

Desire

Petroleum plc

Interim Report 2003



North Falkland Basin Highlights

- Opportunity to control Basin-wide exploration
- Excellent entry terms
- Early drilling options
- Follow-up prospects
- Alternative play concepts
- Excellent fiscal terms



HMS Desire

Chairman's Statement

Dear Shareholder

The last six months have been important for the Group, with a number of significant steps being taken towards the resumption of exploration in the North Falkland Basin. In particular, a new geological model has been developed which has identified the areas within the Basin, and below the source rock, most likely to contain substantial reservoir rocks and traps for oil. As a consequence, Desire has designed a 1000 sq.km., 3D-seismic survey, to be carried out during the austral summer of 2003-4,

in the Company's 100%-owned Tranches C and D. The planned seismic survey follows widespread discussions with potential farm-in partners who have stressed the importance of 3D-seismic in refining the major drilling targets.

The initial drilling campaign in the North Falkland Basin encountered a very thick, lacustrine, source rock which has proved to be the second richest yet discovered world-wide. Calculations indicate that from 60 to 110 billion barrels of oil have been generated and expelled from the mature

Chairman's Statement

section of this source rock. At least one other, deeper, source rock was also encountered. All 6 of the wells drilled to date were targeted at structures which proved to be above the source rock but, because the upper, immature, section of the source rock forms an almost complete seal across the whole of the Basin, only oil shows were encountered. The new geological model has concentrated on identifying potential reservoirs and structures below and adjacent to the source rock.

As a result of the world-wide slowdown in offshore drilling activity, the costs of carrying out 3D-seismic surveys have fallen sharply. Desire is taking advantage of these cost reductions and is currently in discussions with several potential contractors. Potential farminees are also being offered an opportunity to participate in the 3D-survey, although your Board reserves the option to undertake it alone.


Desire is offering potential farminees a ground-floor, seismic option to participate in up to 50% of the 3D-seismic survey, followed by the opportunity to participate in a drilling programme, on preferred terms, at an equivalent percentage interest. The total cost of the 3D-survey, including all processing, interpretation and ancillary costs, is expected to be \$6-8m (£3.8-5.0m).

Desire expects to fund its own share of the 3D-survey by raising new funds through Seymour Pierce, the Company's Brokers via an issue in which all shareholders will be offered the opportunity to participate.

The new geological model for the North Falklands Basin has identified a number of major prospects along the Basin margins, which are below and adjacent to the prolific oil-source rock encountered in the initial drilling campaign. At least three of these prospects have the potential to contain recoverable reserves of one billion barrels of oil should suitable reservoir rocks be present. The geological model predicts the presence of suitable reservoirs and it is the purpose of the 3D-seismic survey to define them as precisely as possible prior to the next drilling campaign.

The Company's current financial resources are sufficient to cover normal operational costs and overheads continue at a very low level. Your Board will keep shareholders informed on progress with the 3D-survey as the programme develops.

Yours sincerely,



Dr Colin B. Phipps
Chairman

Group Profit and Loss Account

for the six months ended 30 June 2003

	6 months ended 30.6.03 £000	6 months ended 30.6.02 £000	Year ended 31.12.02 £000
Oil exploration costs	-	-	46
Administrative expenses	(213)	(350)	(429)
Operating loss	(213)	(350)	(383)
Interest receivable	2	4	6
Loss on ordinary activities before taxation	(211)	(346)	(377)
Taxation	-	-	-
Loss on ordinary activities after taxation retained for the period	(211)	(346)	(377)
Earnings per share (pence) - Basic	(0.19)	(0.32)	(0.35)
Earnings per share (pence) - Diluted	(0.19)	(0.32)	(0.35)

Group Balance Sheet

as at 30 June 2003

	As at 30.6.03 £000	As at 30.6.02 £000	As at 31.12.02 £000
Fixed assets			
Intangible assets	2,343	2,321	2,333
Current assets			
Debtors	7	8	59
Investments	1	6	6
Cash at hand and in bank	106	200	198
	114	214	263
Creditors: amounts due within one year	(315)	(507)	(241)
Net current assets	(201)	(293)	22
Total assets less current liabilities	2,142	2,028	2,355
Capital and reserves			
Called up share capital	1,125	1,074	1,125
Share premium account	16,744	16,437	16,744
Merger reserve	13,343	13,343	13,343
Profit and loss account	(29,070)	(28,826)	(28,857)
Equity shareholders' funds	2,142	2,028	2,355

Group Cash Flow Statement

for the six months ended 30 June 2003

	6 months ended 30.6.03 £000	6 months ended 30.6.02 £000	Year ended 31.12.02 £000
Net cash outflow from operating activities	(84)	(193)	(548)
Returns on investment and servicing of finance			
Interest received	2	4	6
Taxation			
Taxation paid	-	-	(4)
Acquisitions and disposals			
Proceeds from sale of subsidiary	-	-	9
Capital expenditure and financial investment			
Purchase of intangible fixed assets	(10)	(24)	(36)
	(92)	(213)	(573)
Financing			
Issue of share capital (net of expenses)	-	-	358
Decrease in cash in period	(92)	(213)	(215)
Reconciliation of operating loss to net cash outflow from operating activities	6 months ended 30.6.03 £000	6 months ended 30.6.02 £000	Year ended 31.12.02 £000
Operating loss	(213)	(350)	(383)
Provision against investments	5	-	-
Profit on disposal	-	-	(10)
Exchange differences	(2)	-	-
(Increase)/decrease in debtors	52	31	(19)
Decrease in creditors	74	126	(136)
Net cash outflow from operating activities	(84)	(193)	(548)

Notes to the Interim Financial Statements

for the six months ended 30 June 2003

1 Basis of preparation

The interim financial information has been prepared on the basis of the accounting policies set out in the accounts for the year ended 31 December 2002. The interim financial information is unaudited but has been reviewed by the Auditors and their report is set out on page 7.

The financial information does not constitute statutory accounts as defined by section 240 of the Companies Act 1985. Full accounts of the Company for the year ended 31 December 2002 on which the Auditors gave an unqualified report, have been delivered to the Registrar of Companies.

2 Earnings per share

As the group reports a loss for the period then, in accordance with Financial Reporting Standard Number 14, the share options are not considered dilutive.

The calculation of basic earnings per share is based upon the loss for the period and the

weighted-average number of 112,500,552 (2002- first half - 107,387,126) shares in issue during the period.

The diluted earnings per share is based upon the loss for the period and the number of shares in issue as follows:

	6 months ended 30.6.03 thousands	6 months ended 30.6.02 thousands	Year ended 31.12.02 thousands
Weighted-average number of shares	112,501	107,387	108,578
Dilution: Share options in issue	-	-	-
	112,501	107,387	108,578

3 Taxation

Taxation comprises a provision for taxation on the interest receivable less any allowable expenses and any adjustment for over or

under provision in prior periods. On the basis of these accounts no provision for taxation is appropriate.

4 Copies of report

Copies of this interim statement will be despatched to shareholders and will be available to the public at the Registered Office,

Mathon Court, Mathon, Malvern,
Worcestershire WR13 5NZ.

Auditor's Review

Desire Petroleum plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2003 which comprises the profit and loss account, the balance sheet, the cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors have prepared the interim report in accordance with Listing Rules of the London Stock Exchange which require that the accounting policies and presentation applied to the interim figures should be those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2003

Hacker Young
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2003

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