given that an extraordinary general meeting of Sterling Energy PLC (the “Company”) will be held at the offices of Ashurst LLP at Broadwalk House, 5 Appold Street, London EC2A 2HA on 17 October 2008 at 9.00 a.m. to consider and, if thought fit, to pass the following resolution which will be proposed as a special resolution of the Company:

### SPECIAL RESOLUTION

THAT:

- (a) the share capital of the Company be and it is hereby increased from £24,000,000 to £30,000,000, by the creation of 600,000,000 ordinary shares of 1p each identical to and ranking *pari passu* with the existing authorised but unissued ordinary shares of 1p each in the capital of the Company;
- (b) the Directors be and they are hereby generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the “Act”) (and in addition to any existing authority to allot relevant securities) to exercise all the powers of the Company to allot relevant securities in connection with the Placing (as defined in the circular of the Company dated 30 September 2008 of which this notice forms part (the “Circular”)) (within the meaning of section 80(2) of the said Act) up to an aggregate nominal amount of £6,750,000, such authority to expire on 30 November 2008 (save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if such authority had not expired); and
- (c) the Directors be and they are hereby empowered (in addition to any existing power) pursuant to section 94(2) of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph (b) above as if section 89(1) of the Act did not apply to any such allotment, provided that such power shall be limited to the allotment of 675,000,000 New Ordinary Shares (as defined in the Circular) pursuant to or in connection with the Placing (as defined in the Circular), such power to expire on 30 November 2008 (save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if such power had not expired).

*Registered office:*  
Sterling Energy PLC  
5 Chancery Lane  
London  
WC2A 1LG

By order of the Board:

Jonathan Cooper  
*Company Secretary*

1 October 2008

### Notes:

#### 1. Appointment of a proxy

A Form of Proxy for the Extraordinary General Meeting is enclosed and should be completed and returned so as to reach the Company’s registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time of the Extraordinary General Meeting.

Alternatively, you can register your proxy vote electronically, either by means of a website provided by the Company’s registrars ([www.capitaregistrars.com](http://www.capitaregistrars.com)), where full instructions are provided. In order to register your vote on-line you will need to enter the Investor Code which is given in the enclosed Form of Proxy.

This website can only be used for the purpose stated above, not for sending any other document or information.

## **2. CREST electronic proxies**

Alternatively, if you are a member of CREST, you may register the appointment of a proxy by using the CREST electronic proxy appointment service.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this extraordinary general meeting and any adjournment(s) thereof by using the procedures, and to the address, described in the CREST Manual subject to the provisions of the Company's articles of association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by no later than 48 hours before the start of the Extraordinary General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Appointing a proxy will not prevent a shareholder from attending in person and voting at the meeting.

## **3. Right to attend and vote**

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 (SI 2001 No 3755), the Company specifies that in order to have the right to attend and vote at the Extraordinary General Meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), only those persons who have their name entered in the register of members of the Company by 6pm on the day being 48 hours before the time of the meeting will be entitled to attend and vote. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

