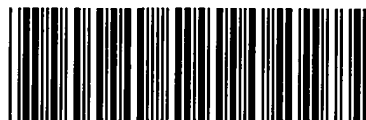


COMPANY REGISTRATION NUMBER 1757721
STERLING ENERGY PLC
REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2014

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STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014
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STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

OVERVIEW

Sterling Energy plc (the 'Company'), together with its subsidiary undertakings (the 'Group'), is an upstream oil and gas company listed on the AIM market of the London Stock Exchange. The Company is an experienced operator of international licenses with a focus on projects in Africa. The Group has high potential exploration projects in Cameroon, Somaliland, Madagascar and Mauritania together with a production interest in Mauritania.

2014 SUMMARY

- In Cameroon, the Bamboo-1 exploration well was drilled on the Ntem block; no commercial hydrocarbons were encountered and the well was subsequently plugged and abandoned in April 2014. The Group's share of the drilling cost was funded by Murphy under the 2011 farm-out agreement.
- 3D Seismic Programme on the Ambilobe block, offshore Madagascar, is expected to be completed in Q2 2015.
- Acquisition of a 40% carried interest in the Odewayne Block, Somaliland, was completed in Q2 2014.
- Signature of an agreement with Tullow Oil to acquire a 40.5% interest in PSC C-3, offshore Mauritania.
- The Group received \$6.9 million of net cash flow from Chinguetti field operations, offshore Mauritania in 2014 (2013: \$11.2 million).
- Cash resources at 31 December 2014 of \$108.1 million (2013: \$120.8 million).
- The Group remains debt free.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

OVERVIEW

CHAIRMAN'S STATEMENT

During 2014 we focused on the exploration of our existing assets and building our portfolio with the addition of new and diverse opportunities, spreading our resources, both human and financial, across varying technical, commercial and geopolitical ventures.

We have made progress in our quest for new ventures in a rapidly changing oil and gas industry landscape. At the beginning of 2014, the Company and many of our peers all actively sought new portfolio opportunities. As the global oil price started to decline the competitive market for new ventures started to ease in parallel with some additional opportunities being offered by companies with exploration commitments but whose budgets were under pressure in response to the falling oil price. We have also seen the traditional business model of the smaller E&P companies securing acreage and then undertaking leveraged farm-outs to reduce their exposure to the high costs of exploration under commercial and financial strain as the medium and larger independent oil companies are no longer willing to fund 100% of the exploration risk. We had adapted our Group strategy accordingly and in particular are more cautious about our ability to farm-out what are sometimes, very large financial commitments.

We believe the key to long term exploration success is to be diligent during the appraisal of new ventures and highly selective in the final choice, securing fewer higher quality opportunities rather than over-stretching the Company's resources with smaller equity across more higher risk ventures.

In May 2014 we completed the acquisition of 40% of the Odewayne PSC onshore Somaliland. Genel, the operator, carries us for our share of costs to acquire a 1,500 km 2D seismic programme and to drill one exploration well; by acquiring an uncapped carried interest we can forecast with certainty our exploration costs for a pre-defined work programme.

In January 2015 we signed an agreement with Tullow Oil to acquire a 40.5% interest in PSC C-3 offshore, shallow water Mauritania. As operator, Tullow had just finished the acquisition of a 1,600 km 2D seismic programme. During the next few months we shall work with Tullow to integrate the new seismic data with the existing sub-surface data set to mature leads to drill-ready prospects ahead of the decision to enter the next exploration period with a commitment to drill one exploration well.

In January 2014, the Company's wholly owned subsidiary, Sterling Cameroon Limited, and our joint venture partner, lifted force majeure in the Ntem block, in Cameroon, to allow exploration activities to resume. The Ocean Confidence rig commenced the drilling of Bamboo-1 exploration well in February 2014. The well encountered the reservoirs that had been identified from the extensive 3D seismic dataset but no commercial hydrocarbons were encountered; the well was plugged and abandoned in April 2014. A review of the remaining prospectivity has highlighted a drill-ready prospect located in Cameroon maritime waters also claimed by Equatorial Guinea. We believe the geopolitical risk involved in drilling in these disputed waters is too great and in May 2014 force majeure was declared again. Société Nationale des Hydrocarbures ('SNH'), the national oil company of Cameroon, has advised Sterling Cameroon Limited that "Cameroon does not recognise that any situation of force majeure exists in the Ntem Permit". We are in discussions with SNH to agree the best way to progress the exploration activity in the Ntem block.

In February 2015 Murphy advised Sterling Cameroon Limited and SNH that Murphy proposes to transfer its 50% interest and operatorship to Sterling Cameroon Limited subject to receipt of Cameroon government approvals. We would like to thank Murphy for their diligent work as operator of the Ntem concession and their financial contribution that covered the Group's share of all exploration costs since November 2011.

In Madagascar we received presidential consent to extend Phase 2 and 3 of the Ambilobe and Ampasindava PSCs, respectively, to July 2016.

The Company's wholly owned subsidiary, Sterling Energy (UK) Limited and ExxonMobil, the joint venture partner in the Ampasindava PSC have completed a review of the Sifaka prospect and concluded that the technical and commercial risks are too great to justify an exploration well; furthermore there are no other drill ready prospects identified. The joint venture partners are in discussions with OMNIS, the state oil company of Madagascar, to agree the future plans for the Ampasindava PSC.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

OVERVIEW

Sterling Energy (UK) Limited, as operator, expects to complete in Q2 2015 the acquisition of 1,250 km² of 3D seismic data over the Ambilobe block in Madagascar, the cost of which is being paid by Pura Vida who farmed into 50% of the Ambilobe PSC in December 2013. We look forward to acquiring and interpreting this data to identify possible prospects ahead of the 'drill or drop' decision in July 2016.

Financial

The Group had cash resources of \$108.1 million at the end of 2014, including \$1.1 million of partner funds, and we remain free of debt. Our work programme for 2015 is fully funded and we have funds available to progress both our existing portfolio and new venture activity.

Board and Management Changes

On 23 March 2015 the Company announced the appointment of Eskil Jersing as Chief Executive Officer (CEO) and a director of the Company. Eskil's career to date spans almost 30 years working exploration, new ventures, strategy, planning and business development roles of increasing responsibility in the world's key petroleum basins (Africa, Brazil, SE Asia, Australasia, North Sea, and Deep Water Gulf of Mexico). I am very pleased to welcome Eskil to the Company and I look forward to the addition of his specialist oil and gas experience, excellent business skills, and clear focused leadership that will strengthen our ability to manage our existing exploration portfolio and identify new venture opportunities.

I will relinquish the role of Interim CEO and continue as the Company's executive Chairman.

In December 2014 the Company announced that Dr. Philip Frank, the Company's Exploration Director, intended to step down from the Board and leave the Company. As part of the Company's succession plan, we appointed Matthew Bowyer as Exploration Manager and following a period of transition Dr. Frank stood down from the Board on 13 March 2015. I would like to thank Phil for the contribution he made to the Group's exploration activity during his three year tenure and wish him all the very best for his future challenges.

Outlook for 2015 and Beyond

During 2015 we expect to receive 3D seismic data covering the high-graded area of the Ambilobe block and 2D data on the C-3 block which will be interpreted to identify potential drill-ready prospects; in addition we expect the planning for 2D seismic acquisition in the Odewayne block to be well advanced.

We have a material drill-ready prospect in the Ntem block and will work with SNH, the Cameroon state oil company, to agree a forward plan that does not put at risk any drilling investment in an area of disputed territorial waters.

The high technical and commercial risks associated with drilling the Sifaka prospect on the Ampasindava block means there is no expectation of drilling during 2015 or 2016; in the year ahead we shall endeavour to agree a forward plan with ExxonMobil and OMNIS, the Malagasy petroleum agency.

The Group has, via a combination of our own funds and carried interests, the resources to see our existing projects advance during 2015. We hold sufficient funds to acquire additional growth options to add to our portfolio; we shall continue to seek new opportunities within and beyond our existing areas of interest and shall only pursue those ventures that we believe will ultimately deliver value for our shareholders.

I would like to thank our shareholders for their continuing support for our strategy and all of our management and staff for their diligent efforts during 2014.



Alastair Beardsall

Chairman

25 March 2015

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

STRATEGIC REPORT

OPERATIONS REVIEW

The Group's current portfolio provides exposure to exploration opportunities within a number of under-explored African basins that have the potential to deliver material hydrocarbon reserves. These frontier and emerging basins have historically seen little activity but offer significant encouragement for the presence of working hydrocarbon systems and commercial discoveries.

CAMEROON

Despite a recent dry exploration well, Ntem remains highly prospective deep water acreage in the southern Douala Basin. The Douala Basin of Cameroon is a proven oil and gas producing province with multiple discoveries made within the shallower water shelf area to the east of the Ntem concession and with multiple deeper water discoveries to the north.

Ntem (WI 100% & Operator)*

Overview

The Ntem concession lies adjacent to the southern maritime border of the Douala Basin province of Cameroon. Water depths range from 400m to 2,000m across this 2,319 km² block. This large block is well placed with respect to both Tertiary and Upper Cretaceous play potential, both of which have proven successful nearby in Cameroon and in Equatorial Guinea.

Operations within the Ntem concession area were suspended in 2005 under the force majeure provisions of the concession owing to an overlapping maritime border claim between Cameroon and Equatorial Guinea (referred to as the "Affected Area").

In November 2011, Sterling Cameroon Limited completed a farm-out agreement with Murphy Cameroon Ntem Oil Co. Ltd ('Murphy'), under which Murphy was assigned a 50% working interest in, and operatorship of, the Ntem concession. Sterling Cameroon Limited retained a 50% non-operated working interest. As consideration, Murphy agreed to pay all costs associated with the current exploration phase of the concession (First Renewal Period).

*In February 2015, Sterling Cameroon Limited signed an agreement with Murphy whereby Murphy will transfer its 50% interest in, and operatorship of, the Ntem concession to Sterling Cameroon Limited. Completion of the transaction remains subject to Cameroon Ministerial approval.

2014 Activity

The border dispute between Cameroon and Equatorial Guinea remains unresolved but Murphy and Sterling Cameroon Limited agreed, together with Société Nationale des Hydrocarbures ('SNH'), the national oil company of Cameroon, to formally lift force majeure on 22 January 2014 in order to allow exploration activity to proceed. The current exploration period re-commenced on that date with the minimum work obligation of one exploration well required to be drilled before April 2015.

Murphy drilled the Bamboo-1 exploration well using the Ocean Confidence semi-submersible rig as soon as force majeure was lifted. Bamboo-1 was located in 1,600m of water and was the first well drilled in the Ntem concession area. It commenced drilling operations on 9 February 2014 and reached a total depth of 4,747 m after penetrating a series of good quality, Cretaceous aged basin floor submarine fans. The well encountered all pre-drill targets, but analysis of the well data indicated that no commercial hydrocarbons were found and the well was plugged and abandoned on 16 April 2014.

Bamboo-1 satisfied the minimum work obligation for the First Renewal Period. An important consideration in the joint venture's decision to lift force majeure was that the prospect targeted by the Bamboo-1 well lay outside of the Affected Area. Following the drilling of Bamboo-1 an exhaustive reassessment of the prospectivity led the joint venture to the conclusion that the area of greatest potential in the Ntem Concession lay in the Affected Area, to the south. As a result, on 6 May 2014 Murphy (as operator and on behalf of the Ntem joint venture partners) notified SNH of the joint venture's re-declaration of force majeure pending formal resolution of the conflicting maritime border claims. SNH has advised that "Cameroon does not recognise that any situation of Force Majeure exists in the Ntem Permit". Sterling Cameroon Limited is working with SNH to determine the forward plan for the Ntem Concession.

A summary of the Ntem asset details are provided on pages 11 and 12 of the Strategic Report.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

STRATEGIC REPORT

SOMALILAND

The onshore basins of Somaliland offer one of the last opportunities to target undrilled Mesozoic basins in Africa. The Odewayne Block is well located to explore this play covering a large area of a completely unexplored onshore rift basin. Geophysical data and geological field studies indicate that the basin underlying the Group's block has analogous characteristics to producing basins in Yemen.

Odewayne (WI 40%)

Overview

This very large unexplored acreage position comprises an area of 22,840km². Exploration to date has been limited to the acquisition of airborne gravity and magnetic data, with no seismic coverage and no wells drilled on block. The field data provides strong support for the presence of a deep sedimentary basin and geological fieldwork has highlighted the presence of numerous oil seeps at the surface giving encouragement that a working hydrocarbon system is present.

The Odewayne Production Sharing Agreement ('PSA') was awarded in 2005, and is in the Third Period with an outstanding minimum work obligation of 500km of 2D seismic. The Third Period was recently extended by two years (to 2 November 2016) in order to allow time for an Oil Field Protection Unit to be established (see below). The minimum work obligation during the Fourth Period of the PSA (also extended by 2 years to May 2018) is for 1,000km of 2D seismic and one exploration well.

The Company's wholly owned subsidiary, Sterling Energy (East Africa) Limited, currently holds a 40% working interest in the PSA. Sterling Energy (East Africa) Limited acquired an original 10% from Petrosoma Limited ('Petrosoma') in November 2013 and an additional 30% from Jacka Resources Somaliland Limited ('Jacka') in two transactions during 2014. In aggregate, as consideration, Sterling Energy (East Africa) Limited has paid \$17.0 million to date and a further \$8.0 million is to be paid to Petrosoma when certain operational milestones are reached.

The joint venturers in the PSA are:

- | | |
|--|-----|
| • Genel Energy Somaliland Limited (Operator) | 50% |
| • Sterling Energy (East Africa) Limited | 40% |
| • Petrosoma Limited | 10% |

Sterling Energy (East Africa) Limited is fully carried by Genel Energy Somaliland Limited ('Genel Energy') for its share of the costs of all exploration activities during the Third Period and the Fourth Period of the PSA.

Future Activity

Operations in Somaliland have been delayed while the Government of the Republic of Somaliland establishes a trained and equipped Oilfield Protection Unit that can provide the level of security required by the in-country operators to ensure that future seismic and drilling operations can be conducted safely and effectively.

In the meantime, results from extensive fieldwork will continue to be analysed to enable a greater understanding of the exploration play elements.

A summary of the Odewayne asset details are provided on pages 13 and 14 of the Strategic Report.

MADAGASCAR

The Group's Ambilobe and Ampasindava blocks are located in the Ambilobe and Majunga deep water basins, respectively, offshore north-west Madagascar.

Following the inauguration of Hery Rajaonarimampianina as the new president of Madagascar in January 2014, exploration activities on the Group's assets in Madagascar resumed. At that time agreement had been reached with OMNIS, the state regulator, to prolong the current exploration periods of both the Ambilobe and Ampasindava PSCs to September 2015, but more recently, further extensions of both licences to July 2016 have been approved and formally gazetted.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

STRATEGIC REPORT

Ampasindava (WI 30%)

Overview

The Ampasindava block covers some 7,379 km² and is located in the Majunga basin, offshore Madagascar. Water depths across the block range from 20m to 2,500m.

The Ampasindava PSC is currently in the third phase of the exploration period with a remaining minimum work commitment of one exploration well. In late 2013 ExxonMobil Exploration and Production (Northern Madagascar) Limited ('ExxonMobil') (WI 70% and Operator) and Sterling Energy (UK) Limited resumed exploration activities including acquisition of a 1,314km 2D seismic programme. The new seismic data provided improved sub-surface imaging over the Sifaka prospect but failed to mature additional leads and prospects within the Ampasindava Block to drill-ready status. In addition, a detailed subsurface re-assessment of the Sifaka prospect has led to a view that the technical and commercial risk remains too high; specifically the high chance of reservoir quality being poor (producibility concerns) and an increased phase risk for gas over oil.

Following the farm-in by ExxonMobil in 2005, Sterling Energy (UK) Limited's costs have been carried up to a fixed amount. The Group estimates that ExxonMobil's remaining carry at the beginning of 2015 applies to \$27 million of gross exploration costs; however the Group expects the cost of drilling an exploration well would exceed this amount.

Future Activity

Following the review of the remaining on block prospectivity and the Sifaka prospect specifically, ExxonMobil and Sterling Energy (UK) Limited have not planned to drill an exploration well in 2015 or 2016 and have engaged with OMNIS to discuss the outstanding work programme.

A summary of the Ampasindava asset details is provided on pages 15 and 16 of the Strategic Report.

Ambilobe (WI 50% & Operator)

Overview

The Ambilobe block covers some 17,650 km² and is located in the Ambilobe basin, offshore Madagascar. Water depths across the block range from shoreline to 3,000m.

The Ambilobe PSC is in the second phase of the exploration period and all work commitments have been fulfilled. The Ambilobe block is covered by an extensive database of vintage 2D data that has led to the identification of a number of Cretaceous and Tertiary aged leads, located in both shallow and deep waters, all of which require additional seismic data to develop into possible drillable prospects.

Sterling Energy (UK) Limited completed a farm-out agreement in December 2013 with Pura Vida Mauritius ('Pura Vida') under which Pura Vida assumed a 50% interest in the Ambilobe PSC and will pay all costs associated with a planned 1,250km² 3D seismic survey up to a maximum of \$15.0 million. Following the farm-out, Sterling Energy (UK) Limited retains a 50% interest in the PSC and remains as operator.

Future Activity

The Ambilobe joint venture will acquire 1,250 km² of new 3D seismic data, expected to be completed in Q2 2015. This data will be focused over an area of high-graded prospectivity following prior interpretation of vintage 2D seismic data. The required permits have been secured to allow the seismic acquisition. The survey will be undertaken by CGG and it is anticipated that processed time migrated data will be available for interpretation at the end of 2015. Depth migrated data will follow in Q1 2016 and will be an important factor in the "drill or drop" decision required by July 2016.

A summary of the Ambilobe asset details are provided on page 16 of the Strategic Report.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

STRATEGIC REPORT

MAURITANIA

Chinguetti (Economic Interest via Funding and Royalty Agreements)

The Company has economic interests in the Chinguetti field through a funding agreement with Société Mauritanienne Des Hydrocarbures et du Patrimoine Minier ('SMHPM'), Mauritania's national oil company, and a royalty agreement with Premier Oil through its wholly owned subsidiary Sterling North West Africa Holdings Limited.

Overview

Gross production during 2014 averaged 5,512 bopd (2013: 6,156 bopd) and the average production net to the Group, from the Group's economic interests during 2014, was 432 bopd (2013: 527 bopd). Production in the first half of the year was reduced by a planned sub-sea intervention campaign in January to consolidate maintenance and intervention programmes and minimise production down-time. This was completed, as planned, within 10 days.

The Company estimates that at the end of 2014, the net entitlement to 2P reserves is 292k barrels (2013: 559k barrels).

No infill drilling or workover activity took place on the Chinguetti field during 2014.

In early 2015, the Company was notified by Premier Oil ('Premier') that Premier's interest in PSC-A (including the Banda gas field), PSC-B (other than the Chinguetti field) and PSC C-10 had expired. Premier's exit from each of these PSC's does not affect the royalty currently received by the Group from Premier over Premier's interest in production from the Chinguetti field.

Future Activity

The Chinguetti joint venture is investigating how best to manage the Chinguetti field in the current low oil price environment. Discussions are being held with the Government of Mauritania and contractors to best manage the situation.

A summary of Chinguetti interests and a resource summary are provided on pages 10 and 19 of the Strategic Report.

C-3 (WI 40.5%)*

Overview

Block C-3 is located in shallow water within the Nouakchott sub-basin, offshore Mauritania and covers 9,800 km². The production sharing contract ('PSC') for Block C-3 is held by the Company's wholly owned subsidiary Sterling Energy Mauritania Limited (40.5% working interest), Tullow (49.5% working interest and operator) and SMHPM (10% working interest)*. SMHPM is carried by Sterling Energy Mauritania Limited and Tullow, pro-rata to their working interest, during the exploration phases. The PSC is in the first phase of the exploration period, which runs to June 2016, with a minimum work commitment of acquiring 1,600 km of 2D seismic data.

In late 2014, the operator acquired 1,600km of new 2D seismic data over Block C-3 and processing of the new seismic data will satisfy the minimum work obligations for the current phase of the exploration period.

* In February 2015, the Sterling Energy Mauritania Limited signed an agreement with Tullow Oil for the acquisition of a 40.5% working interest in PSC C-3. The transaction is subject to Mauritanian Governmental approval and completion with Tullow.

Future Activity

Reinterpretation of exploration efforts in light of the Cairn SNE-1 discovery in Senegal has highlighted the possible extension of an Albian clastic play into PSC C-3. Following the acquisition of the new 2D data, the joint venture will focus on the interpretation and integration of regional data in 2015, to inform the decision on entry into Phase 2 and the commitment to acquire 700km² of 3D seismic and drill one exploration well.

A summary of the C-3 asset details is provided on pages 17 and 18 of the Strategic Report.

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014
STRATEGIC REPORT

SCHEDULE OF INTERESTS

	Location	Size (km ²)	Licence Name	Sterling Working Interest %	Sterling Net Revenue Interest %	Operated/ Non-operated
Africa						
Mauritania	Offshore	29	PSC B - Chinguetti Field	n/a	Sliding scale royalty from 6% WI ¹	Non-operated
Mauritania	Offshore	29	PSC B - Chinguetti Field	n/a	Economic interest for approximately 8% of Chinguetti project ²	Non-operated
Mauritania	Offshore	9800	PSC C-3 ³	40.5%		Non-operated
Cameroon	Offshore	2,319	Ntem ⁴	100%		Operated
Madagascar	Offshore	17,650	Ambilobe ⁵	50%		Operated
Madagascar	Offshore	7,379	Ampasindava ⁵	30% ⁶		Non-operated
Somaliland	Onshore	22,840	Odewayne Block ⁷	40%		Non-operated

¹ The Company's royalty interests derive from Premier Oil's working interests of 6% in PSC B. The Company's royalty is up to 6% of Premier Oil's working interest.

² The Company's interest derives from the Funding Agreement with SMHPM.

³ Acquisition of PSC C-3 remains subject to Mauritanian Government approval and completion of the transaction with Tullow Oil.

⁴ Force majeure was lifted on 22 January 2014 in order to drill the Bamboo-1 well, as a result the current phase was extended to 22 April 2015. On 6 May 2014 force majeure was re-declared; SNH, however, has not accepted this as valid. Transfer of Murphy's 50% working interest and operatorship remains subject to Cameroon Ministerial approval.

⁵ The licences were taken out of suspension and new exploration periods were agreed with OMNIS; extensions to July 2016 have been approved and gazetted.

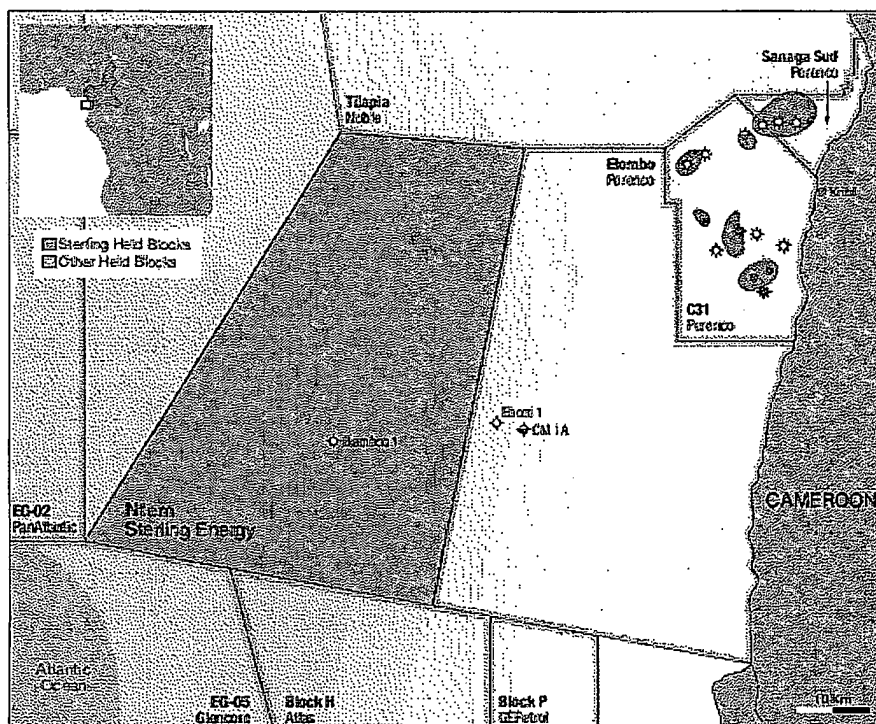
⁶ Carried for defined gross cost \$ amount.

⁷ Carried for the minimum work obligation of current phase and next phase of PSA.

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2014 STRATEGIC REPORT

ASSET SUMMARIES

CAMEROON – NTEM



Contract Summary

Contract type	Concession
Contract signed	14 March 2001
Contract effective date	3 September 2002
Contract area	2,319km ²

Participants

Sterling Cameroon Limited (Operator)	100%*
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*Pending approval by the Government of Cameroon

Exploration Term

Current First Renewal Period	On 6 May 2014 the joint venture declared force majeure pending formal resolution of the conflicting maritime border claims.
Minimum work commitment	Drill one exploration well (completed by drilling Bamboo-1).
Second Renewal Period (optional)	Two years duration
Second Renewal Period work commitment	Drill two exploration wells

State Participation

State may back in for a 10% participating interest in any development and production area

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

STRATEGIC REPORT

Production Term

Twenty five years, renewable for ten years

Licence History

During the first term of the concession over 2,100km of 2D and 1,500km² of 3D seismic data were acquired. Additional seismic and gravity data were also purchased.

In November 2011, Murphy Cameroon Ntem Oil Co. Ltd ('Murphy') farmed into the block becoming a 50% working interest partner in, and operator of the Ntem Concession. Sterling Cameroon Limited retained a 50% non-operated working interest.

The Ntem Concession entered force majeure from June 2005 to January 2014 as a result of overlapping maritime border claims by the Republic of Cameroon and the Republic of Equatorial Guinea affecting the licence area. Whilst the border claims have not been resolved by the Cameroon and Equatorial Guinea Governments, in January 2014 the joint venture partners agreed, with Société Nationale des Hydrocarbures ('SNH'), the national oil company of Cameroon, to formally lift the declaration of force majeure in order to allow drilling of the Bamboo-1 exploration well.

Following the lifting of force majeure, the current exploration period (the "First Renewal Period") of the Ntem Concession re-commenced on 22 January 2014. Upon lifting of force majeure the remaining term of the First Renewal Period was approximately 15 months (expiring April 2015). The minimum work obligation in the First Renewal Period to drill one exploration well was satisfied by the Bamboo-1 well. The Bamboo-1 well failed to find hydrocarbons and was plugged and abandoned on 16 April 2014.

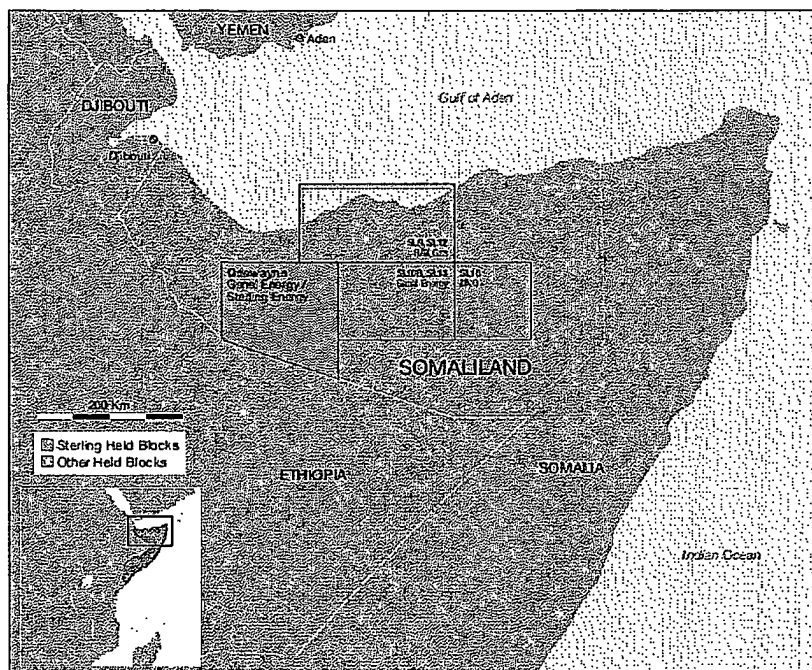
On 6 May 2014, Murphy (as operator and on behalf of the Ntem joint venture partners) notified SNH of the joint venture's re-declaration of force majeure pending formal resolution of the conflicting maritime border claims. SNH has advised that "Cameroon does not recognise any situation of Force Majeure exists in the Ntem Permit".

In February 2015, Sterling Cameroon Limited signed an agreement with Murphy whereby Murphy will transfer its 50% interest in, and operatorship of, the Ntem Concession to Sterling Cameroon Limited. Completion of the transaction remains subject to Cameroon Ministerial approval.

Sterling Cameroon Limited is working with SNH to determine the forward plan for the Ntem Concession given the declaration of force majeure.

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2014 STRATEGIC REPORT

SOMALILAND – ODEWAYNE



Contract Summary

Contract type	PSA
Contract signed	6 October 2005
Effective start date	6 October 2005
Contract area	22,840km ²

Participants

Genel Energy Somaliland Limited (Operator)	50%
Sterling Energy (East Africa) Limited	40%
Petrosoma Limited	10%

Exploration term

Phase 3	To 2 November 2016
Phase 3 work commitment	500km 2D seismic acquisition
Phase 4 (optional)	To 2 May 2018
Phase 4 work commitment	1000km 2D seismic acquisition and one exploration well
Phase 5 (optional)	To 2 May 2019
Phase 5 work commitment	500km 2D seismic acquisition and one exploration well
Phase 6 (optional)	To 2 May 2020
Phase 6 work commitment	500km 2D seismic acquisition and one exploration well

Production term

Twenty five years, renewable for ten years

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

STRATEGIC REPORT

State Participation

State may back in for up to a 20% participating interest in any development and production area

Licence History

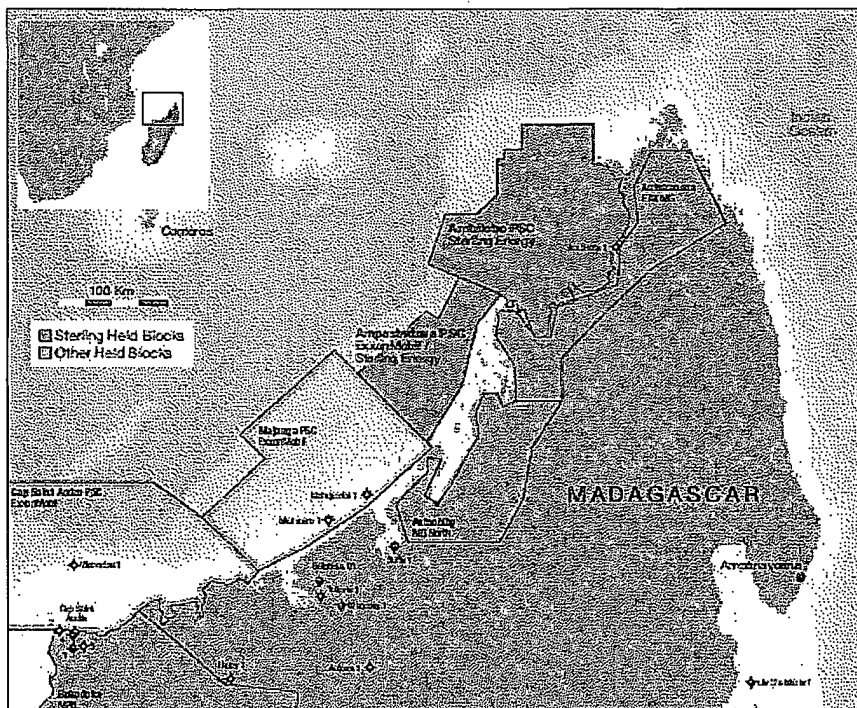
The Odewayne block is located onshore Somaliland. The block is at a frontier stage of exploration with no seismic coverage and no wells drilled, but with field data indicating the presence of a sedimentary basin and oil seeps at surface indicating the presence of a working hydrocarbon system.

Sterling Energy (East Africa) Limited acquired its 40% interest through separate farm-in agreements with Petrosoma and Jacka Resources, under which all Sterling Energy (East Africa) Limited's share of costs associated with the Phases 3 and 4 work programmes are carried by Genel Energy.

In May 2014, the Government granted the joint venture a 2 year extension to the current phase of the PSA (to 2 November 2016), and the dates of each subsequent phase were also adjusted accordingly.

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2014 STRATEGIC REPORT

MADAGASCAR



AMPASINDAVA

Contract Summary

Contract type	PSC
Contract signed	15 July 2004
Effective start date	28 November 2004
Contract area	7,379km ²

Participants

ExxonMobil (Operator)	70%
Sterling Energy (UK) Ltd	30%

Exploration term

Originally an eight year period (in four phases) with possible two year extension but suspended between February 2009 and November 2012.

Current Phase 3.

To July 2016.

Phase 3 Commitment

Drill one exploration well

Production term

Twenty five year period with possible extensions

Licence History

The Ampasindava block is located in the Majunga basin, offshore Madagascar. Water depths across the block range from 20m to 2,500m.

Sterling Energy (UK) Limited, as operator, fulfilled the Phase 1 and Phase 2 work programme commitments for the block by completing G&G studies and acquiring more than 3,000km of 2D seismic. In July 2005, Sterling Energy (UK) Limited, farmed out the block to ExxonMobil Exploration and Production (Northern Madagascar) Limited ('ExxonMobil'). Following acquisition, processing and interpretation of the new 2D seismic, Sterling Energy (UK) Limited transferred operatorship to ExxonMobil at the end of 2006.

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In November 2008 the joint venture partners elected to enter Phase 3 of the exploration period which has a one well commitment.

The Sifaka Prospect has been previously identified as the most likely prospect for drilling and is located in water depths of 500m to 1,800m. ExxonMobil and Sterling Energy (UK) Limited completed the acquisition of a discretionary 1,314km 2D seismic programme in December 2013 to provide additional control over the Sifaka prospect and to delineate previously identified leads within the Sifaka trend. However a thorough analysis by the joint venture has highlighted the high technical and commercial risks associated with the Sifaka prospect. In addition the new seismic data indicated that no additional leads can be matured to drill-ready status

Phase 3 of the Exploration Period was previously extended to September 2015, and a further extension to July 2016 has now been approved and gazetted.

Sterling Energy (UK) Limited estimates that ExxonMobil's remaining carry at the beginning of 2015 applies to \$28.3 million of gross exploration costs.

AMBILOBE

Contract Summary

Contract type	PSC
Contract signed	15 July 2004
Effective start date	28 November 2004
Contract area	17,650km ²

Participants

Sterling Energy (UK) Ltd	50% (Operator)
Pura Vida Mauritius	50%

Exploration term

Originally an eight year period (in four phases) with possible two year extension, but suspended between February 2009 and November 2012.

Current Phase 2	To July 2016.
Phase 2 Commitment	Completed
Phase 3 (optional)	One year duration
Phase 3 Commitment	Drill one exploration well

Production term

Twenty five year period with possible extensions

Licence History

The Ambilobe block is located in the Ambilobe basin, offshore Madagascar. Water depths across the block range from shoreline to 3,000m.

The Phase 1 and Phase 2 work programme commitments were fulfilled by conducting G&G studies, acquiring approximately 1,000km of new 2D seismic and processing more than 5,000km of new and vintage 2D seismic data.

Sterling Energy (UK) Limited signed a farm-out agreement in November 2013 with Pura Vida Mauritius ('Pura Vida') under which Pura Vida has assumed a 50% interest in the PSC. Pura Vida has paid Sterling Energy (UK) Limited \$1.25 million towards Sterling Energy (UK) Limited's past costs, and will pay all costs associated with the 3D seismic survey (expected to be completed in Q2 2015) up to a maximum cost of \$15.0 million. Following the farm-out, Sterling Energy (UK) Limited retains a 50% interest in the PSC and remains as operator.

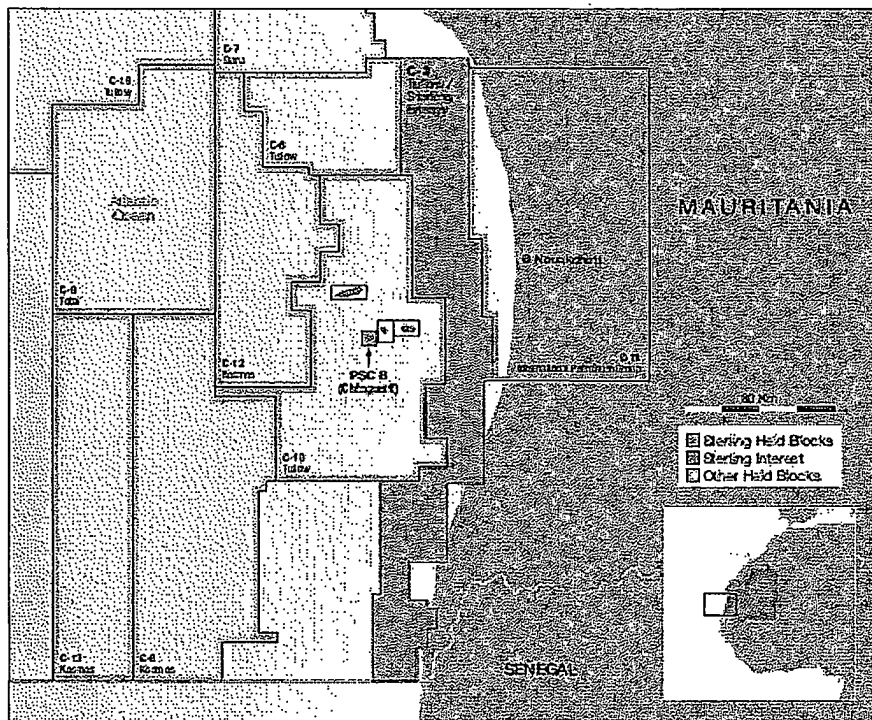
Sterling Energy (UK) Limited and Pura Vida continue with preparations for the 3D seismic programme which is expected to be completed in Q2 2015.

Phase 2 was previously extended to September 2015, and a further extension to July 2016 has now been approved and gazetted. There are no outstanding work commitments under the current phase of the PSC.

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MAURITANIA

BLOCK C-3



Contract Summary

Contract type	PSC
Contract signed	17 April 2013
Effective start date	30 June 2013
Contract area	9,781km ²

Participants

Tullow Mauritania Limited (Operator)	49.5%
Sterling Energy Mauritania Limited	40.5%*
Société Mauritanienne Des Hydrocarbures	
Et Du Patrimoine Minier ('SMHPM')	10%**

*Subject to approval by the Mauritanian Government

**Carried through exploration

Exploration term

Phase 1	To 30 June 2016
Phase 1 work commitment	1600km 2D seismic acquisition (Completed)
Phase 2 (optional)	To 30 June 2019
Phase 2 work commitment	1 well and 700km ² of 3D seismic
Phase 3 (optional)	To 30 June 2022
Phase 3 work commitment	1 well

Production term

Twenty five years

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State Participation

The State may back in for up a maximum of 18% participating interest (to include their 10% carried interest in the exploration phase) in any development and production area

Licence History

The Block is in the initial phase of exploration with the work commitment of acquiring 1600km of 2D data completed.

In February 2015, Sterling Energy Mauritania Limited signed an agreement with Tullow Oil for the acquisition by Sterling Energy Mauritania Limited of a 40.5% working interest in PSC C-3 in return for a consideration of approximately \$2.5m to compensate for past costs. The transaction is subject to Mauritanian Governmental approval.

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RESERVES SUMMARY

	2014 Oil (000 boe)	2014 Gas (mcf)	2014 Reserves (000 boe)	2013 Oil (000 boe)	2013 Gas (mcf)	2013 Reserves (000 boe)
Volumes of Proven plus Probable Reserves						
At 1st January	559	-	559	475	-	475
Revision - Chinguetti ⁽¹⁻³⁾	(109)	-	(109)	276	-	276
Production	(158)	-	(158)	(192)	-	(192)
At 31st December	292	-	292	559	-	559

1. The reserves stated are for the Company's net interests in the Chinguetti field only and are based on the Company's own assessment of reserves, as at 31 December 2014. The Group's interest in the Chinguetti field is through its Funding Agreement and Royalty Agreement; The Company does not have a direct equity participation in the Chinguetti field. The assessment was made in accordance with the definitions as set out on pages 90 - 93.
2. The Group has not booked reserves relating to other Mauritanian discoveries, on the basis that there are no approved development plans for these discoveries.
3. In accordance with the guidelines of the AIM Market of the London Stock Exchange, Mr Matthew Bowyer, Exploration Manager of Sterling Energy plc, who has been involved in the oil industry for over 18 years, is the qualified person that has reviewed the technical information set out above.



Matthew Bowyer
Exploration Manager
25 March 2015

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FINANCIAL REVIEW

Selected financial data

		2014	2013
Chinguetti production ¹	bopd	432	527
Year end 2P reserves ¹	000 boe	292	559
Revenue	\$million	16.0	18.4
Adjusted EBITDA ¹	\$million	5.1	9.1
(Loss)/profit after tax	\$million	(12.3)	8.3
Net cash investment in oil & gas assets	\$million	14.1	5.9
Year end cash (including partner funds)	\$million	108.1	120.8
Average realised oil price	\$/bbl	94.2	101.1
Total cash operating costs (produced)	\$/bbl	57.4	36.9
Year end share price	Pence	20	43
Share price change ¹	%	(55)	12

¹ Key performance indicators

Highlights

- Group net loss of \$12.3 million in 2014 (2013: profit \$8.3 million).
- Full impairment of both Chinguetti Funding Agreement and Royalty Agreement totalling \$6.0 million resulting from lower oil forecast price base and increased production decline rate.
- Cash balance at end of year \$108.1 million (2013: \$120.8 million).
- Average 2014 Chinguetti production, net to the Company, of 432 bopd (2013: 527 bopd).
- Debt free throughout 2014.

Revenue and cost of sales

2014 production, net to the Company, averaged 432 bopd, including royalty barrels, a decrease of 18% from the 527 bopd averaged in 2013, the reduced volumes reflect the 10 day planned production shutdown in January 2014.

Gross volumes lifted and sold during the year from the Chinguetti field were down by 6% to 2.1 million barrels (2013: 2.2 million barrels).

The lifting cost per barrel has increased in 2014 by \$16.2 to \$70.0 (2013: \$53.8). This was principally due to an increase in direct operating costs during the year, most of which are fixed and not variable, apportioned to a low level of production.

Currently, all of the Group's production is from the Chinguetti field and the Group's production was 388 bopd for the month of December 2014 (December 2013: 476 bopd).

A summary of revenue, cost of sales and lifting volumes are provided below:

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	2014	2013
Liftings (bbls) ¹	169,699	181,691
Revenue (\$million)	16.0	18.4
Revenue / bbl (\$)	94.2	101.1
Lifting cost (\$million)	(11.9)	(9.8)
Lifting cost / bbl (\$)	(70.0)	(53.8)

¹ Net Sterling production during the year totalled 157,751 (2013: 192,370)

Loss for year

The 2014 loss totalled \$12.3 million (2013: profit \$8.3 million).

	2014 \$ million
Profit for year 2013	8.3
Decrease in revenue	(2.4)
Increase in operating costs	(2.1)
Increase in other obligations	(3.4)
Decrease in G&A	1.1
Impairment reversal of Chinguetti (2013)	(4.4)
Impairment of Chinguetti FA and RA (2014)	(6.0)
Impairment of Ampasindava (2014)	(1.9)
Increase in finance net expense	(0.6)
Release of accrual on final dissolution of in-country branch (2013)	(0.9)
Loss for year 2014	(12.3)

Cost of sales for the Group increased by \$2.1 million mainly due to an increase on Chinguetti FPSO operating day rates.

The Group has made a provision in recognition of expected future net onerous commitments for 2015 under the Chinguetti Funding Agreement of \$3.4 million (2013: \$nil).

Group administrative overhead decreased during the year to \$2.1 million (2013: \$3.2 million). Included within this charge is \$659k (2013: \$1.2 million) with respect to share-based payment charges.

In 2014 a portion of the Group's staff costs and associated overheads are recharged to joint venture partners (\$576k), expensed as pre-licence expenditure (\$2.0 million), or capitalised (\$1.5 million) where they are directly attributable to capital projects. This totals \$4.1 million in the year (2013: \$4.2 million).

During 2014, the Group fully impaired the Chinguetti Funding Agreement and Royalty Agreement totalling \$6.0 million following the Group's commercial analysis of lower current and forecast oil prices and increased production decline rates.

The operator on the Ampasindava Block in Madagascar has identified there is no commercial drillable prospect. The Group has fully impaired the asset \$1.9 million at 31 December 2014.

A summary of these movements are provided below.

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	2014 \$ million	2013 \$ million
Group administrative overhead (page 55)	(2.1)	(3.2)
Costs capitalised	(1.5)	(2.0)
Costs recharged to JV partners	(0.6)	(0.1)
Pre-licence expenditure	(2.0)	(2.1)
	(4.1)	(4.2)
Share based payment expense	0.7	1.2
Other non-cash expenditure	0.1	0.1
Group cash G&A expense	(5.4)	(6.1)

Adjusted EBITDA and net loss

Group Adjusted EBITDA (as defined within the Definitions and Glossary of Terms on page 91) totalled \$5.1 million (2013: \$0.1 million).

Net loss after tax totalled \$12.3 million (2013: profit \$8.3 million). The basic loss per share was \$0.06 per share (2013: profit \$0.04 per share).

Interest received and finance expenses result in a net expense of \$878k (2013: \$251k) which includes exchange losses of \$181k (2013: \$66k) on GBP cash deposits held at 31 December 2014 reported in US Dollars, a non-cash finance expense of \$1.1 million (2013: \$434k) relating to the unwinding of the Chinguetti decommissioning provision (see Note 8 on page 75 and Note 20 on page 81), interest received totalled \$398k (2013: \$268k) and other finance expenses totalling \$16k (2013: \$19k).

No dividend is proposed to be paid for the year ended 31 December 2014 (2013: \$nil).

Cash flow

Net Group cash inflow generated from operating activities was \$1.4 million (2013: \$6.3 million); a full reconciliation of which is provided in the Consolidated Statement of Cash Flows.

Net cash investments in oil and gas assets totalled \$14.1 million (2012: \$5.9 million) and are summarised below:

	2014 \$ million	2013 \$ million
Somaliland	12.4	5.1
Madagascar	1.0	0.1
Cameroon	0.7	0.7
Kurdistan	-	-
	<u>14.1</u>	<u>5.9</u>

Net cash investments in the year do not include the \$3.0 million prepayment incurred in 2013.

Statement of financial position

At the year end, cash and cash equivalents totalled \$108.1 million (2013: \$120.8 million) of which \$1.1 million (2013: \$2.1 million) were held on behalf of partners, leaving a cash balance of \$107.0 million (2013: \$118.7 million). There are currently no restricted funds in the Group.

At the end of 2014, net assets/total equity stood at \$102.4 million (2013: \$114.1 million), and non-current assets totalled \$28.5 million (2013: \$21.6 million). Net current assets reduced to \$96.6 million (2013: \$114.1 million).

The Group's Chinguetti decommissioning provision increased during the year by \$1.1 million to \$22.7 million (2013: \$21.6 million).

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STRATEGIC REPORT

Cautionary statement

This financial report 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 Directors believe the expectation reflected herein to be reasonable in light of the information available up to the time of their approval of this report, the actual outcome may be materially different owing to factors either beyond the Group's control or otherwise within the Group's control but, for example, owing to a change of plan or strategy. Accordingly, no reliance may be placed on the forward-looking statements.

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STRATEGIC REPORT

BUSINESS RISK

Principal business risks

The long-term commercial success of the Group will depend on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Moreover, the Group may determine that current market conditions, terms of acquisition and participation, or pricing conditions make such acquisitions or participations uneconomic. The Directors have identified the following principal risks in relation to the Group's future performance. The relative importance of risks faced by the Group can, and is likely to change with progress in the Group's strategy and developments in the external business environment.

Strategic

Strategy risk

The Group's strategy may not deliver the results expected by shareholders. The Directors regularly monitor the appropriateness of the strategy, taking into account both internal and external factors, and the progress in implementing the strategy, and modify the strategy as may be required based on results. Key elements of this process are annual business plans which are reviewed every six months, in addition to ongoing strategy reviews, monthly reporting, and regular Board meetings.

Concentration risk

The Group's portfolio of assets remains relatively concentrated on early stage exploration within the African continent. The Board has considered broadening the exploration portfolio, using the existing financial resources of the Group, as an alternative element of the Group's strategy.

Competition risk

The petroleum industry is highly competitive across in all its lifecycle phases. The Group competes with numerous other participants in the search for acquisition and production of, oil and natural gas properties and in the marketing of oil and natural gas. The addition of exploration licences to the Group's portfolio is subject to increasing competition even in the currently depressed market. Many of the Group's larger competitors have significantly greater financial and technical resources and are able to devote more to the development of their business. The Group mitigates this risk by being highly selective in choosing where and when to deploy its business development resources.

Operational

Exploration risk

Exploration activities within the Group's licences may not result in a commercial discovery. Future oil and gas exploration may involve non-commercial efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Putting a well on production does not assure a profit on the investment or recovery of drilling, completion and operating costs. There is no certainty of success from the Group's existing portfolio.

The Group mitigates exploration risk through the experience and expertise of the Group's specialists, the application of appropriate technology, and the selection of prospective exploration assets. The Group has an ongoing objective to acquire additional exploration assets to enable diversification and risk mitigation across the exploration portfolio.

Operator risk

For some assets, the Group is dependent on other operators for the performance of E&P activities and will be largely unable to direct, control or influence the activities and costs of these operators.

By farming out exploration assets prior to drilling activities, the Group has reduced its cost exposure and may transfer operatorship to other, normally larger and more experienced, operators for drilling, appraisal and development activities, with a consequent increase in the Group's dependence on other operators for the performance of these activities.

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The Group carefully considers the technical, HSSE and financial capabilities of future potential operators during a farm-out process. ExxonMobil is the operator of the Ampasindava licence in Madagascar, Genel Energy is the operator of the Odewayne licence in Somaliland, and Tullow Oil is the operator of the C-3 licence in Mauritania.

External

Country risk

The Group's assets are located in non-OECD countries. Governments, regulations, and the security environment may change with a consequential effect on the Group's assets. The Group's assets in Cameroon, Madagascar, Somaliland and Mauritania are affected by country-specific situations; the use by governments of tax claims, real or not, as a pressure point to coerce oil companies also appears to be increasing.

In Cameroon, following the post balance sheet event (Note 26), Sterling Cameroon Limited will hold a 100% working interest in the Ntem block. The Governments of Cameroon and Equatorial Guinea continue to negotiate their joint maritime border, part of which runs concurrent with two of the Ntem block boundaries. The Group believes the final location of the maritime border will not impinge upon the Ntem area; however, there is no certainty that when agreement over the maritime border is reached the Ntem acreage will remain as it is defined under the current licence agreement with the Cameroon Government.

In Madagascar, Sterling Energy (UK) Limited holds 50% and 30% in the Ambilobe and Ampasindava licences respectively. Further approval has been given by OMNIS, the state regulator, to prolong the current exploration period of both licences, with no changes to the work commitments. These agreements were signed by the Government of Madagascar in October 2014 and formal gazettal ratified in February 2015. Extensions are confirmed through to July 2016. In Madagascar; however, there remains uncertainty over government and fiscal policy with regards to international trade taxes, economic growth and in-country investment.

In Somaliland, Sterling Energy (East Africa) Limited holds a 40% interest in the Odewayne licence. Somaliland is situated in the Horn of Africa and was, until 1960, a protectorate of the United Kingdom. The local government in Somaliland declared independence from the Republic of Somalia in May 1991 and has since developed the institutions and structures of democratic government. Although not officially recognised as an independent country, Somaliland maintains political contacts with its neighbours Ethiopia and Djibouti and a number of international countries, including the United Kingdom. The Government of Somaliland has conducted a tendering process for establishing an Oilfield Protection Unit (OPU); however, implementation has been delayed due to funding uncertainties and lack of clear UN support. The operator, Genel, is continuing to evaluate methods to initiate operations with sufficient levels of security in place.

In Mauritania, Sterling Energy Mauritania Limited has signed an agreement to purchase a 40.5% working interest in the C-3 block, offshore Mauritania. Block C-3 has an active work program with Phase 1 of the PSC due to expire in June 2016. Prior to 1996 it was believed there were no hydrocarbon resources in Mauritania with the first PSC being signed in that year; however first oil from the Chinguetti field commenced in February 2006 and the Company participates via its Funding Agreement with Société Mauritanienne Des Hydrocarbures et du Patrimoine Minier. There remains considerable uncertainty over the future abandonment of the Chinguetti field, together with future government and fiscal policy in respect of investment from international organisations in the exploration, development and production of hydrocarbons.

Country risk is mitigated by monitoring the political, regulatory and HSSE environment within the countries in which the Group holds its assets; engaging in constructive discussions where and when appropriate, and introducing third-party expertise if this may assist in resolution of issues affecting the Group's assets.

The Group has an objective to acquire additional assets for the exploration portfolio, which may assist in diversifying country risk.

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Other business risks

In addition to the principal risks identified above and general business risks, the Group's business is subject to risks inherent in oil and gas exploration, development and production activities. There are a number of potential risks and uncertainties, which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results.

The Group has identified certain risks pertinent to its business including:

Category	Risk
Strategic and Economic	Inappropriate or poorly conceived strategy and plans Failure to deliver on strategy and plans Business environment changes Competition and barriers to entry Failure to access new opportunities Operations in territories which are susceptible to political, fiscal and social instability Limited portfolio diversification Shareholder concentration
Operational	HSSE incident or non-compliance under local rules and/or laws Failure to add value through exploration and appraisal Poor field performance Licences, permits and/or approvals may be difficult to sustain Reliance on other operators Delays in conducting work programmes
Commercial	Failure to maximise value from existing interests Business environment changes Loss of control of key assets Dissatisfied stakeholders Failure to negotiate optimal contract terms Reserve and production estimations are not exact determinations Complex regulatory compliance
Human Resources and Management Processes	Failure to recruit and retain key personnel / human capital deficit Human error or deliberate negative action Bribery and corruption Inadequate management processes Insufficient timely information available to the management and the Board

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Financial	Restrictions in capital markets impacting available financial resource Oil or gas price volatility impacting both revenues and reserves Counterparty default Cost escalation and budget overruns Fiscal stability Operations under-insured Foreign currency risk Financial control of operated and non-operated assets Fraud and corruption / increased third party exposure
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The Directors regularly monitor such risks using information obtained or developed from external and internal sources, and will take actions as appropriate to mitigate these. Effective and proactive risk mitigation is critical to the Group in achieving its strategic objectives and protecting its assets, personnel and reputation. The Group has developed a business management system, including a risk management process that identifies key business risks and measures to mitigate these risks and then implements such measures considered appropriate. Other significant elements of the business management system include regular Board review of the business, defined process for preparation and approval of the annual work programme and budget, monthly management reporting, financial operating procedures, and HSSE and anti-bribery management systems.

The Group reviews its business risks and management systems on a regular basis and, through this process, the Directors continually identify the principal risks for mitigation. The Group manages some risks by ensuring the Group is in compliance with the terms of all its agreements, through the application of appropriate policies and procedures implemented in the business management system, and via the recruitment and retention of a team of skilled and experienced professionals.

Corporate responsibility

The Group is committed to conducting its business in a responsible and sustainable way. The Group recognises that it has corporate and social responsibilities to the indigenous communities in the areas in which it operates, to its partners, to its employees and to its shareholders. In pursuing its business objectives it undertakes not to compromise its corporate and social responsibilities with any of these stakeholders.

Business integrity

The highest ethical standards are the cornerstone of the Group's business. The Group is committed to conducting its business with integrity, honesty and fairness. All business activities are reviewed to ensure they meet these standards. The Group also seeks to ensure that similar standards are applied by its business partners, contractors and suppliers. All members of staff are individually accountable for their actions to ensure they apply and maintain these standards.

Community responsibility

The Company and its subsidiary undertakings are committed to being a good partner in the communities in which it operates. Engagement and dialogue with local communities is essential in ensuring, that where possible, projects benefit both the Group and the communities in which the project is located.

Employees

The Group is committed to providing a workplace free of discrimination where all employees are afforded equal opportunities and are rewarded on merit and ability. In the implementation of this policy the Group is committed to ensuring that all employees are given contracts with clear and fair terms.

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Staff are offered access to relevant training and encouraged to join professional bodies to enhance their knowledge, competence and career development.

The Group is committed to achieving the highest possible standards of conduct, accountability and propriety and to a culture of openness in which employees can report legitimate concerns without fear of penalty or punishment. The Group has a whistleblowing policy which empowers employees to be proactive, to report any failure to comply with legal obligations or the Group's regulations, dangers to health and safety, financial malpractice, damage to the environment, criminal offences and actions which are likely to harm the reputation of the Group. The whistleblowing policy allows employees to make anonymous reports directly to a non-executive Director.

Health, Safety, Security and Environment ('HSSE')

It is an objective of the Group that every individual is aware of his/her responsibility towards providing for a safe and secure working environment. HSSE and social responsibility leadership are core competencies throughout the Group's line management organisation. The Group's HSSE risks are managed in a systematic way by utilising procedures and appropriate training of staff, with the aim to reduce these risks to as low as is reasonably practical. The Group ensures that appropriate emergency response systems are in place to reduce and mitigate the impact and losses of any incident and any residual risks and that it is in compliance with all relevant laws, regulations and industry standards.

The Group maximises its influence with joint venture partners to share its HSSE and social responsibility values. Contractors are required to demonstrate and deliver a credible HSSE and social responsibility programme. In order to achieve continual improvement, the Group is committed to reviewing its HSSE and social responsibility performance at least each quarter.

The Group is committed to minimising its impact on the environment in both field operations and within its offices. All staff share responsibility for monitoring and improving the performance of its environmental policies with the objective of reducing our impact on the environment on a year-on-year basis.

The Strategic Report was approved by the Board of Directors on 25 March 2015 and signed on its behalf by:

The image shows two handwritten signatures. The signature on the left is for Gavin Milne, and the signature on the right is for Alastair Beardsall. Both are in black ink.

Gavin Milne
Company Secretary

Alastair Beardsall
Chairman

STERLING ENERGY PLC

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BOARD OF DIRECTORS

Alastair Beardsall, executive Chairman, aged 61

Alastair joined the Company in September 2009. He has been involved in the oil industry for over 35 years. For the first 12 years Alastair worked on international assignments with Schlumberger, the oil-field services company. From 1992 he began working for exploration and production operators, with increasing responsibility for exploration, development and production ventures. Between September 2003 and October 2009, Alastair was executive Chairman of Emerald Energy plc (Emerald). In October 2009 Emerald was acquired by Sinochem Resources UK Limited, for £7.50 per share in a transaction that valued Emerald at £532.0 million. Alastair is a non-executive director of Jupiter Energy Limited and advises other private companies in the oil and gas industry.

Eskil Jersing, Chief Executive Officer, aged 51

Eskil joined the Company on 23 March 2015. He holds a BSc in Geophysics from University College Cardiff and an MSc in Petroleum Geology from Imperial College London. He started his career in the oil and gas industry in 1985 as a Field Seismologist with SSL in Papua New Guinea. From 1993 to 2009 he worked for Enterprise Oil (London, Aberdeen, Houston, and Brazil), and following the takeover, Shell International (Houston); initially as a Senior Geophysicist, moving on to be the Gulf of Mexico Exploration Strategy and Planning Manager and finally as the Gulf of Mexico Paleogene Exploration Manager. In 2009 Eskil joined Marathon Oil (Houston) as their Exploration Manager (Conventional New Ventures) Worldwide and subsequently Apache Corporation (Perth) as Director Worldwide Exploration and New Ventures Asia Pacific. Most recently he was Head of New Ventures and Co-Head of Mergers & Acquisitions at Petrobras Oil & Gas BV (Rotterdam)

Nicholas Clayton, non-executive Director, aged 51

Nicholas was appointed a non-executive Director of the Company in October 2009. Nicholas is chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Nicholas has provided strategic and corporate finance advice to a number of public and private oil and gas companies since January 2007. Between August 2005 and December 2006 he was Global Co-Head of Oil and Gas Corporate Finance for Canaccord Adams. For the previous 5 years he held the position of Global Head of Oil and Gas Corporate Finance for Dresdner Kleinwort Benson, the investment bank, having previously been Global Head of Oil and Gas Research between 1997 and 2000. Nicholas obtained a first class honours degree in Business Studies, from Portsmouth Polytechnic in 1985. Nicholas serves as a non-executive Director of Alpha Petroleum Resources Limited and Circle Oil plc, where he is chairman of the Audit Committee.

Keith Henry, non-executive Director, aged 70

Keith was appointed a non-executive Director of the Company in September 2009. He chairs the Remuneration Committee and is a member of the Audit and Nominations Committees. He has over 35 years of international business experience in the development, ownership, design and construction of major facilities worldwide. He was with Brown & Root Limited for 23 years, the last five of which were as Chief Executive responsible for Europe, Africa and the FSU region. From 1995 to 1999 he was Chief Executive of National Power plc, and then Chief Executive of Kvaerner Engineering and Construction Ltd until June 2003. Keith serves as Chairman of Regal Petroleum plc as well as serving as a non-executive Director and advisor to a number of companies in the engineering, services and energy sectors. He is a Fellow of the Royal Academy of Engineering.

Malcolm Pattinson, non-executive Director, aged 71

Malcolm was appointed a non-executive Director of the Company in November 2010. Malcolm is Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees. Malcolm is a geoscientist with 40 years of experience and joined the Company in November 2010. Until 2001 he was the vice-president of exploration for Ranger Oil (subsequently CNR); and prior to this he was exploration vice-president for Hamilton Brothers Oil (subsequently BHP). From 2001 to 2006 Malcolm was a consultant for Tullow Oil. Malcolm is an honorary life member and former chairman of the Petroleum Exploration Society of Great Britain, and was awarded the medal for outstanding achievement in 1996 by the Petroleum Group of the Geological Society. He is the chairman of GTO Limited and was formerly a non-executive Director of Aurelian Oil and Gas plc.

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Application of UK corporate governance code principles

Throughout the year ended 31 December 2014 the Board has sought to comply with a number of the provisions of the UK Corporate Governance Code ('the Code') in so far as it considers them to be appropriate to an entity of the size and nature of the Group. The Directors make no statement of compliance with the Code overall and do not explain in detail any aspect of the Code with which they do not comply. The Group continues to keep its overall system of internal control under review.

The Board of Directors and its committees

Board Composition, Operation and Independence

The Board currently comprises the executive Chairman, one executive Director and three non-executive Directors. Each of the executive Directors has extensive knowledge of the oil and gas industry combined with general business and financial skills. All of the Directors bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards. The Board meets regularly throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

The Board is responsible to the shareholders for the proper management of the Company. A Statement of Directors' Responsibilities in respect of the financial statements is set out on page 53.

The Board has a formal schedule of matters specifically reserved for its decision. These include strategic planning, business acquisitions or disposals, authorisation of major capital expenditure and material contractual arrangements, changes to the Group's capital structure, setting policies for the conduct of business, approval of budgets, remuneration policy of Directors and senior management, and taking on debt and approval of financial statements. Other matters are delegated to the Committees of the Board and executive Directors, supported by policies for reporting to the Board.

Keith Henry is the Senior Independent Director. The Senior Independent Director is available to Shareholders if they have concerns which, through the normal channels of contact with the Chairman and CEO, have not been resolved or for which such contact is inappropriate.

The Group maintains Directors' and Officers' liability insurance cover and provides the Directors with indemnity, the level of which is reviewed annually.

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Meetings and Attendance

The following table summarises the number of Board and committee meetings held during the year and the attendance record of the individual Directors:

	Board Meetings	Audit Committee ¹	Remuneration Committee ²	Nominations Committee
Number of meetings in year	10	5	3	-
Alastair Beardsall	10	-	-	-
Philip Frank	9	-	-	-
Keith Henry	10	5	3	-
Nicholas Clayton	10	5	3	-
Malcolm Pattinson	10	5	3	-

¹ In addition to the Audit Committee meeting to discuss the annual audit and full year results, the Committee also meets in advance of announcements of a financial disclosure, including the Interim Results at 30 June and Q1 and Q3 Interim Management Statements.

² There were no separate Nominations Committee meetings held in the year as Nominations Committee matters were handled by either the Non-Executive Directors prior to, or by the Directors during, Board Meetings.

Induction and Training

New Directors, on their appointment to the Board, are briefed by the Board and management on the activities of the Group and its key business and financial risks, the Terms of Reference of the Board and its Committees, the list of Board reserved matters, and the latest financial information about the Group. The Chairman ensures that Directors update their skills, knowledge and familiarity with the Group to fulfil their roles on the Board and on Board Committees. Ongoing training is available as necessary and includes updates from the Company Secretary on changes to the AIM rules, the Code, requirements under the Companies Act and other regulatory matters. Directors may consult with the Company Secretary at any time on matters related to their role on the Board. All Directors have access to independent professional advice at the Company's expense.

Evaluation of the Board's Performance

Performance evaluation takes place for individual Directors, the Board and its Committees and includes assessing the effectiveness of the Board as a whole. The evaluation of the performance of Directors is carried out using peer appraisal questionnaires which combine business and personal performance and includes discussions with the Senior Independent Director. Aspects of performance include attendance and participation at Board meetings, quality of involvement in Committees, commitment and effectiveness of their contribution to Board activities (including the AGM and shareholder communications), the adequacy of training and non-executive Directors' independence. The process is conducted and reviewed by the Senior Independent Director, on behalf of the Nominations Committee; the Company Secretary is advised of its completion. The performance of the Chairman is reviewed annually in a meeting of the non-executive Directors, led by the Senior Independent Director. This review takes into account the views of executive Directors.

Retirement and Re-election

The Company's Articles of Association require that any Director who has been a Director at the preceding two Annual General Meetings and who was not been appointed or re-appointed by the Company, retire and stand for re-election. All new Directors appointed since the previous Annual General Meeting need to stand for election at the following Annual General Meeting.

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AUDIT COMMITTEE REPORT

An important part of the role of the Audit Committee is its responsibility for reviewing the effectiveness of the Group's financial reporting, internal control policies, and procedures for the identification, assessment and reporting of risk. The latter two areas are integral to the Group's core management processes and the Committee devotes significant time to their review. Further information on the risk management and internal control systems is provided within the Strategic Report on pages 24 to 28 and also on page 47.

One of the key governance requirements of a group's financial statements is for the report and accounts to be fair, balanced and understandable. The co-ordination and review of the Group-wide input into the Annual Report and Accounts is a sizeable exercise performed within an exacting time-frame which runs alongside the formal audit process undertaken by the external Auditors. Arriving at a position where initially the Audit Committee, and then the Board, is satisfied with the overall fairness, balance and clarity of the document, is underpinned by the following:

- comprehensive guidance issued to contributors at operational levels;
- a verification process dealing with the factual content of the reports;
- comprehensive reviews undertaken at different levels that aim to ensure consistency and overall balance; and
- comprehensive review by the senior management team

The Audit Committee has also championed efforts to remove unnecessary items from the Report and Financial Statements by stripping out duplication and sequencing information in a consistent and reasonable manner without compromising compliance with UK regulatory and accounting requirements.

An essential part of the integrity of the financial statements is the key assumptions and estimates or judgments that have to be made. The Committee reviews key judgments prior to publication of the financial statements at both the end of the financial year and at the end of the six month interim period, as well as considering significant issues throughout the year. In particular, this includes reviewing any subjective material assumptions within the Group's activities to enable an appropriate determination of asset valuation and provisioning and the accounting treatment thereof. The Committee reviewed and was satisfied that the judgments exercised by management on material items contained within the Report and Financial Statements are reasonable.

Additionally, the Committee also considered management's assessment of going concern with respect to the Group's cash position and its commitments for the next 12 months and was satisfied that the Group continues to be able to fund its liabilities from existing cash reserves which totalled \$108.1 million at 31 December 2014.

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness and the requirements for an internal audit function in the context of the Group's overall risk management system. The Committee is satisfied that the Group does not currently require an internal audit function; however, it will continue to periodically review the situation.

The Committee also considered the Group's whistleblowing procedures to ensure that its employees are able to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters. The Audit Committee met several times during the year to consider these matters.

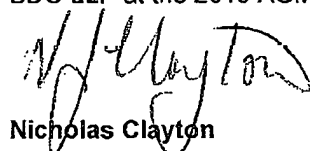
The external audit function plays an important part in assessing the effectiveness of financial reporting and internal controls and the effectiveness and quality of audit is of key importance. Our Auditors, BDO LLP have been in place since 2010 and, in line with the audit profession's own ethical guidance, the current audit engagement partner is due to rotate off the Company's account in the year ending 31 December 2015 having served for a period of five years.

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The Committee reviews the Auditors' independence and monitors the nature and level of non-audit fees payable to them on an annual basis. The Committee believes that certain work of a non-audit nature is best undertaken by the external Auditors, and believes that it is not appropriate to limit the level of such work by reference to a set percentage of the audit fee, as this does not take into account important judgments that need to be made concerning the nature of work undertaken to help safeguard the Auditors' independence. Details of fees payable to the Auditors are set out in Note 5 on page 74.

The Committee has reviewed the recent changes to the UK Corporate Governance Code (September 2014) including the best practice for companies to put the external audit contract out to tender at least every ten years. Having considered the FRC's guidance on aligning the timing of such re-tenders with the audit engagement partner rotation cycle, the Committee's current intentions are that it will initiate a re-tendering process prior to 2020. This policy will be kept under review and the Committee will use its regular reviews of Auditor effectiveness to assess whether an earlier date for such a re-tender would be desirable. Such regular reviews are used to assess the effectiveness of the external audit process and the Auditors' performance, with the Committee undertaking an internal assessment of the audit effectiveness and performance which is mapped against audit appointment criteria. The Committee has recommended to the Board that it recommend that shareholders support the re-appointment of BDO LLP at the 2015 AGM.



Nicholas Clayton

Chairman of the Audit Committee

25 March 2015

Members

This Committee comprises:

- Nicholas Clayton (Chairman)
- Keith Henry
- Malcolm Pattinson

Summary of responsibilities

- Reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- monitoring the integrity of the Group's financial statements, including a review of the management report issued by the executive management to the Board each month;
- monitoring the effectiveness of the internal control environment;
- making recommendations to the Board on the appointment of the Auditors;
- making recommendation to the Board on Auditors' fees;
- agreeing the scope of the Auditors' annual audit programme and reviewing the output;
- ensuring the independence of the Auditors is maintained;
- assessing the effectiveness of the audit process; and
- developing and implementing policy on the engagement of the Auditors to supply non-audit services.

The Auditors have unrestricted access to the Chairman of the Audit Committee. Audit Committee meetings are attended by the Auditor where and when appropriate and, by invitation, the executive Chairman, other Directors and senior management.

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2014 NOMINATIONS COMMITTEE

There were no separate Nominations Committee meetings held in the year, as Nominations Committee matters were handled by either the Non-Executive Directors prior to, or by the Directors during, Board Meetings.

The members of this Committee are currently Nicholas Clayton, Keith Henry and Malcolm Pattinson under the Chairmanship of Malcolm Pattinson. The Nominations Committee considers the composition of the Board and makes recommendations on the appointment of new Directors and those candidates presenting themselves for re-election at the AGM. The Senior Independent Director coordinates the annual performance evaluation of Directors.

The Nominations Committee was central to the search process for a CEO which culminated in the appointment on 23 March 2015 of Eskil Jersing; the Committee was involved in preparation of the search brief, compilation of short-lists for interviews by the Board and the final selection of the appointed candidate. The Remuneration Committee was involved in the recommendation of the package offered to the CEO prior to appointment.

Alastair Beardsall will retire by rotation and offer himself for re-election at the AGM. His biographical details, provided on page 29, demonstrate the range of experience and skill he brings to the Group. The Nominations Committee and the Board considers that his performance continues to be effective and that he has the necessary commitment to fulfil his respective role.

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REMUNERATION COMMITTEE REPORT

The Remuneration Committee convened several times during the year and has been actively engaged on all matters of corporate remuneration.

Over the past year, the Committee has considered the following matters:

- the terms of the 2009 All Staff LTIP, NED LTIP and HMRC Approved schemes and, if in the current economic conditions being experienced in the natural resources sector, whether or not they retain the ability to motivate, incentivise and retain the calibre of staff and management required to promote future success for the Group;
- the 2014 awards under the 2009 All Staff LTIP rules to staff and executive management;
- the 2014 review of achievement of certain corporate objectives (KPI) and subsequent;
- the setting of 2015 corporate objectives (KPI); and
- the proposed basic salary uplift for 2015 to reflect general inflation and merit awards for staff and executive management

The safe operation of our activities, the management and maturation of the Group's assets, and the selective pursuit of new business opportunities, are three main criteria on which the performance of the Company's executive team and employees are judged when considering remuneration.

In both Cameroon and Madagascar, projects that previously experienced very limited operational progress have seen significant activity in 2014 and 1H 2015 respectively. In Somaliland, the acquisition of a 40% in the Odewayne licence was completed in 1H 2014 and added to the Group's portfolio of projects. Refer to the Operations Review for details on current assets.

New venture identification, appraisal, and subsequent delivery, continues to be challenging in a competitive market where there are a limited number of attractive opportunities to selectively pursue. The Committee was satisfied with the number of opportunities reviewed by management who continue to work hard to short-list and appraise ventures with a view to only pursuing those where they see material upside for shareholders.

The Committee, when reviewing base salaries for staff and executive Directors, consider matters of retention, motivation, the economic climate (CPI/RPI), the challenges facing the business and appropriate industry benchmarks of remuneration in peer companies. The annual base salary levels for executive Directors were as follows:

Director	2014 salary	2013 salary	% change
Alastair Beardsall	£193,400	£180,000	7%
Philip Frank	£249,000	£231,800	7%

As the Company's executive Chairman, Alastair Beardsall has executive responsibilities, but remains a part-time employee.

The non-executive fees are determined by the Board with no Director voting on his own remuneration. For 2014 the fees for each non-executive individual were £35,000 (2013: £33,000).

The Committee awarded no bonuses to the executive Directors during the year:

The rules of the Company's Staff Bonus Scheme permit the award of an annual bonus to executive Directors where:

- The total annual bonus is capped at a maximum of 100% of the base salary;
- up to 50% may be awarded for achieving certain corporate objectives, for 2014 these objectives included HSSE performance, new ventures and farming out certain assets;

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- up to 50% may be awarded for *exceptional* personal performance; *exceptional* is performance above and beyond that expected under the individual's job description.

Director	2014 Bonus	2013 Bonus	% change
Alastair Beardsall	£0	£31,500	n/a
Philip Frank	£0	£40,570	n/a

Annual bonuses are also granted to eligible UK staff under the same rules; the maximum percentage that can be awarded reflects the individual's skills and experience. Bonuses are not awarded to non-executive Directors.

The Committee awarded the following options under the All Staff LTIP schemes:

Director	2014 LTIP award	2013 LTIP award	% change
Alastair Beardsall	727,100	1,657,500	decrease 56%
Philip Frank	936,100	627,000	increase 49%

Alastair Beardsall is considered by the Panel on Takeovers and Mergers ('Panel') to be a concert party with Waterford Finance and Investment Limited. Consequently, any LTIP award would require a Rule 9 Waiver granted by the Panel and approved by the shareholders at a general meeting and Alastair Beardsall has therefore declined to accept any LTIP awards since 2009 to avoid this necessity. However, in recognition of Alastair Beardsall's significant executive role during the past five years, the Committee wished to better align his incentive package with the interests of shareholders and, accordingly, considered that the awards totalling 2,384,600 options for 2013 and 2014 was appropriate. The award represents the aggregate of the awards that would have been made to him for the period 2010-2014 had he accepted the awards offered previously for these years. These awards remain subject to the granting of a Rule 9 Waiver by the Panel being approved by the shareholders at a general meeting.

Under the Remuneration Policy, the Committee recommended the grant to Philip Frank of 936,100 options under the All Staff LTIP which represents an amount capped at 100% of annual salary.

Under the vesting criteria of the All Staff LTIP, options granted will only vest if the Company Share Price meets the criteria set out in Note 24 on page 86. Under these criteria, if the Company Share Price underperforms the FTSE 350 Index, by more than 10% then no options will vest. For 100% of the options to vest the Company Share Price must outperform the FTSE 350 Index by more than 50%. No LTIPs vested in the year.

The Company also utilises an HMRC approved Company Share Option Plan ('CSOP') that allows both the Company and the employee to benefit from some tax savings offered on the exercise of qualifying options. The specific details of the scheme can be found in Note 24 on page 87. Where appropriate, Directors, senior management and other employees have been issued options under the HMRC Sub-Plan in preference to the non-approved All Staff LTIP; the sum of the awards to all individuals under the HMRC Sub-Plan and All Staff LTIP is equal to the number that would have been issued under the All Staff LTIP if the HMRC Sub-Plan had not been approved and implemented.

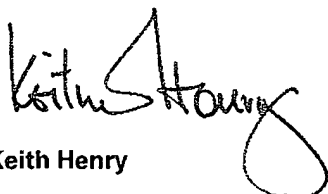
Given the current economic climate in the natural resources sector, the Committee is to consider whether or not the All Staff LTIP and HMRC approved CSOP schemes retain the ability to motivate, incentivise and retain the calibre of staff and management required to promote future success for the Group.

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On 18 December 2014 the Company announced Philip Frank's intention to stand down from the Board. Philip joined the Company in 2011 and has guided the Group through its exploration activity including the drilling of the Bamboo -1 well in Cameroon. In addition he secured the Group's entry into the Odewayne prospect in Somaliland. The Board wishes him well in his future endeavours.

The Company made considerable progress during 2014 which will hopefully act as the springboard for future success in 2015 and beyond. In recognition of this, the Committee believes that the recommendations it has made to the Board on executive and staff remuneration have been fair, balanced and reflective of the corporate objectives that were met during the year.



Keith Henry

Chairman, Remuneration Committee

25 March 2015

Members

This Committee comprises:

- Keith Henry (Chairman)
- Nicholas Clayton
- Malcolm Pattinson

Summary of responsibilities

- Agreeing a policy for the remuneration of the Chairman, executive Directors and other senior executives;
- within the agreed policy, determining individual remuneration packages for the Chairman, executive Directors and senior employees;
- agreeing the policy on terms and conditions to be included in service agreements for the Chairman, executive Directors, and other senior executives, including termination payments and compensation commitments, where applicable; and
- the approval of any employee incentive schemes and the performance conditions to be used for such schemes including share performance targets.

Operation of the Committee

The Remuneration Committee makes recommendations to the Board, within its agreed terms of reference, on the structure and overall remuneration package for executive Directors and reviews the remuneration for other senior employees. The Committee consists entirely of non-executive Directors and, where appropriate, will invite executive Directors or senior managers to attend meetings to provide suitable context for its discussions. Only members of the Committee participate in discussions and reach conclusions on matters with which the Committee is responsible. No member or attendee is authorised to participate in matters relating to their own remuneration. Non-executive Directors' fees are considered and agreed separately by the Board. The Committee has not engaged the services of any remuneration consultants during the year.

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Remuneration Strategy

The Company remuneration strategy is to provide a remuneration package that:

- helps to attract, retain and motivate;
- is aligned to shareholders' interests;
- is competitive within the appropriate market;
- encourages and supports a performance culture aligned to the achievement of the Company's strategic objectives; and
- is fair and transparent.

Remuneration Policy

The Company's policy on Directors' remuneration is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhancing shareholder value. The package consists of salary, performance related bonus, pension provision, other benefits such as private medical cover, life assurance and share options awarded under the All Staff LTIP. The balance between these components is targeted at base salary levels around the middle of the range for peer companies with material additional remuneration linked to performance and results that add materially to shareholder value.

The Company acknowledges the benefit of the executive Directors accepting appointments as non-executive Directors of other companies; however, if they accept more than two such appointments, they are required to deduct such fees for those appointments from their Company executive remuneration.

Details of individual components of executive remuneration are:

Elements of package	Purpose and link to strategy	How element is reviewed
Base salary and fees	To recognise market value of the role, reflecting the individual's skills, experience, authorities and responsibilities, to ensure the business can attract and retain the appropriate directors, both executive and non-executive.	Reviewed annually. The Committee uses comparator data collected from published accounts and industry surveys of peer companies to determine the base salary for each of the executive directors. No executive remuneration consultants were used during the year. The executive directors use peer group data to determine the level of fees for the non-executive directors.
Performance related bonuses	To incentivise and reward, on an annual basis, the performance of individuals, and the Group on both financial and non-financial metrics.	Objectives (KPIs) are set, prior to the year under review, to align near-term goals with the longer term sustainable future of the Group. At the end of each year the Committee considers if the KPIs have been achieved in addition to individual performance and contribution to the Group. The maximum level of performance related bonus for executive Directors is capped at 100% of annual salary; non-executive Directors do not participate in the bonus scheme.

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All Staff LTIP, NED LTIP, HMRC Approved schemes	To reward delivery of sustained long-term total shareholder returns (TSR) performance aligned to the interests of shareholders.	The All Staff and NED LTIP scheme options are equity settled and have a vesting period of three years. If options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the employee or Director leaves the Group before the options vest or are exercised, however, the Committee may exercise discretionary powers in certain circumstances. All Staff LTIPs are subject to the performance conditions set out in Note 24 on page 86. NED LTIPs have no performance conditions attached to them. The maximum value to which options may be granted in any one year is capped, the cap is based upon the individual's role and responsibilities, for the executive Directors the cap is 100% of annual base salary.
Pension provision	To provide competitive retirement benefits commensurate with schemes offered by peer companies.	The Group operates a number of defined contribution pension schemes pursuant to which it contributes 10% of pensionable salary per eligible member. Scheme membership and contribution is linked to the member's base salary (see above).
Other benefits	To provide competitive cost-effective benefits through leveraging the Group's size and scale.	The Group subscribes to a number of benefits for employees and Directors which include life assurance, income protection, subsidised fitness centre membership and private medical insurance, some of these benefits are linked to base salary.

The Company operates no defined benefit schemes and no material changes to the benefits have been made during the year.

The principles and criteria used in the remuneration of executive personnel do not differ materially from those listed above. The Committee may incentivise the engagement of new employees by way of uplift to the LTIPs awarded in the first year of employment. No upper limit to the size of the uplift to the LTIP award has been set as the Committee will consider sign-on awards on a case-by-case basis. No cash settled sign-on payments are made.

Notice periods for Directors are in line with Code guidance, none are currently greater than six months with Code guidance being none greater than twelve months.

Termination payments made to Directors on loss of office that are not provided for within their service contracts are only made if the Committee considers them appropriate, has recommended them to the Board and the Board has granted their approval.

Following the remuneration policy set out above the Remuneration Committee has determined the following packages for 2015:

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Alastair Beardsall, Executive Chairman, will receive a base salary, effective 1/1/2015, of £197,300, a 10% non-contributory pension contribution paid directly to Alastair Beardsall and other benefits as set out above.

Eskil Jersing, Chief Executive Officer, will receive a base salary, effective 23/3/2015, of £275,000, a 10% non-contributory pension contribution paid to Eskil Jersing's personal pension scheme and other benefits as set out above.

For Alastair Beardsall and Eskil Jersing any award under the performance related bonus scheme will be determined at the end of 2015 and will be based on achievement of certain corporate KPIs and individual performance, the principles of the bonus scheme are set out on page 38. The Company considers the specifics of the KPIs to be commercially sensitive as they reflect the Company's commercial strategy; in general the KPIs are focused on HSE, new ventures and managing the Companies financial exposure to its existing assets.

The award of options under the Companies All Staff LTIP plan to Alastair Beardsall and Eskil Jersing will be determined by the Remuneration Committee during the year in accordance with the principles as set out on page 39, and disclosed at the time of any award.

Following the remuneration policy set out above the executive directors have determined the fees for the non-executive directors for 2015 be set at £35,700.

All Staff and NED LTIPs

Directors' interests in LTIPs are accounted for under IFRS 2 - Share-Based Payments; accounting charges in the period are detailed in Note 24 on page 88.

The Directors' interests in the All Staff LTIP scheme, which was approved by shareholders at the EGM held on 22 December 2009, are as follows (audited):

	1st January 2014	Lapsed	Granted	Exercised	31st December 2014	Exercise price	Earliest exercise date ¹	Latest exercise date ¹
Alastair Beardsall	1,657,500	-	727,100	-	2,384,600	40p	01/11/2016	30/09/2019
Philip Frank	2,498,850	(1,097,600)	936,100	-	2,337,350	40p	01/10/2015	30/09/2019
Philip Frank	69,500	-	-	-	69,500	43p	10/12/2016	09/12/2018
	<u>4,225,850</u>	<u>(1,097,600)</u>	<u>1,663,200</u>	<u>-</u>	<u>4,791,450</u>			

¹ If the Company is in a closed period, the earliest and latest date of exercise may vary.

No gains were made on the exercise of options during the year (2013: nil).

The non-executive Directors' interests in the NED LTIP, which was approved by shareholders at the EGM held on 22 December 2009, are as follows (audited):

	1st January 2014 ²	Lapsed	Granted	Exercised	31st December 2014	Exercise price	Earliest exercise date ¹	Latest exercise date ¹
Nicholas Clayton	228,150	(125,000)	-	-	103,150	40p	01/10/2015	30/09/2017
Keith Henry	228,150	(125,000)	-	-	103,150	40p	01/10/2015	30/09/2017
Malcolm Pattinson	186,483	-	-	-	186,483	40p	01/10/2013	30/09/2017
	<u>642,783</u>	<u>(250,000)</u>	<u>-</u>	<u>-</u>	<u>392,783</u>			

¹ If the Company is in a closed period, the earliest and latest date of exercise may vary.

² Awards approved by shareholders on 22 December 2009, 28 April 2011 and 19 April 2013.

No LTIPs vested in the year as the performance conditions were not met.

The rules of the LTIP schemes and a full list of performance conditions and vesting criteria can be summarised in Note 24 on page 86.

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Service contracts

Directors' service contracts are reviewed annually at the end of each calendar year with any changes taking effect from 1 January of the following year. The 2014 salary review was implemented on 1 January 2015 and is incorporated within the numbers below:

Director	Commencement of appointment	Date of current contract	Base annual salary	Notice period
Alastair Beardsall	8 September 2009	1 January 2011	£197,300	6 months
Philip Frank	3 October 2011	3 October 2011	£254,000	6 months

Non-executive Directors do not have service contracts, but instead each has a letter of appointment setting out the terms and conditions of their appointment, details of which are as follows:

Director	Commencement of appointment	Date of current contract	Base fees per annum
Nicholas Clayton	1 October 2009	1 October 2009	£35,700
Keith Henry	8 September 2009	8 September 2009	£35,700
Malcolm Pattinson	15 November 2010	15 November 2010	£35,700

Save for the fees outlined above and the share options awarded under the NED LTIP, the non-executive Directors are not entitled to any other benefits or arrangements.

Except as disclosed above, there are no service contracts or letters of appointment in force between any Director with the Company or the Group as at the date of this document.

Directors and their interests (audited)

The Directors, who served during the year and subsequently, together with their beneficial interests in the issued share capital of the Company, were as follows:

Ordinary shares of 40p each	14-Mar 2015	31-Dec 2014	31-Dec 2013
Alastair Beardsall ¹	1,062,500	1,062,500	1,062,500
Philip Frank ¹	132,204	132,204	132,204
Keith Henry ²	500,000	500,000	500,000
Nicholas Clayton ²	125,000	125,000	132,500
Malcolm Pattinson ²	62,810	62,810	62,810

¹ Executive Director.

² Non-executive Director, member of the Audit, Remuneration and Nominations Committees.

Beneficial shareholdings include the shareholdings of a Director's spouse and infant children.

The Company has granted an indemnity to its Directors (including subsidiary undertakings) under which the Company will, to the maximum extent possible, indemnify them against all costs, charges, losses and liabilities incurred by them in the performance of their duties.

The Company provides limited Directors' and Officers' liability insurance, at a cost of approximately \$26k in 2014 (2013: \$22k).

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Aggregate remuneration

The single figure of total remuneration paid to Directors in 2014 and 2013 is summarised below (audited):

2014 REMUNERATION	Fees and basic salary £	Bonus £	Defined contribution pension £	Benefits in kind £	Single figure remuneration Total 2014 £
Executive Directors					
Alastair Beardsall	212,740	-	-	7,061	219,801
Philip Frank	249,000	-	24,900	8,880	282,780
Angus MacAskill (resigned 16 August 2013)	-	-	-	-	-
Non-executive Directors					
Nicholas Clayton	35,000	-	-	-	35,000
Keith Henry	35,000	-	-	-	35,000
Malcolm Pattinson	35,000	-	-	-	35,000
Aggregate remuneration 2014 (£)	566,740	-	24,900	15,941	607,581
Aggregate remuneration 2014 (US\$)	933,728	-	41,024	26,264	1,001,015

2013 REMUNERATION	Fees and basic salary £	Bonus £	Defined contribution pension £	Benefits in kind £	Single figure remuneration Total 2013 £
Executive Directors					
Alastair Beardsall ¹	198,000	31,500	-	4,398	233,898
Philip Frank	231,800	40,570	23,180	8,683	304,233
Angus MacAskill (resigned 16 August 2013)	258,458	-	17,109	3,647	279,214
Non-executive Directors					
Nicholas Clayton	33,000	-	-	-	33,000
Keith Henry	33,000	-	-	-	33,000
Malcolm Pattinson	33,000	-	-	-	33,000
Aggregate remuneration 2013 (£)	787,258	72,070	40,289	16,728	916,345
Aggregate remuneration 2013 (US\$)	1,231,584	112,746	63,028	26,169	1,433,527

¹ Includes pension contributions paid as cash.

In addition to the remuneration paid to directors as above, further payments for 'loss of office' were made to Angus MacAskill in the year of £74,745 (2013: £74,745). These payments were made on the execution of Angus MacAskill's Settlement & Compromise Agreement.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

Fees & Basic Salary

Base fees and salary remain the foundation stone of the directors' remuneration packages which determine the levels of other elements such as pension contributions and bonus payments. When setting base salaries for executive directors, the Company Remuneration Committee will take into account:

- the director's performance, individual responsibilities, authorities and experience; and
- comparisons with salary levels in peer group companies gathered from disclosure in various public documents such as peer group annual reports and accounts.

The basic salary is used to determine the level of pension contributions. The level of fees for the non-executive directors is set by the executive directors with reference to the fees paid to non-executive directors in peer group companies.

Bonus

The Remuneration Committee administers the bonus scheme for the for the Company considers whether executive directors are eligible for an annual and/or interim bonus payment; and has an oversight for bonus awards to staff. The bonus scheme comprises of two parts, (i) corporate performance as measured against pre-determined objectives (KPI), and (ii) individual performance; refer to page 38 for further details. If so, performance conditions will be relevant to the award, stretched and designed to enhance shareholder value and to promote the long term success of the Company. Upper limits are set and disclosed by the Remuneration Committee. The Remuneration Committee reviewed the outcome of the Company's performance with regard to its 2014 KPIs and noted that it had not met any of its key objectives and accordingly no executive bonuses were awarded to the executive directors in 2014. As a comparison, in 2013 the Remuneration Committee agreed that a percentage proportion of the 2013 KPIs had been achieved and awarded such executive bonuses to the executive directors accordingly. The Company considers the KPIs to be commercially sensitive as they reflect the Company's commercial strategy; in general the KPIs are focused on HSE, new ventures and managing the Companies financial exposure to its existing assets. The KPIs for 2014 are similar to those adopted in 2013. Non-executive directors are not eligible to receive bonus payments.

Defined Contribution Pension

The defined contribution pension scheme is an employer contribution scheme calculated at 10% of base salary. Such payments are made into individual director personal pension plans as chosen by each individual director. On retirement, such contribution payments cease from the effective date of cessation of employment. Contributions to Phil Frank's pension scheme will cease following his departure from the Company. Non-executive directors are not eligible to receive pension contributions.

Benefits in Kind

Taxable benefits in kind for executive directors include Company paid private medical health schemes and associated cash plans, the latter is subject to an annual limit. In addition the Company pays for both life insurance, travel insurance, directors and officers insurance and disability cover, such benefits are not taxable benefits for individual directors.

The table below sets out the total remuneration for the Company's CEO for the past six years:

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2014

		CEO single figure of total remuneration (£)	% change	Annual bonus payout against maximum opportunity (%)	Long-term incentive vesting rates against maximum opportunity (%)
2014	Alastair Beardsall ¹	219,801	(51.3%)	-	-
2013	Angus MacAskill ² /Alastair Beardsall	451,417	52.4%	-	-
2012	Angus MacAskill	296,169	(18.9%)	-	-
2011	Angus MacAskill	365,004	(0.4%)	23%	-
2010	Graeme Thomson/Angus MacAskill	366,377	(51.2%)	-	-
2009	Graeme Thomson	751,003	91.9%	-	-

¹ Part-time

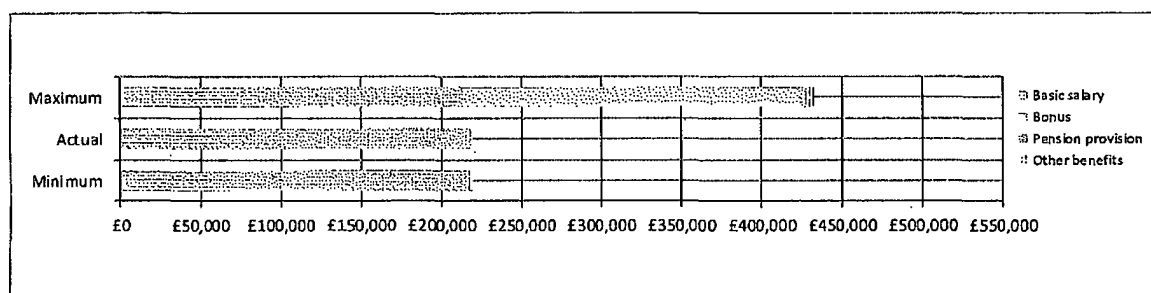
² Includes £74,745 paid as compensation for loss of office.

Since August 2013, Alastair Beardsall has acted as interim CEO in addition to being executive Chairman (his remuneration as relating to his appointment in 2013 has been prorated accordingly).

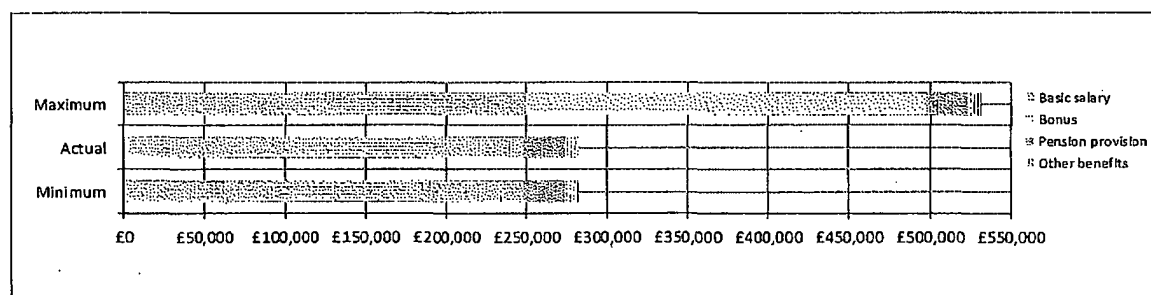
The annual percentage change in CEO single figure remuneration for years 2009 to 2014 compares with that of all employees: (8.8%), 1.3%, (23.9%), (20.5%), 8.5% and (19.8%) respectively.

The graphs below show the value of the executive Director packages for 2014 together with minimum and maximum remuneration attainable:

Alastair Beardsall (executive Chairman and interim CEO)



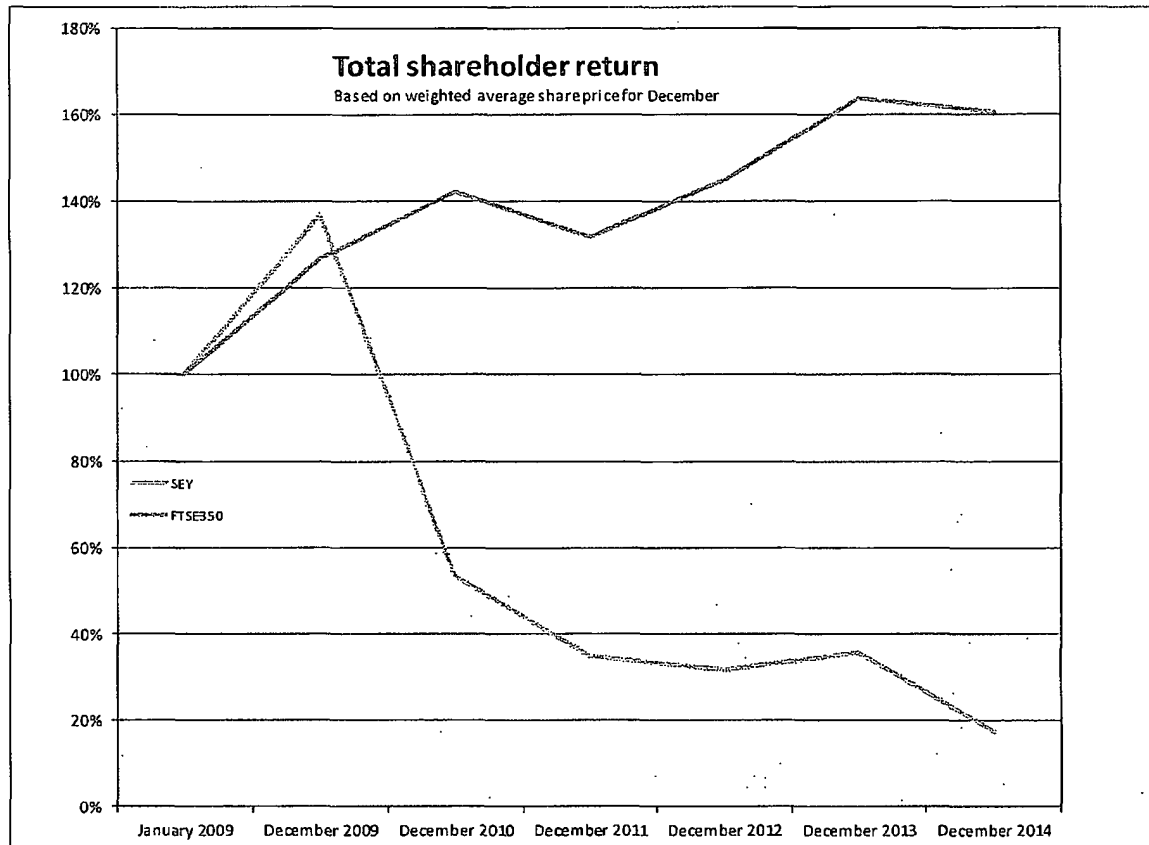
Philip Frank (Exploration Director)



Performance graph

The graph below shows a comparison between the TSR for the Company's shares for the five-year period to 31 December 2014 and the TSR for the companies comprising the FTSE 350 Index over the same period. This index has been selected to provide a relevant comparator to the Company. The TSR measure is based on the weighted average share price for December.

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2014



- In August 2009 the Company announced the raising of £62.5 million by way of a share placing at the equivalent of 52p per share and the repayment of \$35 million of historic debt.
- In October 2009 the Company announced the sale of its US business for \$90 million.
- In December 2009 the Company completed on the sale of the US business and announced an Open Offer to its shareholders to subscribe for £20.4 million at 52p per share.
- In February 2010 the Sangaw North-1 exploration well was spudded in Kurdistan.
- In September 2010 the Company announced the initial drilling results from the Sangaw North-1 well which had not, at that time, encountered hydrocarbons at commercially recoverable flow rates.
- In July 2011 the Company announced that it had plugged and abandoned the Sangaw North-1 well.
- On 9 February 2014 the Ntem Bamboo-1 exploration well was spudded offshore Cameroon.
- On 8 April 2014 the Company announced the drilling results from the Ntem Bamboo-1 well which had not encountered commercial hydrocarbons and the well was to be plugged and abandoned.

The table below shows the total Group remuneration compared to the total distribution to shareholders:

	Total Group remuneration (£)	Total distribution to shareholders
2014	1,810,941	-
2013	2,256,832	-

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

COMMUNICATIONS WITH SHAREHOLDERS

The Board is accountable to the Company's shareholders and as such it is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of the Group's longer term goals.

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Press releases are issued throughout the year and the Company maintains a website (www.sterlingenergyplc.com) on which press releases, corporate presentations and the Report and Financial Statements are available to view. Additionally this Report and Financial Statement contains extensive information about the Group's activities. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. Shareholders and other interested parties can subscribe to receive notification of news updates and other documents from the Company via email. In addition the executive Directors meet with major shareholders to discuss the progress of the Company.

The executive Chairman provides periodic feedback to the Board following meetings with shareholders. The Senior Independent Director also attends some shareholder meetings to ensure the Board is apprised of all feedback provided by such meetings.

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. The Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the Annual General Meeting to be held on 29 April 2015 can be found in the notice of the meeting, on the Company's website.

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YEAR ENDED 31 DECEMBER 2014

INTERNAL CONTROLS

In September 1999 the Turnbull Guidance (Internal Control: Guidance for Directors on the Combined Code) was published, and revised in October 2005. In September 2012 the UK Corporate Governance Code was published for reporting periods beginning on or after 1 October 2012 and subsequently revised in September 2014 for reporting periods beginning on or after 1 October 2014.

The Directors acknowledge their responsibility for establishing and maintaining the Group and the Company systems of internal control. These are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication.

The Group's internal control procedures include Board approval for all significant projects. All major expenditures require either senior management or Board approval at the appropriate stages of each transaction. A system of regular reporting covering both technical progress of projects and the state of the Group's financial affairs provides appropriate information to management to facilitate control. The Board reviews, identifies, evaluates and manages the significant risks that face the Group.

Any systems of internal control can only provide reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date the financial statements were signed.

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014
CONFLICTS OF INTEREST

The Group and the Company has in place procedures for the disclosure and review of any conflicts, or potential conflicts of interest, which the Directors may have and for the clearance or otherwise of such conflicts by the Board. In deciding on a conflict or a potential conflict the Directors must have regard to their general duties under the Companies Act 2006.

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YEAR ENDED 31 DECEMBER 2014
EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE ('EITI')

In accordance with the Transparency Criteria as set out by the EITI, the Group has made the following payments to Government bodies during the year ended 31 December 2014:

	2014 \$000	2013 \$000
Madagascar:		
Ambilobe	146	191
Ampasindava ¹	108	150
Kurdistan	-	-
Cameroon ²	500	52
Mauritania ³	104	104
Somaliland ⁴	75	105
	933	602

¹ Payments made by Exxon Mobil.

² Payment made by Murphy Oil Corporation.

³ Included within payments made to SMH (Mauritania's national oil company) under the terms of the Chinguetti Funding Agreement, relating to Chinguetti field operating costs and PSC obligations, totalling \$9.5 million in 2013 (2013: \$7.2 million).

⁴ Payments made by Genel Energy.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

DIRECTORS' REPORT

The Directors present their Annual Report and Financial Statements on the affairs of the Company and its subsidiaries, together with the independent Auditors' Report for the year ended 31 December 2014.

Principle activity and business review

The principal activity of the Group and Company throughout the year remained the exploration for and production of oil and gas in Africa. The significant developments during 2014 and the other activities of the Group, as well as the future strategy and prospects for the Group, are reviewed in detail in the Chairman's Statement and the Strategic Report section of this report.

The Group operates through overseas branches and subsidiary undertakings as appropriate to the fiscal environment. Subsidiary undertakings of the Group are set out in Note 16 to the financial statements.

The Group uses a number of key performance indicators ('KPIs') to assess the business performance against strategy. These are net debt (\$), reserves (million boe), adjusted EBITDA (\$), production (bopd) and share price growth. Analysis of the KPIs can be found in the Financial Review on page 20.

Results and dividends

The Group loss for the financial year was \$12.3 million (2013: profit \$8.3 million). This leaves an accumulated Group retained deficit of \$425.2 million (2013: deficit \$413.6 million) to be carried forward. The Directors do not recommend the payment of a dividend (2013: \$nil).

Going concern

The Group business activities, together with the factors likely to affect its future development, performance and position are set out in the Operations Review on pages 6 to 9. The financial position of the Group and Company, its cash flows and liquidity position are described in the Financial Review on pages 20 to 23. In addition, Note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital financial risk: details of its financial instruments and its exposures to credit risk and liquidity risk.

The Group has sufficient cash resources for its working capital needs and its committed capital expenditure programme at least for the next 12 months. As a consequence, the Directors believe that both the Group and Company are well placed to manage their business risks successfully despite the uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in Note 18 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of the employee share schemes are set out in Note 24. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

Directors

The Directors who served during the year were as follows:

Mr Alastair Beardsall

Dr Philip Frank

Mr Keith Henry

Mr Nicholas Clayton

Mr Malcolm Pattinson

In December 2014, the Company announced that Dr. Philip Frank planned to step down from the Board in Q1 2015; Dr. Frank stood down on 13 March 2015. Eskil Jersing joined the Board on 23 March 2015. Biographical details of serving Directors can be found in the Board of Directors section of this report on page 29.

Directors and election rotation

With regard to the appointment and re-election of the Directors, the Company is governed by its Articles of Association, the Code, the Companies Acts and related legislation. The powers of Directors are described within this report.

In accordance with article 106 of the Company's Articles of Association, Alastair Beardsall retires by rotation and offers himself for re-election at the forthcoming AGM on 29 April 2015.

In accordance with article 110 of the Company's Articles of Association, Eskil Jersing offers himself for election at the forthcoming AGM on 29 April 2015.

Substantial shareholdings

Except for the holdings of ordinary shares listed below, the Company has not been notified by or become aware of any persons holding 3% or more of the 220,053,520 issued ordinary shares of 40 pence each of the Company at 14 March 2015:

	Number	%
Waterford Finance & Investments Ltd	65,814,217	29.91
Soyuzneftegas Capital Limited	33,500,755	15.22
YF Finance Limited	21,599,689	9.82
Banque Heritage Wealth Mgt	14,930,358	6.78
Sprott Asset Management	11,399,009	5.18

Business risk

A summary of the principle and general business risks can be found within the Strategic Report on pages 24 to 28.

Financial instruments

Information about the use of financial instruments, the Group's policy and objectives for financial risk management is given in Note 23 to the financial statements.

Auditors

Each of the persons who are a Director at the date of approval of this Report and Financial Statements confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014

- the Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

BDO LLP has expressed its willingness to continue in office as Auditors and a resolution to appoint BDO will be proposed at the forthcoming Annual General Meeting to be held on 29 April 2015.



Alastair Beardsall

Chairman

25 March 2015

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YEAR ENDED 31 DECEMBER 2014

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors Report, Strategic Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and thus for taking reasonable steps for the prevention and detection of fraud and other irregularities.

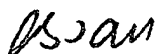
Website publication

The Directors are responsible for ensuring the Report and Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibility statement

We confirm that to the best of our knowledge that the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Company and the undertakings included in the consolidation taken as a whole; and the Report and Financial Statements include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board



Alastair Beardsall

Chairman

25 March 2015

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GROUP ACCOUNTS

INDEPENDENT AUDITORS' REPORT

to the members of Sterling Energy plc

We have audited the financial statements of Sterling Energy plc for the year ended 31 December 2014 which comprises the consolidated and Company statement of financial position, the consolidated statement of comprehensive income, the consolidated and Company statement of cash flows, the consolidated and Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ('FRC's') Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on Directors' Remuneration Report which we have agreed to report

The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006 that would have applied had the company been a quoted company. We have agreed to audit the part of the Directors' Remuneration Report that we would have been required to audit under the Companies Act 2006 if the company was a quoted company.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2014

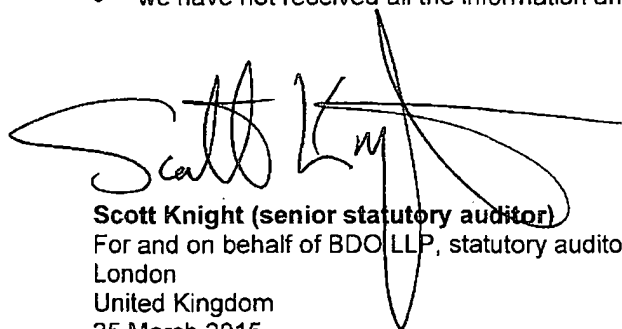
GROUP ACCOUNTS

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Scott Knight (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
25 March 2015

BDO LLP is a limited liability partnership registered in England and Wales

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014
GROUP ACCOUNTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	31st December 2014 \$000	31st December 2013 \$000
Revenue	4	15,991	18,370
Cost of sales	6	(11,873)	(9,766)
Gross profit		4,118	8,604
Other administrative expenses		(2,069)	(3,177)
(Impairment)/impairment reversal of oil and gas assets	3	(7,903)	4,359
Pre-licence costs		(2,196)	(2,226)
Onerous contract	20	(3,390)	-
Total administrative expenses		(15,558)	(1,044)
(Loss)/profit from operations	5	(11,440)	7,560
Finance income	8	398	892
Finance expense	8	(1,276)	(1,143)
(Loss)/profit before tax		(12,318)	7,309
Tax	9	-	-
(Loss)/profit for the year from continuing operations		(12,318)	7,309
Profit for the year from discontinued operations	10	-	1,025
(Loss)/profit for the year attributable to the owners of the parent		(12,318)	8,334
Other comprehensive expense			
Currency translation adjustments		24	(39)
Total other comprehensive expense for the year		24	(39)
Total comprehensive (expense)/income for the year attributable to the owners of the parent		(12,294)	8,295
Basic (loss)/profit per share (USc)			
From continuing operations	12	(5.60)	3.32
From continuing and discontinued operations	12	(5.60)	3.79
Diluted (loss)/profit per share (USc)			
From continuing operations	12	(5.60)	3.32
From continuing and discontinued operations	12	(5.60)	3.78

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014
GROUP ACCOUNTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31st December 2014 \$000	31st December 2013 \$000
Non-current assets			
Intangible royalty assets	13	-	2,794
Intangible exploration and evaluation assets	14	28,426	13,187
Property, plant and equipment	15	72	5,644
		<u>28,498</u>	<u>21,625</u>
Current assets			
Inventories		2,223	2,746
Trade and other receivables	17	3,294	5,935
Cash and cash equivalents		108,148	120,755
		<u>113,665</u>	<u>129,436</u>
Total assets		<u>142,163</u>	<u>151,061</u>
Equity			
Share capital	18	149,014	149,014
Share premium		378,863	378,863
Currency translation reserve		(225)	(249)
Retained deficit		(425,209)	(413,550)
Total equity		<u>102,443</u>	<u>114,078</u>
Non-current liabilities			
Long-term provisions	20	22,667	21,651
		<u>22,667</u>	<u>21,651</u>
Current liabilities			
Trade and other payables	21	13,663	15,332
Short-term provisions	20	3,390	-
		<u>17,053</u>	<u>15,332</u>
Total liabilities		<u>39,720</u>	<u>36,983</u>
Total equity and liabilities		<u>142,163</u>	<u>151,061</u>

The financial statements of Sterling Energy plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 25 March 2015.

Signed on behalf of the Board of Directors



Alastair Beardsall

Chairman

25 March 2015

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014
GROUP ACCOUNTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital \$000	Share premium \$000	Currency translation reserve \$000	Retained deficit ¹ \$000	Total \$000
At 1 January 2013	149,014	378,863	(210)	(423,050)	104,617
Profit for the year	-	-	-	8,334	8,334
Currency translation adjustments	-	-	(39)	-	(39)
Total comprehensive income for the year attributable to the owners of the parent	-	-	(39)	8,334	8,295
Share option charge for the year	-	-	-	1,166	1,166
At 31 December 2013	149,014	378,863	(249)	(413,550)	114,078
Loss for the year	-	-	-	(12,318)	(12,318)
Currency translation adjustments	-	-	24	-	24
Total comprehensive expense for the year attributable to the owners of the parent	-	-	24	(12,318)	(12,294)
Share option charge for the year	-	-	-	659	659
At 31 December 2014	149,014	378,863	(225) ^v	(425,209)	102,443

¹ The share option reserve has been included within the retained deficit reserve and is a non-distributable reserve.

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014
GROUP ACCOUNTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2014 \$000	2013 \$000
Operating activities:			
(Loss)/profit before tax from continuing operations		(12,318)	7,309
(Loss)/profit before tax from discontinued operations		-	1,025
Finance income and gains		(398)	(892)
Finance expense and losses		1,265	1,066
Depletion and amortisation	13,15	2,358	2,488
Impairment reversal	3	-	(4,359)
Impairment expense	3	7,903	-
Onerous provision		3,390	-
Share-based payment charge		659	1,166
Operating cash flow prior to working capital movements		2,859	7,803
Decrease in inventories		523	247
Increase in trade and other receivables		(359)	(1,725)
Decrease in trade and other payables		(1,669)	(56)
		<u>1,354</u>	<u>6,269</u>
Cash generated from continuing operations		1,814	6,822
Cash outflow from discontinued operations		(460)	(553)
Net cash flow from operating activities		<u>1,354</u>	<u>6,269</u>
Investing activities			
Interest received		398	268
Purchase of property, plant and equipment	15	(32)	(85)
Exploration and evaluation costs	14	(14,102)	(5,942)
Net cash used in investing activities		<u>(13,736)</u>	<u>(5,759)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(12,382)</u>	<u>510</u>
Cash and cash equivalents at beginning of year		120,755	120,348
Effect of foreign exchange rate changes		(225)	(103)
Cash and cash equivalents at end of year		<u>108,148</u>	<u>120,755</u>

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2014
GROUP ACCOUNTS

COMPANY STATEMENT OF FINANCIAL POSITION

	Note	31st December 2014 \$000	31st December 2013 \$000
Non-current assets			
Property, plant and equipment	15	-	5,546
Investments	16	28,890	107,834
		<u>28,890</u>	<u>113,380</u>
Current assets			
Inventories		2,223	2,746
Trade and other receivables	17	19,773	25,342
Cash and cash equivalents		106,473	118,498
		<u>128,469</u>	<u>146,586</u>
Total assets		<u>157,359</u>	<u>259,966</u>
Equity			
Share capital	18	149,014	149,014
Share premium		378,863	378,863
Retained deficit		(447,839)	(364,232)
Total equity		<u>80,038</u>	<u>163,645</u>
Non-current liabilities			
Long-term provisions	20a	22,667	21,588
		<u>22,667</u>	<u>21,588</u>
Current liabilities			
Trade and other payables	21	51,264	74,733
Short-term provisions	20	3,390	-
		<u>54,654</u>	<u>74,733</u>
Total liabilities		<u>77,321</u>	<u>96,321</u>
Total equity and liabilities		<u>157,359</u>	<u>259,966</u>

The financial statements of Sterling Energy plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 25 March 2015.

Signed on behalf of the Board of Directors


Alastair Beardsall
Chairman
25 March 2015

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COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital \$000	Share premium \$000	Retained deficit ¹ \$000	Total \$000
At 1 January 2013	149,014	378,863	(375,735)	152,142
Total comprehensive income for the year	-	-	10,337	10,337
Share option charge for the year	-	-	1,166	1,166
At 31 December 2013	149,014	378,863	(364,232)	163,645
Total comprehensive expense for the year	-	-	(84,266)	(84,266)
Share option charge for the year	-	-	659	659
At 31 December 2014	149,014	378,863	(447,839)	80,038

¹ The share option reserve has been included within the retained deficit reserve and is a non-distributable reserve.

COMPANY STATEMENT OF CASH FLOWS

	Note	2014 \$000	2013 \$000
Operating activities			
(Loss)/profit before tax		(84,266)	10,337
Finance income and gains		(398)	(892)
Finance expense and losses		1,241	1,196
Depletion and amortisation	15	1,567	1,638
Impairment reversal	15	-	(3,207)
Impairment expense	15	3,979	-
Impairment of investment		79,604	-
Onerous provision		3,390	-
Net movement in investment		-	(1,166)
Share-based payment charge		30	1,166
Operating cash flow prior to working capital movements		5,147	9,072
Decrease in inventories		522	247
Decrease/(increase) in trade and other receivables		5,569	(10,993)
(Decrease)/increase in trade and other payables		(22,936)	1,322
(Decrease)/increase in provisions		(533)	155
Net cash flow used in operating activities		(12,231)	(197)
Investing activities			
Interest received		398	268
Net cash generated from investing activities		398	268
Net (decrease)/increase in cash and cash equivalents		(11,833)	71
Cash and cash equivalents at beginning of year		118,498	118,565
Effect of foreign exchange rate changes		(192)	(138)
Cash and cash equivalents at end of year		106,473	118,498

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NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

a) General information

Sterling Energy plc is a public Company incorporated in the United Kingdom under the UK Companies Act 2006. The address of the registered office is 85 Fleet Street, London, EC4Y 1AE. The Company and the Group are engaged in the exploration, development and production of commercial oil and gas.

These financial statements are presented in US dollars as this is the currency in which the majority of the Group's revenues and expenditure are transacted and the functional currency of the Company.

b) Basis of accounting and adoption of new and revised standards

(i) New and amended standards adopted by the Group:

The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2014. Except as noted, the implementation of these standards is not expected to have a material effect on the Group.

Standard	Effective date	Impact on initial application
IFRS 10 - Consolidated Financial Statements	1 January 2014	No impact
IFRS 11 - Joint Arrangements ¹	1 January 2014	No impact
IFRS 12 - Disclosure of Interests in Other Entities	1 January 2014	No impact
IAS 27 - Amendment - Separate Financial Statements	1 January 2014	No impact
IAS 28 - Amendment - Investments in Associates and Joint Ventures	1 January 2014	No impact
IAS 32 - Offsetting Financial Assets and Financial Liabilities	1 January 2014	No impact
IAS 36 - Recoverable amounts disclosures for non-financial assets	1 January 2014	No impact
IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	No impact
IFRIC 21 - Levies	17 June 2014	No impact

¹ Under the terms of the Group's Joint Operating Agreements, the Group is engaged in Joint Arrangements; however, initial application of IFRS 11 has no impact on the Financial Statements.

No other IFRS issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

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(ii) Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard	Description	Effective date
IAS 1 ¹	Presentation of Financial Statements (Amendments)	1 January 2016
IAS 19	Defined Benefit Plans (Amendments)	1 February 2015
IAS 16 and IAS 38 ¹	Acceptable Methods of Depreciation and Amortisation (Amendments)	1 January 2016
IAS 27 ¹	Separate Financial Statements	1 January 2016
IFRS 9 ¹	Financial Instruments	1 January 2018
IFRS 10 and IAS 28 ¹	Investments in Associates and Joint Ventures (Amendments)	1 January 2016
IFRS 10, 12 and IAS 28	Investment Entities (Amendments)	1 January 2016
IFRS 11 ¹	Joint Arrangements (Amendments)	1 January 2016
IFRS 15 ¹	Revenue from Contract with Customers	1 January 2017
Annual Improvements to IFRSs	(2010-2012 Cycle)	1 February 2015
Annual Improvements to IFRSs	(2011-2013 Cycle)	1 January 2015
Annual Improvements to IFRSs ¹	(2012-2014 Cycle)	1 January 2016

¹ Not yet endorsed by the EU

The Directors have not fully assessed the impact of all standards but do not expect them to have a material impact.

c) Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparation of the financial statements. Further detail is contained in the Directors' Report.

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d) Basis of consolidation

(i) Subsidiaries and acquisitions

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is recognised where an investor is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect these returns through its power over the investee. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition. Any excess of the cost of the acquisition over the fair values of the identifiable net assets acquired is recognised as a "fair value" adjustment. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

As a consolidated Group statement of comprehensive income and expense is published, a separate statement of comprehensive income and expense for the parent Company has not been published in accordance with section 408 of the Companies Act 2006.

e) Jointly controlled operations

The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries. The Group classifies its interest in joint arrangements as *joint operations* as the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- the structure of the joint arrangement;
- the contractual terms of the joint arrangement; and
- any other facts and circumstances

The Group accounts for its interests in *joint operations* by recognizing its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

f) Revenue

Sales of oil and gas are recognised, net of any sales taxes, when risks and rewards of ownership have passed to the customer, typically this is at the point of physical lifting. See also section r) below. Royalties and tariff income are recognised as earned on an entitlement basis.

g) Oil and gas interests

Exploration and evaluation assets

Capitalisation

Pre-acquisition costs on oil and gas assets are recognised in the Income Statement when incurred. Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs, and other directly attributable costs of exploration and appraisal including technical and administrative costs, are capitalised as intangible exploration and evaluation ('E&E') assets. The assessment of what constitutes an individual E&E asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&E assets. Costs relating to the exploration and evaluation of oil and gas interests are carried forward until the existence, or otherwise, of commercial reserves have been determined.

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E&E costs are not amortised prior to the conclusion of appraisal activities. Once active exploration is completed the asset is assessed for impairment. If commercial reserves are discovered then the carrying value of the E&E asset is reclassified as a development and production ('D&P') asset, following development sanction, but only after the carrying value is assessed for impairment and where appropriate its carrying value adjusted. If it subsequently assessed that commercial reserves have not been discovered, the E&E asset is written off to the Income Statement.

Impairment

The Group's oil and gas assets are analysed into cash generating units ('CGU') for impairment reporting purposes, with E&E asset impairment testing being performed at an individual asset level. The current CGU consists of the Group's whole E&E portfolio. E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. The recoverable amount of the individual asset is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are written off to the Income Statement. Any impairment loss is separately recognized within the Statement of Comprehensive Income.

Impaired assets are reviewed annually to determine whether any substantial change to their fair value amounts previously impaired would require reversal.

As previously recognised, impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depletion or amortisation) had no impairment loss been recognised in prior periods. Reversal of impairments and impairment charges are credited/(charged) to separate line items under total administration expenses within the statement of comprehensive income.

Refer to Note 2 and Note 3 for detailed disclosure of the results of impairments and impairment reviews performed.

Development and production assets

Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset within property, plant and equipment. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset.

Depreciation

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a unit of production basis based on the proven and probable reserves of the asset. Any re-assessment of reserves affects the depreciation rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field. However these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate would be charged. The key areas of estimation regarding depreciation and the associated unit of production calculation for oil and gas assets are recoverable reserves and future capital expenditures.

Impairment

A review is carried out for any indication that the carrying value of the Group's D&P assets may be impaired. The impairment review of D&P assets is carried out on an annual, asset by asset basis and involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use. The value in use is determined from estimated future net cash flows, being the present value of the future cash flows expected to be derived from production of commercial reserves. Impairment resulting from the impairment testing is charged to a separate line item under total administration expenses within the Statement of Comprehensive Income.

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The pre-tax future cash flows are adjusted for risks specific to the cash-generating unit and are discounted using a pre-tax discount rate. The discount rate is derived from the Group's post-tax weighted average cost of capital and is adjusted where applicable to take into account any specific risks relating to the country where the cash-generating unit is located, although other rates may be used if appropriate to the specific circumstances. The discount rates applied in assessments of impairment are reassessed each year.

The cash-generating unit basis is generally the field, however, oil and gas assets, including infrastructure assets, may be accounted for on an aggregated basis where such assets are economically inter-dependent.

h) Property, plant and equipment assets other than oil and gas assets

Property, plant and equipment other than oil and gas assets are stated at cost, less accumulated depreciation, and any provision for impairment. Depreciation is provided at rates estimated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Computer and office equipment depreciation, 33% straight line

i) Decommissioning

Provisions for decommissioning costs are recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Provisions are recorded at the present value of the expenditures expected to be required to settle the Group's future obligations.

Provisions are reviewed at each reporting date to reflect the current best estimate of the cost at present value. Any change in the date on which provisions fall due will change the present value of the provision. These changes are treated as a finance expense.

The unwinding of the discount is reflected as a finance expense. A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, and included as part of the cost of the relevant development and production asset. Depletion on this asset is calculated under the unit of production method based on commercial reserves.

j) Intangible royalty interests

The carrying value of each individual royalty interest is initially stated at cost, and amortised on the unit of production basis relative to the underlying asset. Each royalty asset is assessed individually for impairment when there is an indication that an impairment event may have occurred. See also Impairment of assets – Note 2.

k) Foreign currencies

The US dollar is the functional and reporting currency of the Company and the reporting currency of the Group. Transactions denominated in other currencies are translated into US dollars at the rate of exchange ruling at the date of the transaction. Assets and liabilities in other currencies are translated into US dollars at the rate of exchange ruling at the reporting date. All exchange differences arising from such translations are dealt with in current year comprehensive income.

The results of entities with a functional currency other than the US dollar are translated at the average rates of exchange during the period and their statement of financial position at the rates ruling at the reporting date. Exchange differences arising on translation of the opening net assets and on translation of the results of such entities are dealt with through the currency translation reserve.

l) Taxation

Current tax

Tax is payable based upon taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible on other years and it further excludes items that are never taxable or deductible. Any Group liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

m) Investments (Company)

Non-current investments in subsidiary undertakings are shown in the Company's Statement of Financial Position at cost less any provision for permanent diminution of value.

n) Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

o) Financial instruments

The Group's Financial Instruments comprise of cash and cash equivalents, loans and receivables. There are no other categories of financial instrument.

Trade receivables

Trade receivables are measured at amortised cost, unless the effect of the time value of money is immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise demand deposits, and other short-term highly liquid investments, with an original maturity of less than three months, and are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

The Group has the following financial liabilities; all are classified as held at amortised cost. The Group holds no other categories of financial liability.

Trade payables

Trade payables are stated at their amortised cost.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

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p) Pension costs

The Group operates a number of defined contribution pension schemes. The amount charged to the Statement of Comprehensive Income for these schemes is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

q) Share-based payments

The Company and Group have applied the requirements of IFRS 2 Share-based payments. The Company issues equity share-based payments to certain employees. The fair value of these awards has been determined at the date of the grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by the estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values are calculated using an option pricing model with suitable modifications to allow for employee turnover before vesting and early exercise. The inputs to the model include: the share price at the date of grant; exercise price; expected volatility; expected dividends; risk-free rate of interest; and patterns of exercise of the plan participants.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Consolidated Statement of Comprehensive Income over the remaining vesting period.

r) Over/(under) lift of inventories

Lifting or off take arrangements for oil and gas produced in certain of the Group's operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative liftings is 'underlift' or 'overlift'. Underlifts and overlifts are valued at the lower of cost and net realisable value. Adjustments are made to cost of sales and balances included within receivables and payables as appropriate.

s) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group would be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers have been identified as the executive Board members.

The operating results of each of the geographical segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance. Africa has exploration and development activities, the Middle East has exploration activities (discontinued) and the United Kingdom office is an administrative cost centre.

u) Contingent consideration

Contingent consideration is an obligation of the acquiring entity to transfer additional assets or equity interests to the former owners of an acquiree. The terms, under which this consideration will be calculated and paid, is part of the acquisition agreement. The consideration will only be paid if specified future events occur or conditions are met.

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2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for onerous contract

A provision for an onerous contract is made where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the said contract - see Note 20.

Company – Investment

If circumstances indicate that impairment may exist, investments in subsidiary undertakings of the Company are evaluated using market values, where available, or the discounted expected future cash flows of the investment. If these cash flows are lower than the Company's carrying value of the investment, an impairment charge is recorded in the Company. Evaluation of impairments on such investments involves significant management judgement and may differ from actual results - see Note 16.

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Onerous commitments

Onerous commitments on future oil and gas activities are only recognised where such commitments are certain. No recognition is given for onerous work programme commitments for specific assets where there remains uncertainty on the outcome of discussions between respective oil and gas operators, government bodies and/or other stakeholders.

Commercial reserves

Commercial reserves are proven and probable oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a unit of production basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price.

Impairment of assets

Management is required to assess oil and gas assets for indicators of impairment and have considered the economic value of both individual E&E assets and the Chinguetti Funding and Royalty Agreements. The carrying value of oil and gas assets is disclosed in Notes 13, 14 and 15. The carrying value of related investments in the Company Statement of Financial Position is disclosed in Note 16.

With reference to the Chinguetti Funding Agreement, as part of the assessment, management has carried out an impairment test whereby the test compares the carrying value at the reporting date with the expected discounted future cash flows. For the discounted cash flows to be calculated, management has used a production profile based on its best estimate of proven and probable reserves and a range of assumptions including a 10% pre-tax discount rate and an internally estimated oil price profile.

With reference to the Chinguetti Royalty Agreement, impairment assessments and any subsequent charges are calculated on an individual royalty interest basis. Future recoverable amounts are estimated by management based upon the present value of future cash flows expected to be derived from the production of commercial reserves in these licences and are compared against the carrying value of these assets.

Exploration and evaluation assets are subject to a separate review for indicators of impairment, by reference to the impairment indicators set out in IFRS 6, which is inherently judgemental.

Key assumptions used in the value-in-use calculations

The calculation of value-in-use for oil and gas assets under development or in production is most sensitive to the following assumptions:

- Production volumes;
- Commodity prices;
- Fixed and variable operating costs;
- Capital expenditure; and
- Discount rates.

Production volumes/recoverable reserves

Annual estimates of oil and gas reserves are generated internally by the Group with external input from operator profiles. These are reported annually to the Board. The self-certified estimated future production profiles are used in the life of the fields which in turn are used as a basis in the value-in-use calculation.

Commodity prices

An average of published forward prices and the long term assumption for natural gas and Brent oil are used for future cash flows in accordance with the Group's corporate assumptions. Field specific discounts and prices are used where applicable.

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Fixed and variable operating costs

Typical examples of variable operating costs are pipeline tariffs, treatment charges and freight costs. Commercial agreements are in place for most of these costs and the assumptions used in the value-in-use calculation are sourced from these where available. Examples of fixed operating costs are platform costs and operator overheads. Fixed operating costs are based on operator budgets.

Capital expenditure

Field development is capital intensive and future capital expenditure has a significant bearing on the value of an oil and gas development asset. In addition, capital expenditure may be required for producing fields to increase production and/or extend the life of the field. Cost assumptions are based on operator budgets or specific contracts where available. The Company and Group are currently not exposed to development capital expenditures.

Discount rates

Discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Group. Where appropriate, the rates are adjusted to reflect the market assessment of any risk specific to the field for which future estimated cash flows have not been adjusted. The Group has applied a discount rate of 10% for the current year (2013: 10%).

Sensitivity to changes in assumptions

A potential change in any of the above assumptions may cause the estimated recoverable value to be lower than the carrying value, resulting in a further impairment loss. The assumptions which would have the greatest impact on the recoverable amounts of the fields are production volumes and commodity prices. Having reviewed these assumptions, impairment has been recognised in the current year for both the Ampasindava and Chinguetti assets.

During the year the Group recognised impairments totalling \$7.9 million in accordance with IAS 36 "Impairment of Assets" following a review of forecast field life estimations. This review resulted in the full impairment of both the Chinguetti Funding Agreement (\$3.9 million) and the Chinguetti Royalty Agreement (\$2.1 million). The operator on the Ampasindava Block in Madagascar has identified there is no drillable prospect and the Group's view is that it intends to exit from the block; accordingly the Ampasindava asset has been fully impaired (\$1.9 million).

In 2013 the Group reversed impairments totalling \$4.4 million in accordance with IAS 36 "Impairment of Assets" following a review by the operator of forecast field life estimations on the Chinguetti field in Mauritania at that time.

Impairments and associated reversals have been determined by comparing the current value in use to carrying values.

In calculating the 2014 Chinguetti asset impairment, management used a range of assumptions, including a long-term oil price of \$55 per barrel (Brent) and a 10% pre-tax discount rate.

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Oil & gas expenditure – acquisitions and disposals

Commercial transactions involving the acquisition of a D&P asset in exchange for an E&E or D&P asset are accounted for at fair value with the difference between the fair value and cost being recognised in the statement of comprehensive income as a gain or loss. When a commercial transaction involves a D&P asset and takes the form of a farm-in or farm-out agreement, the premium expected to be paid/received is treated as part of the consideration.

Fair value calculations are not carried out for commercial transactions involving the exchange of E&E assets. The capitalised costs of the disposed asset are transferred to the acquired asset. Farm-in and farm-out transactions of E&E assets are accounted for at cost. Costs are capitalised according to the Group's cost interest (net of premium received or paid) as costs are incurred.

Proceeds from the disposal of an E&E asset, or part of an E&E asset, are deducted from the capitalised costs and the difference recognised in the statement of comprehensive income as a gain or loss. Proceeds from the disposal of a D&P asset, or part of a D&P asset, are recognised in the Income Statement, after deducting the related net book value of the asset. The Company and Group were not exposed to disposal proceeds in the year.

Decommissioning

The Company has obligations in respect of decommissioning in Mauritania. The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, the estimated costs and timing of the work and the discount rate applied. Decommissioning estimates for the Chinguetti field are based on a range of operator estimates which are periodically reviewed by the operator and the partnership.

Share-based payments

Management is required to make assumptions in respect of the inputs used to calculate the fair value of share-based payment arrangements. Details of these can be found in Note 24.

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3. Operating segments

The Group's two operating segments are its Africa and Middle East (discontinued) segments. The UK corporate office is a technical and administrative cost centre. The operating results of each of these segments are regularly reviewed by the Group's executive Directors and senior management in order to make decisions about the allocation of resources and to assess their performance.

The accounting policies of these segments are in line with those set out in Note 1.

The following tables present revenue, profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2014 and for the year ended 31 December 2013.

	Africa		Middle East (Discontinued)		Total	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Statement of comprehensive income						
Revenue ¹	15,991	18,370	-	-	15,991	18,370
Cost of sales	(11,873)	(9,766)	-	-	(11,873)	(9,766)
Gross profit	4,118	8,604	-	-	4,118	8,604
Impairment of E&E assets	(1,863)	-	-	-	(1,863)	-
(Impairment)/impairment reversal royalty assets	(2,061)	1,152	-	-	(2,061)	1,152
(Impairment)/impairment reversal of D&P assets	(3,979)	3,207	-	-	(3,979)	3,207
Accruals release	-	-	5	1,025	5	1,025
Pre-licence costs	(2,196)	(2,226)	-	-	(2,196)	(2,226)
Onerous contract	(3,390)	-	-	-	(3,390)	-
Segment result	(9,371)	10,737	5	1,025	(9,366)	11,762
Unallocated corporate expenses					(2,074)	(3,177)
(Loss)/profit from operations					(11,440)	8,585
Finance income					398	892
Finance expense					(1,276)	(1,143)
(Loss)/profit before tax					(12,318)	8,334
Tax					-	-
(Loss)/profit attributable to owners of the parent					(12,318)	8,334
(Loss)/profit from continuing operations					(12,318)	7,309
Profit from discontinued operations					-	1,025
					(12,318)	8,334

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	Corporate		Africa		Middle East (Discontinued)		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Other segment information								
<u>Capital additions</u>								
Property, plant and equipment	32	85	-	-	-	-	32	85
Exploration and evaluation	-	-	17,102	2,942	-	-	17,102	2,942
Depreciation & amortisation	(58)	(69)	(2,300)	(2,420)	-	-	(2,358)	(2,489)
Impairment reversal	-	-	-	4,359	-	-	-	4,359
Impairment expense	-	-	(7,903)	-	-	-	(7,903)	-
Segment assets and liabilities								
Non-current assets ²	72	97	28,426	21,528	-	-	28,498	21,625
Segment assets ³	107,151	119,146	6,461	9,210	53	1,080	113,665	129,436
Segment liabilities ⁴	(815)	(1,298)	(38,877)	(35,179)	(28)	(506)	(39,720)	(36,983)

¹ Revenue from continuing operations (Mauritania, Africa) includes amounts of \$14.9 million (100% external) from one single customer (2013: \$17.1 million).

² Segment non-current assets include \$8.0 million in Cameroon (2013: \$7.3 million), \$nil in Kurdistan (2013: \$nil), \$nil million in Mauritania (2013: \$8.3 million), \$3.0 million in Madagascar (2013: \$3.9 million) and \$17.4 million in Somaliland (2013: \$2.1 million).

³ Corporate segment assets include \$106.6 million cash and cash equivalents (2013: \$118.7 million) and \$543k other receivables (2013: \$471k). Carrying amounts of segment assets exclude investments in subsidiaries.

⁴ Carrying amounts of segment liabilities exclude intra-group financing.

4. Revenue

	Total	
	2014	2013
	\$000	\$000
Revenue from the sale of oil and gas	14,944	17,076
Royalty income	1,047	1,294
Total operating revenue	15,991	18,370

5. (Loss)/profit from operations

Profit from operations is stated after charging/(crediting):

		Total	
	Note	2014	2013
		\$000	\$000
Staff costs	7	3,524	4,049
Share-based payments	7	659	1,166
Impairment reversal	13,15	-	(4,359)
Impairment	13,14,15	7,903	-
Depreciation of other non-current assets	15	58	69
Onerous contract	20	3,390	-

An analysis of auditor's remuneration is as follows:

Fees payable to the Group's auditors for the audit of the Group's annual accounts	53	48
Audit of the Company's subsidiaries pursuant to legislation	59	53
Audit related assurance services	-	-
Total audit fees	112	101

See Note 2 for details on the above impairment.

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6. Cost of sales

	2014	2013
	\$000	\$000
Amortisation of intangible royalty asset	733	782
Depletion of property, plant & equipment - oil and gas	1,567	1,638
Operating costs	9,050	7,100
Over lift of product entitlement	523	246
	<u>11,873</u>	<u>9,766</u>

7. Employee information

The average monthly number of employees of the Group (including executive Directors) was:

	2014	2013
Africa & Middle East	4	6
Corporate support staff	10	11
	<u>14</u>	<u>17</u>

Group employee costs during the year (including executive Directors) amounted to:

	2014	2013
	\$000	\$000
Wages and salaries	2,955	3,407
Social security costs	367	414
Other pension costs	202	228
Share-based payments	659	1,166
	<u>4,183</u>	<u>5,215</u>

Key management[†] personnel include Directors who have been paid \$1.2 million (2013: \$1.6 million), see Remuneration Committee Report (pages 35 to 45) for additional detail.

A portion of the Group's staff costs and associated overheads are recharged to the joint venture partners, expensed as pre-licence expenditure or capitalised where they are directly attributable to ongoing capital projects. In 2014 this portion amounted to \$4.1 million (2013: \$4.2 million).

8. Finance income and finance expense

	2014	2013
	\$000	\$000
Finance income:		
Interest revenue on short-term deposits	398	269
Revisions to discount on decommissioning provision at year end	-	624
	<u>398</u>	<u>892</u>
Finance expense:		
Bank charges	11	11
Unwinding of discount on decommissioning provision	1,079	1,058
Unwinding of discount on production royalty bonus provision	5	8
Exchange differences	181	66
	<u>1,276</u>	<u>1,143</u>

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9. Taxation

The tax charge for the year is calculated by applying the applicable standard rate of tax as follows:

	Total	
	2014	2013
	\$000	\$000
(Loss)/profit before tax	(12,318)	8,334
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 21.50% (2013: 23.25%)	(2,648)	1,938
Effects of:		
Expenses not deductible for tax purposes	2,101	27
Capital allowances in excess of depreciation	102	(1,891)
Adjustment for tax losses	445	(74)
Tax charge for the year	-	-

Deferred Tax

At the reporting date the Group had an unrecognised deferred tax asset of \$17.1 million (2013: \$15.3 million) relating primarily to unused tax losses and unutilised capital allowances. No deferred tax asset has been recognised due to the uncertainty of future profit streams against which these losses could be utilised. At the reporting date the Company had an unrecognised deferred tax asset of \$13.4 million (2013: \$13.0 million) relating primarily to unused losses and unutilised capital allowances.

10. Discontinued operations

On 29 January 2013, the Company formally announced the Group's withdrawal from the Sangaw North licence in Kurdistan. The decision to relinquish was made in December 2012 and all amounts were fully impaired at this date. At the date of the final dissolution, the Group had fully satisfied the work commitment required by the Sangaw North PSC and all other commitments in country.

During 2014 the Group released accruals totalling \$5k and incurred expenditure totalling \$15k.

The financial impact of the Group's discontinued operations is provided below:

	2014	2013
	\$000	\$000
(Loss)/profit for the year from discontinued operations (page 56)	-	1,025
Net decrease in cash and cash equivalents	(460)	(553)
Basic (loss)/profit per share from discontinued operations (USc) (note 12 page 77)	0.00	0.47
Diluted (loss)/profit per share from discontinued operations (USc) (note 12 page 77)	0.00	0.46

11. Loss attributable to the Company

The loss for the financial year within the Company accounts of Sterling Energy plc was \$84.3 million (2013: \$10.3 million) which includes the investment impairment as detailed in Note 16. As provided by s408 of the Companies Act 2006, no individual statement of comprehensive income and expense is provided in respect of the Company.

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12. Earnings per share

	Basic		Diluted	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
(Loss)/profit for the year (continuing operations)	(12,318)	7,309	(12,318)	7,309
(Loss)/profit for the year (discontinuing operations)	-	1,025	-	1,025
Weighted average number of ordinary shares in issue during the year	220,053,520	220,053,520	220,053,520	220,053,520
Dilutive effect of share options outstanding	-	-	-	367,069
Fully diluted average number of ordinary shares during the year	220,053,520	220,053,520	220,053,520	220,420,589
EPS (continuing operations)	(5.60)	3.32	(5.60)	3.32
EPS (discontinuing operations)	-	0.47	-	0.46

In the current year, the number of potentially dilutive ordinary shares in respect of All staff and NED LTIPs outstanding as at the year-end is 13,185,433 (2013: 13,707,483) (see Note 24 on pages 85 to 88).

13. Intangible royalty assets

	Group \$000
Net book value at 1 January 2013	2,424
Amortisation charge for the year	(782)
Impairment reversal	1,152
Net book value at 31 December 2013	2,794
Amortisation charge for the year	(733)
Impairment for the year	(2,061)
Net book value at 31 December 2014	-

Group net book value at 31 December 2014 comprises the value of rights to future royalties in respect of the Group's agreements covering licences PSC A, PSC B and PSC C-10 in Mauritania; however see Note 26a. The value of these royalty interests is dependent upon future oil and gas prices and the development and production of the underlying oil and gas reserves.

See Note 2 for details on the above impairment.

14. Intangible Exploration and Evaluation ('E&E') assets

	Group \$000
Net book value at 1 January 2013	10,245
Additions during the year	4,192
Reimbursement of back costs on farm-out of Ambilobe licence	(1,250)
Net book value at 31 December 2013	13,187
Additions during the year	17,102
Impairment for the year	(1,863)
Net book value at 31 December 2014	28,426

Impairment for the year refers to the full impairment of the Ampasindava asset.

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On 27 January 2014, the Group accounted for \$3.0 million toward a 15% interest in the Odewayne Block from Jacka Resources Somaliland Limited (Jacka), an Australian company. This had been previously accounted for as a prepayment at 31 December 2013.

On 6 May 2014, the Company announced the completion of the acquisition of an additional 15% interest in the Odewayne Block from Jacka and paid \$12.0 million as consideration for the farm-in and settlement for future commitments under the farm-in agreement.

Under the terms of both acquisitions, the Group paid \$15.0 million for a 30% interest in the Odewayne Block, further to the 10% acquired in 2013 from Petrosoma Limited.

15. Property, plant and equipment

Group	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
Cost			
At 1 January 2013	185,802	3,064	188,866
Additions during the year	-	85	85
Adjustments during the year	-	(3,006)	(3,006)
At 31 December 2013	185,802	143	185,945
Additions during the year	-	32	32
At 31 December 2014	185,802	175	185,977
Accumulated depreciation and impairment			
At 1 January 2013	(181,825)	(2,982)	(184,807)
Charge for the year	(1,638)	(69)	(1,707)
Impairment reversal for the year	3,207	-	3,207
Disposals in the year	-	3,006	3,006
At 31 December 2013	(180,256)	(45)	(180,301)
Charge for the year	(1,587)	(58)	(1,625)
Impairment for the year	(3,979)	-	(3,979)
At 31 December 2014	(185,802)	(103)	(185,905)
Net book value at 31 December 2014	-	72	72
Net book value at 31 December 2013	5,546	98	5,644
Net book value at 31 December 2012	3,977	82	4,059

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Company	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
Cost			
At 1 January 2013	185,802	150	185,952
Disposals in the year	-	(150)	(150)
At 31 December 2013	185,802	-	185,802
At 31 December 2014	185,802	-	185,802
Accumulated depreciation and impairment			
At 1 January 2013	(181,825)	(150)	(181,975)
Charge for the year	(1,638)	-	(1,638)
Impairment reversal for the year	3,207	-	3,207
Disposals in the year	-	150	150
At 31 December 2013	(180,256)	-	(180,256)
Charge for the year	(1,567)	-	(1,567)
Impairment reversal for the year	(3,979)	-	(3,979)
At 31 December 2014	(185,802)	-	(185,802)
Net book value at 31 December 2014	-	-	-
Net book value at 31 December 2013	5,546	-	5,546
Net book value at 31 December 2012	3,977	-	3,977

See Note 2 for details on the above impairment.

16. Investment in subsidiaries

	Company \$000
Cost	
At 1 January 2013	106,658
Additions during the year	1,166
At 31 December 2013	107,834
Impairment of investment in subsidiary	(79,604)
Additions during the year	660
At 31 December 2014	28,890

The impairment above reflects the Director's view on the fair value at 31 December 2014 of investments held within its subsidiary undertakings - see Note 2 (Company – Investment) for details on the above impairment assessment methodology.

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The subsidiary undertakings at 31 December 2014 are as follows (these undertakings are included on consolidation):

	Country of incorporation	Class of shares held	Proportion of voting rights held		Nature of business
			2014	2013	
Sterling Energy (UK) Limited ¹	United Kingdom	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy (International) Limited ²	United Kingdom	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy Overseas Limited ¹	United Kingdom	Ordinary	100%	100%	Investment holding company
Sterling Energy Mauritania Limited ³	United Kingdom	Ordinary	100%	100%	Exploration for oil and gas
Sterling Northwest Africa Holdings Limited ¹	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy Holdings Limited ³	Jersey, CI	Ordinary	100%	100%	Investment holding company
Sterling Cameroon Limited ³	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy (East Africa) Limited ³	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Kenya Limited (Dormant) ³	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas

¹ Held directly by the Company, Sterling Energy Plc

² Held directly by Sterling Energy (UK) Limited

³ Held directly by the Company, Sterling Energy Overseas Limited

⁴ Held directly or indirectly through Sterling Northwest Africa Limited

17. Trade and other receivables

	Group		Company	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Trade receivables	2,699	2,453	2,518	2,113
Amounts owed by subsidiary undertakings	-	-	17,130	23,149
Other receivables	162	3,082	55	12
Amounts due from joint venture partners	-	-	-	-
Prepayments and accrued income	433	400	70	68
	3,294	5,935	19,773	25,342

At 31 December 2013, included within other receivables, is a \$3.0 million prepayment to Jacka Resources Somaliland Limited. This has been transferred to E&E assets in the year upon completion of the farm-in transaction.

The Directors consider that the carrying amount of trade and other receivables is a reliable estimate of their fair value.

18. Share capital

	2014	2013
	\$'000	\$'000
Authorised, called up, allotted and fully paid		
220,053,520 (2013: 220,053,520) ordinary shares of 40p	149,014	149,014

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19. Reserves

Reserves within equity are as follows:

Share capital

Amounts subscribed for share capital at nominal value.

Share premium account

The share premium account represents the amounts received by the Company on the issue of its shares which were in excess of the nominal value of the shares.

Currency translation reserve

The foreign currency translation reserve includes movements that relate to the retranslation of the subsidiaries whose functional currencies are not the US dollars.

Retained deficit

Cumulative net gains and losses recognised in the Statement of Comprehensive Income less any amounts reflected directly in other reserves. The share option reserve has been included within the retained deficit and is a non-distributable reserve.

20. Short and Long-term provisions

At 31 December 2014, a provision of \$3.4 million has been made in recognition of all expected future net onerous commitments under the Chinguetti Funding Agreement – see also Note 2. Long term provisions are detailed in the table below:

	2014 \$000	2013 \$000
Group		
Decommissioning provision (a)	22,667	21,588
2003 Production royalty bonus scheme (b)	-	63
	<u>22,667</u>	<u>21,651</u>
a) Decommissioning provisions		
Group/Company	2014 \$000	2013 \$000
At 1 January	21,588	21,154
Revisions at year end	-	(624)
Unwinding of discount	1,079	1,058
	<u>22,667</u>	<u>21,588</u>

The amounts shown above represent the estimated costs for decommissioning the Group's producing interests in respect of its economic interest in the Chinguetti field in Mauritania. It is anticipated that decommissioning payments will be made prior to 31 December 2017.

The Company amount of \$22.7 million (2013: \$21.6 million) represents the amount provided within the Company for future decommissioning expenditure.

In 2013 the economic field life was extended following a review by the operator of decline rate performance. The extension of field life resulted in an adjustment to the decommissioning provision of \$624k.

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The full impairment in the year of both the Chinguetti Funding and Royalty Agreements has no impact on the timing of the decommissioning.

b) 2003 Production Royalty Bonus Scheme

	2014 \$000	2013 \$000
Group		
At 1 January	63	120
Unwinding of discount	5	8
Transferred to current liabilities	(68)	(68)
Foreign exchange movements	-	3
	<u>-</u>	<u>63</u>

This scheme was intended to reward key persons for the successful performance of certain assets after financial thresholds had been reached for the period since listing in 2002. The scheme was terminated in 2007 and replaced by the LTIP scheme ('2007 LTIP', and the 'All Staff LTIP', see Note 24) and no further sums will accrue. The Company has the option to require the one remaining beneficiary to subscribe for new ordinary shares for the net amount arising after tax and national insurance from 2008 onwards.

21. Trade and other payables

	Group		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Trade payables	356	448	10	35
Amounts owed to subsidiary undertakings	-	-	39,120	62,014
Amounts advanced from joint venture partners	850	1,539	-	-
Accruals	<u>12,457</u>	<u>13,345</u>	<u>12,134</u>	<u>12,684</u>
	<u>13,663</u>	<u>15,332</u>	<u>51,264</u>	<u>74,733</u>

The Directors consider that the carrying amount of trade and other payables is a reliable estimate of their fair value.

22. Operating leases and capital commitments

	Group		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Minimum lease payments under operating leases recognised as an expense in the year	<u>5,220</u>	<u>3,454</u>	<u>4,763</u>	<u>2,783</u>

At the reporting date outstanding commitments for minimum operating leases payments fall due as follows:

	Group		Company	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Within one year	5,203	5,765	4,809	5,314
In the second to fifth year inclusive	<u>1,554</u>	<u>7,015</u>	<u>1,554</u>	<u>6,600</u>
	<u>6,757</u>	<u>12,780</u>	<u>6,363</u>	<u>11,914</u>

Operating lease payments represent the Group's share of rentals for a Floating Production, Storage and Offtake ('FPSO') vessel in Mauritania and rentals payable for its office properties. The current FPSO commitment is through the Chinguetti Funding Agreement and has a break clause as at end

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April 2016; accordingly, included within the \$6.8 million is \$4.8 million and \$1.6 million payable on the FPSO within one year and two to five years respectively.

23. Financial instruments

Capital risk management and liquidity risk

The Group and Company is not subject to externally imposed capital requirements. The capital structure of the Group and Company consists of cash and cash equivalents held for working capital purposes and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained deficit as disclosed in the statement of changes in equity. The Group and Company uses cash flow models and budgets, which are regularly updated, to monitor liquidity risk.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each material class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Due to the short-term nature of these assets and liabilities such values approximate their fair values at 31 December 2014 and 31 December 2013.

	Carrying amount / Fair value	
	2014	2013
	\$000	\$000
Group		
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	108,148	120,755
Trade and other receivables	2,861	5,535
Total	111,009	126,290
Financial liabilities at amortised cost		
Trade and other payables	13,663	15,332
Total	13,663	15,332
	Carrying amount / Fair value	
	2014	2013
	\$000	\$000
Company		
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	106,473	118,498
Trade and other receivables	19,703	25,274
Total	126,176	143,772
Financial liabilities at amortised cost		
Trade and other payables	51,264	74,733
Total	51,264	74,733

Financial risk management objectives

The Group's and Company's objective and policy is to use financial instruments to manage the risk profile of its underlying operations. The Group continually monitors financial risk including oil and gas price risk, interest rate risk, equity price risk, currency translation risk and liquidity risk and takes appropriate measures to ensure such risks are managed in a controlled manner including, where appropriate, through the use of financial derivatives. The Group and Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

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Interest rate risk management

The Group and Company does not have any outstanding borrowings and thus, the Group and Company is only exposed to interest rate risk on its short-term cash deposits.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the reporting date and assumes the amount of the balances at the reporting date were outstanding for the whole year.

A 100 basis point change represents management's estimate of a possible change in interest rates at the reporting date. If interest rates had been 100 basis points higher and all other variables were held constant the Group's profits and equity would be impacted as follows:

	Group Increase		Company Increase	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Cash and cash equivalents	1,081	1,208	1,065	1,185

Foreign currency risk

The Group's and Company's functional currency is the US dollar, being the currency in which the majority of the Group's revenue and expenditure is transacted. Small elements of its management, services and treasury functions are held and transacted in pounds sterling. The Group does not enter into derivative transactions to manage its foreign currency. Foreign currency risk is immaterial to the Group and Company – see the following table:

Financial assets

	Group		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Cash and cash equivalents				
Cash and cash equivalents held in US\$	106,791	116,419	105,180	114,323
Cash and cash equivalents held in GBP	1,357	4,336	1,293	4,175
	108,148	120,755	106,473	118,498
	Group		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Trade and other receivables				
Trade and other receivables held in US\$	2,779	5,446	19,699	25,258
Trade and other receivables held in GBP	82	89	4	16
	2,861	5,535	19,703	25,274

Financial liabilities

	Group		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Trade and other payables				
Trade and other payables held in US\$	12,972	14,163	45,196	68,821
Trade and other payables held in GBP	691	1,169	6,058	5,912
	13,663	15,332	51,254	74,733

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Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group or Company. The Group and Company reviews the credit risk of the entities that it sells its products to or that it enters into contractual arrangements with and will obtain guarantees and commercial letters of credit as may be considered necessary where risks are significant to the Group or Company. The Group's and Company's business is diversified in terms of both region and the number of counter-parties and the Group and Company does not have significant exposure to any single counter-party or Group and Company of counter-parties with similar characteristics.

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. At the year end the Group held approximately 99% (2013: 96%) of its cash in US dollars. At the year end the Group held the majority of its balances with AA- and A+ Standard & Poors rated institutions. The Group continues to monitor its treasury management to ensure an appropriate balance of the safety of funds and maximisation of yield.

During the year the Company reversed previously impaired loans to Sterling Energy (International) Limited totalling \$533k (2013: \$155k) following the relinquishment of its Sangaw North licence in Kurdistan. Trade and other receivables are non-interest bearing. The Group does not hold any collateral as security and the Group does not hold any significant provision in the impairment account for trade and other receivables as they relate to customers with no default history. There are no financial instruments held at fair value under the level 1, 2 and 3 hierarchy.

Liquidity and interest rate tables

The following tables detail the remaining contractual maturity for the non-derivative financial assets and liabilities of the Group and Company. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows including rates for loan liabilities and cash deposits on actual contractual arrangements. The weighted average interest rate used in 2014 is nil % (2013: nil %).

	Less than six months \$000	Six months to one year \$000	One to six years \$000	Total \$000	Interest \$000	Principal \$000
Group						
Trade payables (2014)	1,111	-	-	1,111	-	-
Trade payables (2013)	1,901	-	-	1,901	-	-
Company						
Trade payables (2014)	4	-	-	4	-	-
Trade payables (2013)	28	-	-	28	-	-

24. Share based payments

The Group recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of \$659k (2013: \$1.2 million). The Company recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of \$30k (2013: \$50k).

In 2009 the Company reviewed the existing share-based incentive schemes currently in place to motivate and incentivise Group employees. The Company also took independent advice to support its review. Based on this, the Company proposed a new All Staff Long Term Incentive Plan as being the most effective way to deliver the incentives that the Board believes will continue to align the interests of the employees and shareholders. Shareholders approved this plan at the December EGM held on 22 December 2009.

With effect from 2009, all further awards are made under the All Staff Long Term Incentive Plan. Awards are made on similar terms to non-executive Directors of the Company, under a separate plan the NED LTIP.

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Share options (2002- 2007)

Following the introduction of the Long Term Incentive Plan in 2007 ('2007 LTIP'), no further grants were made under the share option scheme, subsisting grants remained in place and the scheme fully lapsed in 2013.

There were no movements during the year on the share options.

	2014	2013
	Weighted average	Weighted average
	Number of share options	Number of share options
	exercise price (pence)	exercise price (pence)
Outstanding at the beginning of period	-	236,875
Forfeited during the period	-	(236,875)
Exercised during the period	-	-
Outstanding at the end of the year	-	-
Exercisable at the end of the year	-	-

All Staff Long Term Incentive Plan ('All Staff LTIP')

In accordance with the approved All Staff LTIP, the Group has granted options to its staff and executive Directors to acquire shares in the Company.

The movement during the year, on the share options, was as follows:

	2014	2014	2013	2013
	Number of Share options	Exercise price (pence)	Number of Share options	Exercise price (pence)
Outstanding at the beginning of the year	12,114,800	40	10,529,830	40
Granted during the period	4,396,300	40	3,755,800	40
Lapsed during the period	(4,954,150)	40	(2,170,830)	40
Outstanding at the end of the year	11,556,950	40	12,114,800	40
Exercisable at the end of the year	-	-	-	-

All options are equity settled. The vesting period is three years. If the options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest or are exercised.

The options outstanding at 31 December 2014 have a contractual life of 3.81 years (2013: 3.80 years). The cost of the options is spread over the vesting period of three years. The fair value of the options granted during the year was 5.7 pence (2013: 16.5 pence).

If the Company share price ('SESP') under-performs the Index performance by 10% or more, then no share options will be earned and the share options will lapse.

If the SESP performance is between matching the Index and under-performing by 10%, the amount of the share options that will be earned will be determined by extrapolating on a 2.5:1 straight line basis.

If the SESP performance matches the Index performance, then 25% of the share options will be earned.

If the SESP performance is between matching the Index and out-performing by 50%, the amount of the share options that will be earned will be determined by extrapolating on a 1.5:1 straight line basis.

If the SESP out performs the Index performance by 50% or more, then 100% of the share options will be earned.

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All performance measures are defined as being the absolute share price performance or absolute index performance, and not the performance relative to each other.

Fair values were measured by use of a modified binomial model. The inputs to the basic binomial model were as follows:

	2014	2013
Share price (pence)	24	38
Exercise price (pence)	40	40
Expected volatility at time of grant	61.25%	69.53%
Expected life (years)	3	3
Risk free rate (%)	0.66%	0.46%
Expected dividends	Nil	Nil

Expected volatility for grants in the year was estimated by calculating the historical volatility of the Company's share price over the period 22 December 2009 to 1 October 2014 (2013: over the period 22 December 2009 to 31 October 2013). The Company has overlaid a normal distribution for the FTSE350 condition to assess a range of possible outcomes.

The Company has then compared the SESP performance against the range of Index performance to estimate the vested proportions of share options in accordance with the scheme rules. Weighting factors based on probabilities under the normal distribution are then applied to the range of share option values to calculate a weighted-average share option value.

All Staff LTIP Sub-Plan

In 2013 the Company introduced a HMRC approved sub-plan to the All Staff Long Term Incentive Plan ('HMRC Sub-Plan').

The movement during the year, on the share options, was as follows:

	2014	2014	2013	2013
	Number of	Exercise	Number of	Exercise price
	Share options	price	Share options	(pence)
		(pence)		
Outstanding at the beginning of the year	949,900	43	-	-
Granted during the period	563,800	40	949,900	43
Exercised during the period	-	-	-	-
Lapsed during the period	(278,000)	43	-	-
Outstanding at the end of the year	1,235,700	42	949,900	43
Exercisable at the end of the year	-	-	-	-

The options outstanding at 31 December 2014 have a contractual life of 4.31 years (2013: 4.94 years). The cost of the options is spread over the vesting period of three years. The fair value of the options granted during the year was 5.7 pence (2013: 19.3 pence).

Fair values were measured by use of a modified binomial model. The inputs to the basic binomial model were as follows:

	2014	2013
Share price (pence)	24	43
Exercise price (pence)	40	43
Expected volatility at time of grant	61.25%	69.53%
Expected life (years)	3	3
Risk free rate (%)	0.66%	0.46%
Expected dividends	Nil	Nil

Non-executive Directors Long Term Incentive Plan ('NED LTIP')

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In accordance with the approved NED LTIP, the Group has granted options to its non-executive Directors to acquire shares in the Company.

The movement during the year, on the share options, was as follows:

	2014		2013	
	Number of	Exercise price	Number of	Exercise price
	Share options	(pence)	Share options	(pence)
Outstanding at the beginning of the year	642,783	40	642,783	40
Granted during the period	-	40	-	40
Lapsed during the period	(250,000)	40	-	40
Outstanding at the end of the year	392,783	40	642,783	40
Exercisable at the end of the year	83,333	40	333,333	40

All options are equity settled. The vesting period is three years. If the options remain unexercised after a period of five years from the date of grant, the options expire.

Furthermore, options are forfeited if the employee leaves the Group before the options vest or are exercised. The options outstanding at 31 December 2014 have a contractual life of 2.33 years (2013: 2.32 years). The cost of the options is spread over the vesting period of three years.

No performance criteria are attached to the outstanding options, other than the requirement that the holders must remain employed by the Group when the options are exercised, unless employment is terminated on death, or as a good leaver.

25. Related party transactions

Details of Directors' remuneration, which comprise key management personnel, are provided below:

	Group		Company	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
Short-term employee benefits	960	1,371	173	155
Payments on loss of office	123	117	-	-
Defined contribution pension	41	63	-	-
Share-based payments	416	758	30	50
	1,540	2,309	203	205

Further information on Directors' remuneration is detailed in the Remuneration Committee Report, on pages 35 to 45.

The Company has no other disclosed related party transactions.

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26. Subsequent events

a) Mauritania – Royalty Agreements with Mauritania

On 9 February 2015 it was announced that the Company had been notified of changes to Premier Oil plc's ('Premier') interests in PSC A, PSC B (excluding the Chinguetti field) and PSC C-10 offshore Mauritania.

Premier's exit from each of PSC A, PSC B and PSC C-10 does not affect the royalty currently received by the Group from Premier over Premier's interest in production from the Chinguetti field; however, the Group will no longer benefit from a royalty linked to Premier's participation in a potential development of Banda, Tiof and/or Tevet.

b) Acquisition of an Interest in Block C-3 Mauritania

On 10 February 2015 it was announced that Sterling Energy Mauritania Limited signed a sale and purchase agreement with Tullow Mauritania Limited (Tullow) to acquire a 40.5% interest in the Production Sharing Contract ('PSC') for Block C-3, located offshore in the Islamic Republic of Mauritania. Under the terms of the SPA, on completion:

(i) Sterling Energy Mauritania Limited will assume a 40.5% participating interest in the PSC from Tullow, including an entitlement to a corresponding interest in past costs; and

(ii) Sterling Energy Mauritania Limited will pay Tullow approximately \$2.5 million in consideration and repayment of past costs.

Phase 1 of the PSC is due to expire on 30 June 2016. Completion of the acquisition and processing of 2D seismic data represents the minimum work obligation during Phase 1.

c) Ntem Concession Cameroon

On 17 February 2015 it was announced that the Company's wholly owned subsidiary, Sterling Cameroon Limited, has signed an agreement with Murphy Cameroon Ntem Oil Co. Ltd ('Murphy') whereby Murphy will transfer its 50% interest in, and operatorship of, the Ntem Concession, offshore Cameroon to Sterling Cameroon Limited. No consideration is payable for the transfer of Murphy's interest. Following completion, the Ntem Concession will be held 100% by Sterling Cameroon Limited (Operator).

27. Contingent liabilities

The Group has received a claim for VAT from the Madagascan tax authority totalling \$946k in respect of its Ampasindava and Ambilobe licences. Having taken professional advice the Group considers the claim to be wholly without foundation and continues to defend its position through the appropriate dispute resolution and legal processes.

Following the farm-in to the Odewayne licence in Somaliland, there is a remaining contingent consideration of \$8.0 million payable to Petrosoma Limited based upon various operational milestones being met. At 31 December 2014, these milestones had not been met.

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DEFINITIONS AND GLOSSARY OF TERMS

\$	US dollars
2006 Act	The Companies Act 2006, as amended
2007 LTIP	the 2007 Long Term Incentive Plan
1P	Proven reserves or in-place quantities depending on the context
2D	two dimensional
2P	the sum of Proven and Probable reserves or in-place quantities depending on the context
3D	three dimensional
3P	the sum of Proven, Probable and Possible reserves or in-place quantities depending on the context
AIM	Alternative Investment Market of the London Stock Exchange
All Staff LTIP	the All Staff Long-Term Incentive Plan adopted in 2009
AGM	Annual General Meeting
API gravity	an American Petroleum Institute scale for crude oil density
Articles	the Articles of Association of the Company
bbl	barrel, equivalent to 42 US gallons of fluid
bbl/d	barrel per day
bopd	barrel of oil per day
boe	barrel of oil equivalent, a measure of the gas component converted into its equivalence in barrels of oil
boepd	barrel of oil equivalent per day
bcf	billion cubic feet of gas
Board	the Board of Directors of the Company
C	Celsius
Capex	capital expenditure
CGR	condensate gas ratio
Combined Code or Code	UK Corporate Governance Code
Companies Act	the Companies Act (as amended 2006)

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Company or Sterling	Sterling Energy plc
Contingent Resources	those quantities of petroleum estimated, as at a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies, Contingent Resources are a class of discovered recoverable resources
COS	chance of success
CSOP	Company Share Option Plan (HMRC approved share option scheme)
Darcy	unit of permeability
Deg	degrees
Directors	the Directors of the Company
DST	drill stem test, a method of flow testing a well
E&E	exploration and evaluation assets
Adjusted EBITDA	earnings before interest, taxation, depreciation, depletion and amortisation, impairment, share-based payments, provisions, and pre-licence expenditure
EITI	Extractive Industries Transparency Initiative
EMV	expected monetary value
EUR	economic ultimate recovery
farm-in & farm-out	a transaction under which one party (farm-out party) transfers part of its interest to a contract to another party (farm-in party) in exchange for a consideration which may comprise the obligation to pay for some of the farm-out party costs relating to the contract and a cash sum for past costs incurred by the farm-out party
FDP	field development plan
FPSO	Floating, Production, Storage and Offloading vessel
FCA	the Financial Conduct Authority of the United Kingdom
G&G	geological and geophysical
GBP	pounds sterling
Genel Energy	Genel Energy Somaliland Limited

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GIIP	gas initially in place
GOC	gas oil contact
GOR	gas oil ratio
GWC	gas water contact
Group	the Company and its subsidiary undertakings
HMRC	Her Majesty's Revenue and Customs
HMRC Approved Sub-Plan or	The HMRC approved sub-plan of the All Staff LTIP
HMRC Sub-Plan	
HSSE	Health, Safety, Security and Environment
hydrocarbons	organic compounds of carbon and hydrogen
IFRS	International Financial Reporting Standards
JV	joint venture
km	kilometre(s)
km ²	square kilometre(s)
lead	indication of a possible exploration prospect
London Stock Exchange or LSE	London Stock Exchange Plc
m	metre(s)
mmbbl	million barrels
mmstb	million barrels of oil at stock tank conditions
mmboe	million barrels of oil equivalent
mmcf	million cubic feet of gas
mmcfge/d	million cubic feet of gas equivalent per day
mmscf/d	million cubic feet at standard pressure and temperature per day
mss	metres sub-sea
mTVDss	metres true vertical depth sub-sea
Murphy	Murphy Cameroon Ntem Oil Co. Ltd
NED LTIP	non-executive Director Long Term Incentive Plan adopted in 2009
NPV	net present value of a series of cash-flows

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OECD	Organisation for Economic Cooperation and Development
Opex	operating expenditure
Ordinary Shares	ordinary shares of 40 pence each
OWC	oil water contact
P90, P50, P10	90%, 50% and 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively
Panel or Takeover Panel	The Panel on Takeovers and Mergers
Petroleum	oil, gas, condensate and natural gas liquids
Petronas	PC Mauritania 1 PTY LTD
PP&E	Property, Plant & Equipment
Premier	Premier Oil
PRMS	Petroleum resource Management System as issued in March 2007 by the Society of Petroleum Engineers et al
Prospect	a potential sub-surface accumulation of hydrocarbons which has been identified but not drilled
Prospective Resources or	those quantities of petroleum which are estimated, as at a
Prospective Recoverable Resources	given date, to be potentially recoverable from undiscovered accumulations
psi(a)	pounds per square inch (absolute)
PSA	production sharing agreement
PSC	production sharing contract
Pura Vida	Pura Vida Mauritius
Reserves	reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must satisfy four criteria; they must be discovered, recoverable, commercial and remaining based on the development projects applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-

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	classified based on project maturity and/or characterised by development and production status
Reservoir	a porous and permeable rock capable of containing fluids
RF	recovery factor
RI	royalty interest
RISC	RISC (UK) Limited of 53 Chandos Place, Covent Garden, London WC2N 4HS
Scf	standard cubic feet of gas (measured at 60 degree Fahrenheit and 14.7 psia)
Seismic	data, obtained using a sound source and receiver, that is processed to provide a representation of a vertical cross-section through the subsurface layers
SESP	Sterling Energy plc share price
Shares	40p Ordinary Shares
Shareholders	Ordinary shareholders of 40p each in the Company
SMHPM	Société Mauritanienne Des Hydrocarbures et du Patrimoine Minier
sq km	square kilometre
sq mi	square mile
stb	stock tank barrel (measured at 60 degrees Fahrenheit and 14.7 psia)
STOIIP	Stock tank oil initially in place
Subsidiary	a subsidiary undertaking as defined in the 2006 Act
Tcf	trillion cubic feet of gas
TEA	technical evaluation agreement
TD	total depth
TSR	Total Shareholder Return (End Share Price – Opening Share Price/Opening Share Price) plus (Sum of Dividends Per Share/Opening Share Price)
TVD	true vertical depth
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland

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UK Corporate Governance Code	Formerly the Combined Code, sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with shareholders
United States or US	the United States of America
Water-cut	that percentage of total fluid production that is water
Working Interest or WI	a Company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms

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