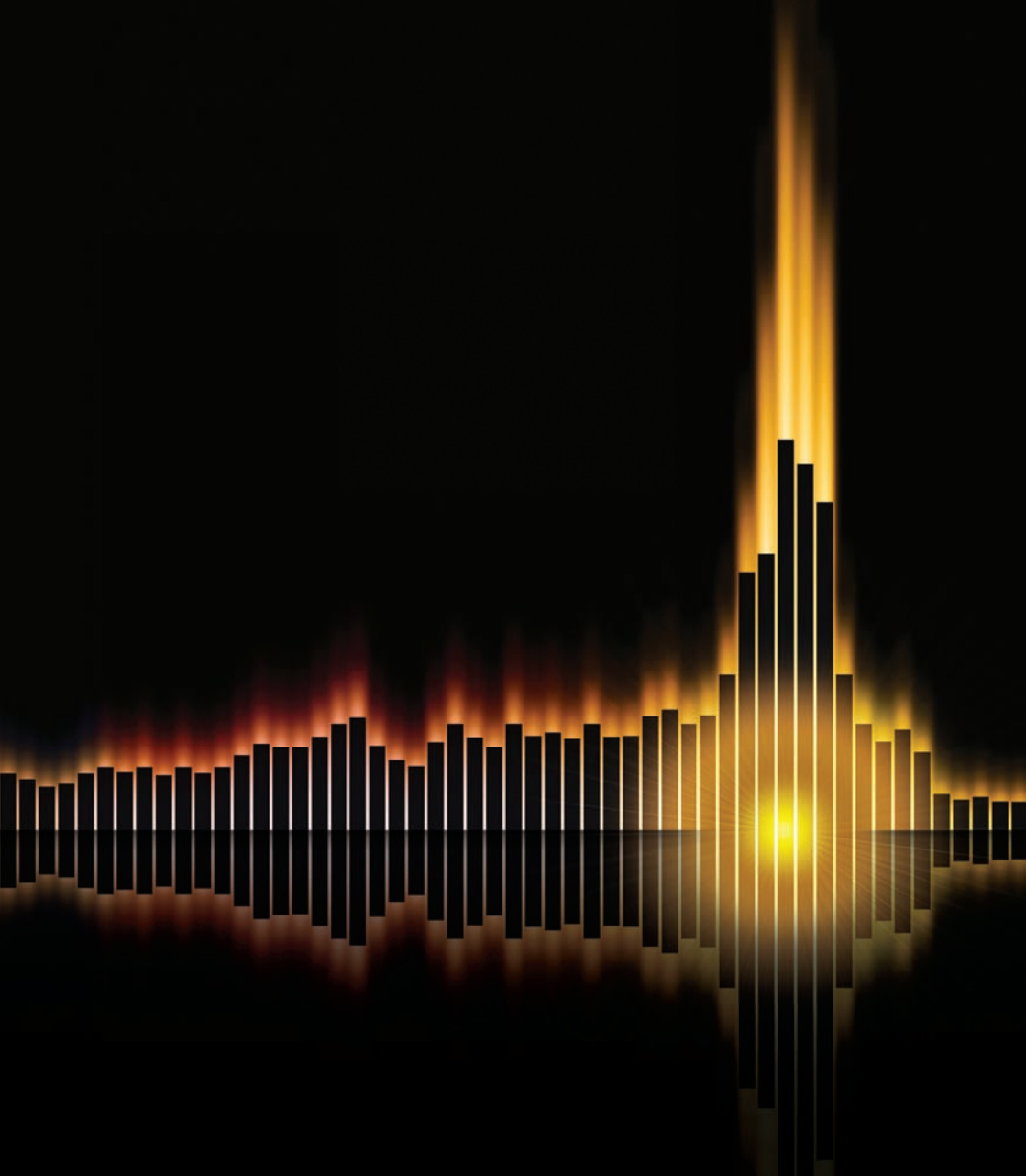


# Desire

Petroleum plc

Interim Report 2009



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**Dear Shareholder,**

*I am pleased to report to you at a time of great excitement for Desire. As many of you will be aware, on 10 September we announced that the Company had signed a Letter of Intent with Diamond Offshore Drilling (UK) for the drilling unit the Ocean Guardian. This is for a minimum four well drilling campaign in the North Falkland Basin. Desire has also secured options to drill up to a further four wells for itself and or its partners.*

*The Ocean Guardian is expected to be mobilised from the North Sea shipyard, where it is currently undergoing work, in late November 2009 with the first well in the campaign due to spud in February 2010. Work on the final contract is ongoing and a further and more detailed announcement will be forthcoming in due course.*

*Our disappointments at not being able to secure a suitable rig since our last fundraising in 2005 have been widely chronicled in previous Annual and Interim Statements. The securing of the Ocean Guardian on competitive terms leads us to believe that we should take every advantage of the rig being in Falkland waters to drill as many different play types as possible. Fourteen different play types have been identified in the North Falkland Basin of which only three have been drilled to date. Prudent exploration dictates that as many of these plays as possible should be drilled to help unlock the potential of the basin. To this end it is also our intention to raise additional funds shortly to enable us to drill more wells and it is our intention that shareholders will have the opportunity to participate in this exercise. In anticipation of a fundraising Desire commissioned Senergy Ltd to undertake a full Competent Persons Report on its prospects, the results of which will be released soon.*

*The loss for the half-year ended 30 June 2009 was \$265,000, compared with a loss for the corresponding period of \$513,000.*

*Administrative expenses of \$589,000 were much lower than the previous half-year, partly due to a weakening of the US dollar, and to a reduction in directors' and management fees. The majority of administrative expenses are incurred in sterling, so exchange rate movements will influence the dollar presentation. The translated sterling equivalent charge for the half-year of £391,000 compares with £445,000 in 2008.*

*The non-cash charge for share-based payments at \$54,000 is significantly less than the equivalent period last year as the economic cost of share-based compensation plans is now largely expensed.*

*The exchange gain for the year of \$293,000 largely arises on sterling balances held to meet administrative expenses, and follows a strengthening of the pound against the dollar since the year-end, from \$1.44/£ at 31 December 2008 to \$1.65/£ at 30 June 2009.*

*Investment revenues of \$85,000 are appreciably lower than the corresponding period, with both US dollar and sterling interest rates at historically low levels.*

*Yours sincerely,*

**Stephen L. Phipps**  
**Chairman**

# Consolidated Income Statement

<b>For the 6 months ended 30 June 2009</b>	<b>6 months ended 30.06.09 \$000</b>	6 months ended 30.06.08 \$000	Year ended 31.12.08 \$000
Administrative expenses	(589)	(877)	(1,461)
Share-based payment expense	(54)	(251)	(498)
Foreign exchange gain/(loss)	293	(4)	(937)
<b>Operating loss</b>	<b>(350)</b>	(1,132)	(2,896)
Finance expense	-	(12)	(13)
Investment revenues	85	631	1,135
<b>Loss before tax</b>	<b>(265)</b>	(513)	(1,774)
Tax	-	(173)	302
<b>Loss for the period</b>	<b>(265)</b>	(686)	(1,472)
<b>Earnings per share</b>			
Loss per share (pence): Basic	(0.16)	(0.30)	(0.61)
Loss per share (pence): Diluted	n/a	n/a	n/a

# Consolidated Balance Sheet

<b>As at 30 June 2009</b>	<b>As at 30.06.09 \$000</b>	As at 30.06.08 \$000	As at 31.12.08 \$000
<b>Non-current assets</b>			
Intangible assets	<b>16,490</b>	15,525	16,668
Property, plant & equipment	<b>4,559</b>	4,559	4,561
	<b>21,049</b>	20,084	21,229
<b>Current assets</b>			
Trade and other receivables	<b>510</b>	111	386
Cash and cash equivalents	<b>40,688</b>	42,931	40,690
	<b>41,198</b>	43,042	41,076
<b>Total assets</b>	<b>62,247</b>	63,126	62,305
<b>Current Liabilities</b>			
Trade and other payables	<b>(201)</b>	(180)	(444)
Current tax liabilities	-	(673)	-
Bank overdrafts	<b>(80)</b>	(141)	(59)
<b>Total liabilities</b>	<b>(281)</b>	(994)	(503)
<b>Net assets</b>	<b>61,966</b>	62,132	61,802
<b>Equity</b>			
Share capital	<b>4,567</b>	4,540	4,549
Share premium account	<b>93,694</b>	93,137	93,337
Retained earnings	<b>(36,295)</b>	(35,545)	(36,084)
<b>Total equity</b>	<b>61,966</b>	62,132	61,802

## Consolidated Statement of Changes in Equity

<b>For the 6 months ended 30 June 2009</b>	<b>6 months ended 30.06.09 \$000</b>	6 months ended 30.06.08 \$000	Year ended 31.12.08 \$000
<b>Opening balance</b>	<b>61,802</b>	62,186	62,186
Loss for the financial period	<b>(265)</b>	(686)	(1,472)
Shares issued in the period	<b>375</b>	381	590
Share-based payment charge	<b>54</b>	251	498
<b>Closing balance</b>	<b>61,966</b>	62,132	61,802

# Consolidated Cash Flow Statement

<b>For the 6 months ended 30 June 2009</b>	<b>6 months ended 30.06.09 \$000</b>	6 months ended 30.06.08 \$000	Year ended 31.12.08 \$000
<b>Net cash from operating activities</b>	<b>(600)</b>	(993)	(2,065)
<b>Investing activities</b>			
Interest paid	-	(12)	(13)
Interest received	<b>85</b>	631	1,135
Purchase of tangible and intangible assets	<b>(135)</b>	(260)	(1,040)
<b>Net cash from/(invested in) investing activities</b>	<b>(50)</b>	359	82
<b>Financing activities</b>			
Proceeds on issue of shares	<b>375</b>	381	590
<b>Net cash from financing activities</b>	<b>375</b>	381	590
<b>Net decrease in cash and cash equivalents</b>	<b>(275)</b>	(253)	(1,393)
Cash and cash equivalents at the beginning of the period	<b>40,631</b>	43,042	43,042
Effect of foreign exchange rate changes	<b>252</b>	1	(1,018)
<b>Cash and cash equivalents at the end of the period</b>	<b>40,608</b>	42,790	40,631

# Consolidated Cash Flow Statement

<b>For the 6 months ended 30 June 2009</b>	<b>6 months ended 30.06.09 \$000</b>	6 months ended 30.06.08 \$000	Year ended 31.12.08 \$000
<b>Reconciliation of operating loss to net cash from operating activities</b>			
<b>Operating loss for the period</b>	<b>(350)</b>	(1,132)	(2,896)
Foreign exchange	<b>(252)</b>	(1)	1,018
Depreciation on property, plant & equipment	<b>3</b>	6	7
Share-based payment charge	<b>54</b>	251	498
<b>Operating cash flows before movement in working capital</b>	<b>(545)</b>	(876)	(1,373)
(Increase)/decrease in receivables	<b>(30)</b>	25	29
Decrease in payables	<b>(25)</b>	(142)	(321)
<b>Cash outflow from operations</b>	<b>(600)</b>	(993)	(1,665)
Income tax paid	-	-	(400)
<b>Net cash from operating activities</b>	<b>(600)</b>	(993)	(2,065)

# Notes to the Interim Financial Statements for the six months ended 30 June 2009

## 1 Basis of preparation and accounting policies

The results for the six months to 30 June 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and International Accounting Standards Board.

The financial information does not constitute statutory accounts as defined by section 435 of the Companies Act 2006. Full accounts of the Company for the year ended 31 December 2008, on which the Auditors gave an unqualified report, have been delivered to the Registrar of Companies.

## 2 Segmental information

Based on risks and returns, the Directors consider that the primary reporting format is by business segment. The Directors consider that there is only one business segment, being the exploration and production of oil and gas.

## 3 Loss per share

The calculation of basic earnings per share is based upon the loss for the period and the weighted-average number of shares in issue during the period.

	<b>6 months ended 30.06.09 thousands</b>	6 months ended 30.06.08 thousands	Year ended 31.12.08 thousands
<b>Weighted-average number of shares</b>	<b>228,943</b>	227,527	228,022

When the Group reports a loss for the period then, in accordance with International Accounting Standard 33, the share options are not considered dilutive.

## 4 Tax

Current tax comprises a provision for tax on the interest receivable less any allowable expenses, and any adjustment for over or under provision in prior periods.

## 5 Copies of report

Copies of this interim statement can be viewed on the Company's website and will be available to the public at the Registered Office, Mathon Court, Mathon, Malvern, Worcestershire WR13 5NZ.

## **Introduction**

We have reviewed the accompanying balance sheet of Desire Petroleum Plc as of 30 June 2009 and the related statements of income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

## **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." 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 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 accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 30 June 2009, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards as applicable in the United Kingdom.

**UHY Hacker Young Manchester LLP  
Manchester**

29th September 2009

# Advisers

## **Desire Petroleum Plc**

Registered Number 3168611 (England & Wales)

## **Registered and Principal Office**

Mathon Court  
Mathon  
Malvern  
Worcestershire  
WR13 5NZ

## **Company Secretary**

**Mrs Anna Ruth Neve BA**

## **Bankers**

### **Barclays Bank PLC**

15 Colmore Row  
Birmingham  
B3 2WN

### **HSBC PLC**

60 Queen Victoria Street  
London  
EC4N 4TR

### **Standard Chartered Bank**

Stanley  
Falkland Islands  
FIQQ 1ZZ

## **Public Relations**

### **Buchanan Communications Limited**

45 Moorfields  
London  
EC2Y 9AE

## **Solicitors**

### **Clintons Solicitors**

55 Drury Lane  
London  
WC2B 5RZ

## **Auditors**

### **UHY Hacker Young Manchester LLP**

Chartered Accountants  
St James Building  
79 Oxford Street  
Manchester  
M1 6HT

## **Registrars**

### **Capita Registrars**

Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
West Yorkshire  
HD8 0LA

## **Nominated Adviser & Broker**

### **Seymour Pierce Limited**

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