

ANNUAL REPORT AND ACCOUNTS 2009



Sterling Energy Plc (“Sterling” or the “Company”) is an upstream oil and gas Company listed on AIM in London. Sterling is an experienced operator of international licences with a current focus on projects in Africa and the Middle East. Sterling has high potential projects in Kurdistan, Madagascar and Cameroon.

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HIGHLIGHTS

- The Sangaw North 1 exploration well in Kurdistan was spudded 1 February 2010 and drilling ahead to test the prospectivity of the Cretaceous and Jurassic reservoirs.
- During 2009 Sterling issued new shares to raise £81.3 million (net of expenses).
- In December the Company consolidated 40 existing ordinary shares into 1 new ordinary share; current issued shares total 219.3 million.
- The Company sold its US business for a consideration of \$90.0 million.
- Loss for the year of \$202.5 million, includes \$170.8 million from discontinued US business.
- Sterling repaid all bank debt, is debt-free and had cash resources of \$113.9 million at 31 December 2009.
- Current cash at 24 March 2010 was \$110.6 million (unaudited).

CHAIRMAN'S STATEMENT

Sterling has emerged from 2009 as a focused exploration Company with material interests in several potentially significant projects. The 2010 work program is fully funded by a combination of carried interests and the Company's own resources. Furthermore the Company has no debt.

The most exciting news is that the planning that took place during 2009 has now culminated in the commencement of drilling the Sangaw North exploration well in Kurdistan. The well spudded on 1 February 2010 and is drilling ahead at 223 m. Drilling operations for the two large diameter surface casing strings have been challenging. However these casing strings are now cemented in place and the well is progressing to the next casing depth. An independent study of the Cretaceous aged reservoirs concluded an unrisksed best estimate of gross prospective resources totalling some 804 million barrels of oil. A discovery of this magnitude would transform the value of the Company. Sterling has also identified more prospective reservoirs in the deeper Jurassic and Triassic horizons.

It is reported that the Regional Government of Kurdistan and Federal Government of Iraq have indicated they wish to resolve their different proposals for the payment mechanism for oil revenues arising from the sale of oil produced in Kurdistan. We are optimistic both parties will help resolve the issues before we are ready to produce and export oil from our own licence area.

For most of 2009 Sterling's activities were constrained by the terms of the bank waivers agreed with the Company's lenders. At the start of 2009 the Company had significant borrowings that exceeded allowed levels, based on the projected future cash flow expected from developing, producing and selling its hydrocarbon reserves. This situation arose from the disappointing performance of Sterling's US oil and gas business, further accentuated by a period of very weak USA commodity pricing. Following a formal sale process that was undertaken over many months and involved many interested parties, the Company sold the US business in December 2009 and used the proceeds to repay the entire outstanding loan.

The Ntem licence, in Cameroon, remains in force majeure, the result of a border dispute between Cameroon and Equatorial Guinea. We are optimistic that a resolution between the two countries will be reached; we shall then be able to resume our exploration programme and work towards drilling our first exploration well. Sterling currently holds 100% of the Ntem licence and we envisage we will seek to farm out part of this interest in exchange for our share of costs for an exploration programme that includes at least the first exploration well.

In Madagascar the Company has interests in two projects, Ampasindava and Ambilobe. The current government, assumed power after a coup in March 2009, but is not recognised by its African neighbours or by most world governments. It is likely that Sterling, and Exxon as our partner in the Ampasindava block, will look for an improvement in the political situation prior to embarking upon any significant expenditure on seismic acquisition or a drilling programme.

During 2009 our share of oil production from the Chinguetti field in Mauritania, including our royalty interest, totalled 330,926 barrels (2008: 373,971 barrels), an average daily rate of 906 bopd (2008: 1,025 bopd). The production capability of the field continues to decline and Petronas, the operator of the field, is evaluating future options for the field which may include abandonment earlier than previously planned.

Following a review of the Company's smaller projects, and discussions with the various joint venture partners, the Company is rationalising its portfolio of projects. Markmore, Sterling's joint venture partner and operator of the Dome Flore concession has withdrawn the application for a licence extension for the Dome Flore block located in an area administered by AGC, a joint agency for Senegal and Guinea Bissau. The AGC has confirmed the termination of the licence.

The joint venture partners in the Iris Marin block, located in Gabon, have unanimously approved the operator's recommendation to relinquish the licence under the production sharing contract when the licence expires in May 2010.

CHAIRMAN'S STATEMENT – *continued*

Sterling, as operator of the technical evaluation agreement for the Ibekelia block located adjacent to the Iris Marin block in Gabon, has recommended to the other partners to cease any further work towards a contract for the Ibekelia block. Sterling's withdrawal from AGC and Gabon will allow the Company's technical personnel to focus on the more material projects and the identification of new ventures.

In September, the Company successfully raised £60.9 million (net of expenses) from the placement of new shares with a new cornerstone investor and several existing shareholders. Part of these new funds were used to repay \$35 million of the bank debt, a condition of granting a further 17 month waiver by the lenders. In December the Company completed an open offer to all shareholders which, alongside a placing to several Directors and staff, raised a further £20.4 million (net of expenses). The Company is now sufficiently funded to cover its share of the anticipated work program for 2010 and beyond.

Immediately following the issue of shares for the December open offer, all of the Company's ordinary shares were consolidated on the basis of 40 existing ordinary shares with a nominal value of 1 pence consolidated into 1 new ordinary share with a nominal value of 40 pence.

FINANCIAL

The financial results for 2009 and the detailed commentary are located in their relevant sections. The results for the financial period ending 31 December 2009 report certain losses arising from the impairment of assets, the disposal of the US business and accounting adjustments. The reporting of large losses for a growing E&P Company that has effectively undergone a financial and business re-structuring is not unusual and results in a good starting point for 2010 onwards.

The Directors do not recommend paying a dividend for 2009.

BOARD CHANGES

During the year Christopher Callaway, Harry Wilson, Peter Wilde and Graeme Thomson stepped down from the Board and we thank them for the contributions that each has made during their tenure.

In September Keith Henry and I were appointed to the Board, joined shortly thereafter by Nicholas Clayton. The Board is now comprised of three executive and three non-executive Directors, each bringing different expertise and experiences that will assist the Company and its staff in delivering the success which we believe will create increased shareholder value.

OUTLOOK

For the immediate future, the drilling of the Sangaw North exploration well is our most significant project; the well is expected to take 180 days to drill. A commercial discovery will have the potential to transform the Company.

Our exploration projects in Cameroon and Madagascar are expected to advance after their respective political situations are resolved.

We have sufficient cash resources to more than cover our anticipated work program for 2010, as well as identify, and hopefully secure, new ventures to create a more diverse exploration portfolio.

The Company has undergone major changes during 2009 and I believe has entered 2010 as a 'fit for purpose' E&P Company with several exciting and material projects to advance. I would like to thank the staff and shareholders alike for their patience during this period of change which I hope we shall capitalise on to create increased shareholder value.

Alastair Beardsall

Chairman

28 March 2010

OPERATIONS REVIEW

KURDISTAN

Sangaw North PSC (WI 53.33% & Operator)

During 2009 preparations were made to drill the first exploration well on the Sangaw North block. Detailed well planning and design along with the procurement of well services and goods were progressed in parallel with construction of the well site. Heavy rain in the area during November and December delayed the completion of the civil works and drilling commenced on 1 February 2010. The well is drilling ahead at 223m with drilling and preliminary evaluation expected to take 180 days.

Drilling operations for both the 36" and 28" diameter near surface sections, to accommodate the 30" and 24½" casing now set at 41m and 223m respectively, have been challenging due to lost circulation zones and poor hole conditions. Each section has required multiple drilling runs with a progressively larger drill bit to open the drilled section sufficiently to accommodate the large casing sizes. The well design requires these larger than usual surface casing sizes to provide flexibility when dealing with lost circulation or locally over-pressured zones where the running of an additional casing string is the prudent choice.

The well is being drilled using the 2,000 horse-power Sakson PR-4 rig to a planned total depth of 3,660m targeting several Cretaceous and Jurassic aged reservoirs. The well design gives the option to drill deeper to a total depth of 4,160m to test deeper Jurassic aged reservoirs. The decision to drill this additional section will be taken based upon the preliminary drilling results.

Having completed the acquisition of 325km of 2D seismic data during 2008, a number of specialist processing techniques were undertaken in order to achieve the best possible seismic image of the sub-surface structure. The interpretation and mapping of this seismic data confirmed the presence of a very large subsurface structure, coincident with the outcropping surface anticline. The integration of regional and locally acquired field geological data with the results of the seismic interpretation have been combined to advance the Sangaw North lead to a drillable prospect.

The primary reservoir target is the Upper Cretaceous carbonates of the Shiranish, Kometan and Qamchuqa formations. These intervals are proven, hydrocarbon bearing and productive in all directions including the Taq Taq and Chemchemical fields. The presence of surface oil seeps on the Sangaw North structure, geochemically akin to the oil in adjacent fields such as Kirkuk and Taq Taq, provides considerable encouragement for the presence of subsurface hydrocarbon entrapment at Sangaw North. An independent report completed by RISC estimates best estimate gross prospective resources for the Upper Cretaceous reservoir of 804 mmbbl with a 27% chance of success. RISC considers that condensate and gas are at least as likely to be discovered as oil. Historical success rates for recent exploration wells drilled in the Kurdistan region are around 50%.

Secondary reservoir potential is also being targeted in a number of Jurassic objectives. Underexplored due to the impact of Tertiary overburden on drill depths, the Jurassic is the emerging play in the Zagros Fold Belt. The thin Tertiary cover (i.e. thickness) on the Sangaw North structure and the drilling capacity of the rig being used make the Jurassic an achievable deeper target.

Continued exploration success by other operators confirms the highly prospective nature of the Kurdistan region. In May 2009, Heritage reported an oil discovery at Miran West, 40km north of Sangaw North-1. Further north Gulf Keystone reported an oil discovery at Shaikan in August 2009 in the same Cretaceous and Jurassic reservoirs being targeted by the Sangaw North-1 well.

OPERATIONS REVIEW – *continued*

CAMEROON

Ntem (WI 100% & Operator)

The Ntem concession area is a deepwater block situated in the southern Douala/Rio Muni Basin and lies adjacent to the northern maritime border of the Rio Muni province of Equatorial Guinea. Water depths range from 400m to 2,000m across the block. During the first term of the concession over 2,100km of 2D and 1,500km² of 3D seismic data were acquired, along with the purchase of additional seismic and gravity data.

Sterling's financial obligations and work programme for the Ntem concession area are currently suspended under the force majeure provisions of the licence owing to an overlapping maritime border claim between Cameroon and Equatorial Guinea. However, both countries are actively working to resolve this issue and Sterling understands the border dispute may be resolved soon.

This large block is undrilled and is well placed with respect to both Tertiary and Upper Cretaceous plays. Sterling is re-evaluating the area in the light of recent Tertiary discoveries made by Noble Energy to the north of the Ntem block. Many large leads and prospects have been identified following a detailed interpretation of the extensive 2D and 3D seismic database. Recent seismic attribute analysis and inversion studies reveal the presence of large and widespread submarine fans with good exploration potential. Sterling estimates that four of the Cretaceous prospects mapped so far have un-risked prospective resources of several hundred million barrels each. Sterling intends to farmout an interest in this licence.

MADAGASCAR

Civil unrest in Madagascar culminated in a military backed coup in March 2009; political uncertainty has continued for the remainder of the year.

Ampasindava (WI 30%)

The production sharing contract (PSC) for Ampasindava is in its third phase of the exploration period with a minimum work commitment of one exploration well. ExxonMobil (WI 70%, operator) and Sterling are unwilling to commit to drilling an exploration well on the Sifaka prospect until political stability has been established. It is unlikely that an exploration well will commence drilling before 2011.

Ambilobe (WI 100% and Operator)

The PSC for Ambilobe is in its second phase of the exploration period. All work commitments have been fulfilled by completing geological and geophysical studies and acquiring approximately 1,000km of 2D seismic. In March 2009, ExxonMobil, who had farmed in to the PSC in July 2005 for a 70% working interest withdrew from the PSC and their interest in the block reverted to Sterling. Following ExxonMobil's withdrawal the duration of the second phase was extended by 18 months to November 2010. Sterling is monitoring the political situation in Madagascar and will evaluate the alternatives for progressing the exploration activities on Ambilobe.

GABON

Iris Marin (WI 32%)

The Iris Marin block is situated in the Southern Gabon Basin, adjacent to the Gamba and Ivinga producing oil fields and the Olowi oil field development. The permit extends from the shoreline to a water depth of 60m. Sterling holds a 32% WI in the PSC and Addax is the operator. All licence commitments have been fulfilled and the PSC expires in May 2010. The operator has recommended that the PSC is relinquished when the current period expires and the partners have unanimously supported the recommendation.

Ibekelia (WI 40% & Operator)

Sterling and its partners have been negotiating to convert the Technical Evaluation Agreement for the Ibekelia block into a PSC. However, following further studies that have identified limited prospectivity and the expectation that the Iris Marin PSC will expire in May 2010. Sterling has recommended to its partners to cease the negotiations for a PSC.

MAURITANIA

Chinguetti (Economic Interest via Funding and Royalty Agreements)

No in-fill drilling or work-over activity took place on the Chinguetti field during the first half of 2009. Gross production continued to decline over the first six months of 2009, from 16,500 bopd to 9,500 bopd prior to the planned FPSO annual maintenance shutdown on 26 June. The decline was attributed to increasing water production in most wells. The field performed better after returning to production on 1 July with a reduced decline rate. In November and December subsea intervention work was carried out, gas lift was initiated in well C-20, and optimization of the process system was undertaken. However the overall decline has continued and gross daily production at year end was around 9,200 bopd.

Sterling estimates that at the end of 2009 Chinguetti held a remaining 5.72 mmbbl of gross 2P reserves that could be accessed with the existing wells. Technical work continues on the reservoir model to investigate the potential for a Phase 3 drilling campaign to access potential resources in 2010/11. However, given the current oil price forecasts, the Phase 3 programme may not be economic and Sterling believes the Chinguetti Field could be abandoned earlier than originally planned.

During 2009, Sterling's share of production averaged 906 bopd from its interests in the Chinguetti field through the funding agreement and royalty interest. Sterling's current share of Chinguetti production is approximately 715 bopd.

AGC (SENEGAL/GUINEA BISSAU)

Dome Flore (WI 30%)

Markmore, Sterling's joint venture partner and operator of the Dome Flore concession, has withdrawn the application for a licence extension for the Dome Flore block located in an area administered by AGC, a joint agency for Senegal and Guinea Bissau. The AGC has confirmed the termination of the licence.

USA

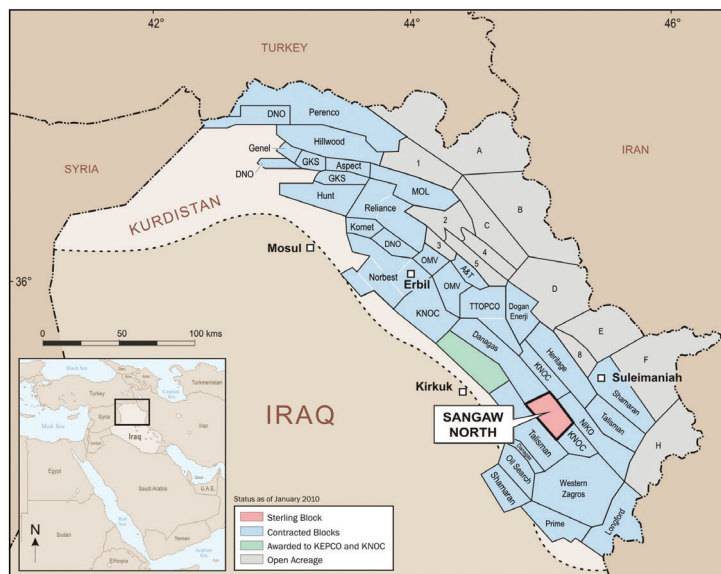
In December 2009 Sterling disposed of its USA business as part of its strategy to re-focus on material exploration activity.

Andrew Grosse

Exploration and Technical Director

28 March 2010

KURDISTAN – SANGAW NORTH



Contract Summary

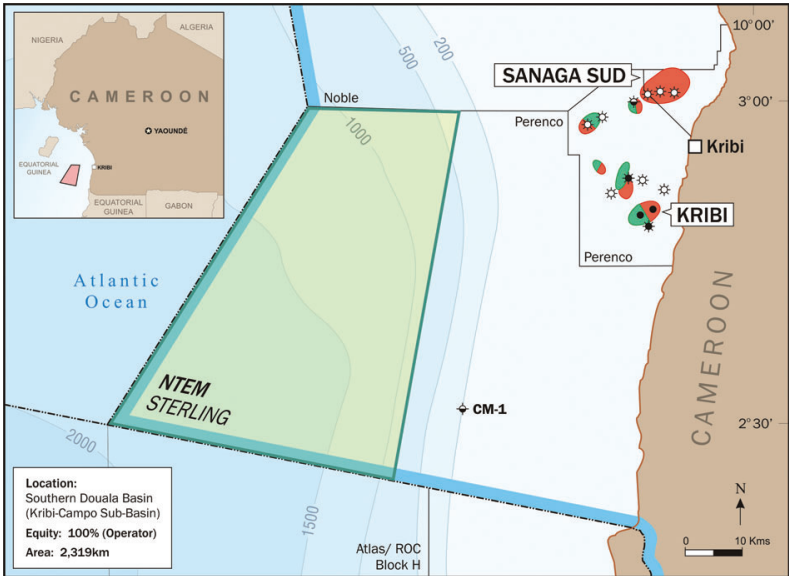
Contract type	PSC
Contract signed	10 November 2007
Contract area	492 km ²
Participants	
Sterling (Operator)	53.33% *
KNOC	20%
Addax	26.67%
*If the KRG's back-in rights are fully exercised, then Sterling's working interest will reduce to 40%	
Exploration period expires	November 2012
1st Sub-period	2 years
– Minimum work commitment	200 km of 2D seismic
2nd Sub-period	3 years
– Minimum work commitment	drill 1 exploration well
Summary of PSC terms	
Royalty	10%
Cost recovery (oil)	40% after royalty
Profit share (oil)	30%-15% sliding scale
Cost recovery (gas)	53% after royalty
Profit share (gas)	40%-20% sliding scale
Tax	Paid from state share of production

The Sangaw North block lies approximately 140 km south east of Erbil, the Capital of the Kurdistan region of Iraq. The block is located 50 km south west of Suleimaniah and 50 km southeast of the giant Kirkuk oil field. It is on trend with both the Taq Taq oil discovery (90 km) and the Chemchemical gas and condensate discovery (30 km).

The Sangaw North PSC was awarded for an initial five-year term. The minimum work commitment for the 1st sub-period (November 2007 to November 2010) of 200 km of 2D seismic has been fulfilled with the acquisition of 325 km of 2D seismic acquired in 2008/09; Sterling is currently drilling the Sangaw North – I exploration well which, when completed will satisfy the work commitment of the 2nd sub-period.

The block contains a large surface anticline, the sub-surface structure of which has been mapped by Sterling using 325 km of 2D seismic data that was acquired in 2008/09. Sterling has identified a large, multi-horizon prospect and RISC has determined the best estimate gross prospective resources in the Upper Cretaceous reservoirs to be 804 mmbbl. Secondary reservoir potential is also being targeted in a number of Jurassic objectives.

CAMEROON – NTEM



Contract Summary

Contract type	Concession	
Contract signed	14 March 2001	
Contract effective date	3 September 2002	
Contract area	2,319 km ²	
Participants		
Sterling (Operator)	100%	
Licence term remaining	In force majeure, minimum work and financial obligations are suspended	
Current work period	18 months to run after the lifting of force majeure	
Minimum work commitment	Drill 1 exploration well	
a) Production Bonuses	<i>Average Production Rate</i>	<i>Bonus</i>
	50,000 bopd	\$1 Million
	100,000 bopd	\$5 Million
b) Proportional Royalty:	<i>Annual Production Rate</i>	<i>State Entitlement</i>
	0- 50,000 bopd	4.0%
	50-100,000 bopd	6.0%
	>100,000 bopd	10.0%
c) Corporation Tax	40% (on net profits)	
d) Additional Petroleum Duty (APD), is calculated as a percentage of the profit subject to corporation tax and is paid in addition to the corporation tax. R factor is		

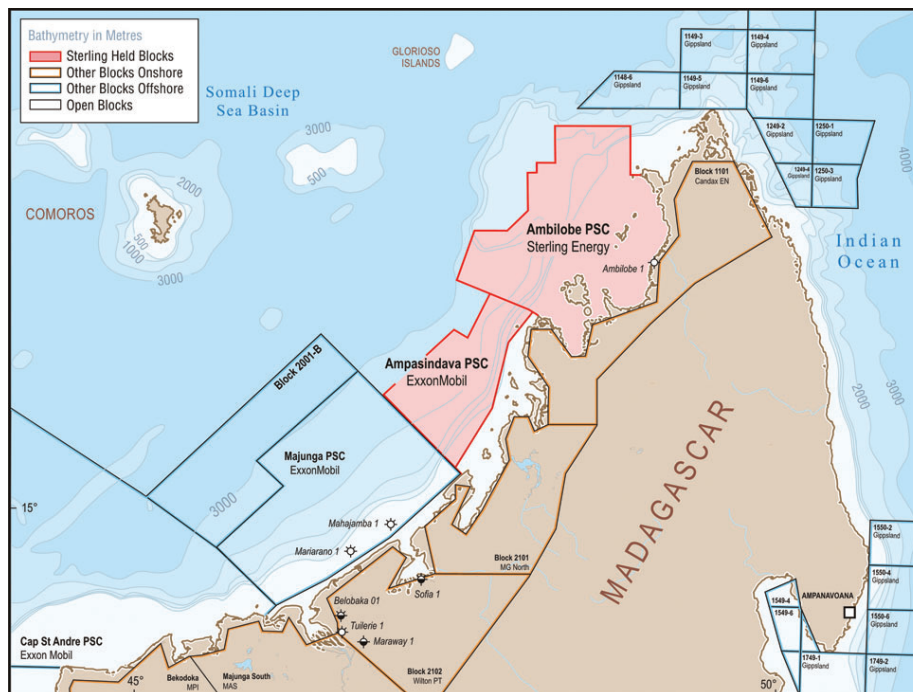
defined as the ratio of 'Accrued Net Income' and 'Accrued Investments':
 $R < 1.5$, APD= 0%;
 $1.5 < R < 2.5$, APD= 10.0%;
 $R > 2.5$, APD= 20.0%.

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

The financial obligations and work programme for the Ntem concession area (100% WI) are currently suspended owing to overlapping maritime border claims between Cameroon and Equatorial Guinea, however both countries are actively working to resolve this issue. Sterling is evaluating the area in the light of recent Tertiary discoveries made by Noble Energy to the north of the block. Sterling intends to farmout an interest in this licence.

This large block is undrilled and is well placed with respect to both Tertiary and Upper Cretaceous plays. As a result, it is attracting a good level of industry interest. Many large leads and prospects have been identified following a detailed interpretation of the extensive 2D and 3D seismic database. Recent seismic attribute analysis and inversion studies on this dataset reveal the presence of large and widespread submarine fans with good exploration potential. Four of the Cretaceous prospects mapped so far by Sterling have un-risked prospective resources of several hundred million bbls each based upon Company estimates.

MADAGASCAR



AMBILOBE

Contract Summary

Contract type	PSC
Contract signed	15th July 2004
Effective start date	28th November 2004
Contract area	17,650 km ²
Participants	
Sterling (Operator)	100%
Exploration term	8 year period with possible 2 year extension
Phase 2	expires Nov 2010
Phase 2 work commitment	completed
Production term	25 year period with possible 5-10 year extension

Sterling, as operator, has fulfilled the Phase 1 and Phase 2 work programme commitments by conducting G&G studies, acquiring approximately 1,000 km of new 2D seismic with TGS-Nopec and processing more than 5,000 km of new and vintage 2D seismic data.

In July 2005 Sterling farmed out a 70% interest in the block to ExxonMobil. In May 2008, Phase 2 of the exploration period was extended by 1 year. 550 km of new 2D seismic data was purchased from TGS-Nopec and CACP (controlled amplitude, controlled phase) compliant reprocessing of more than 5500 km of 2D data was undertaken to help identify potential hydrocarbon bearing anomalies in the subsurface. A number of large leads in Cretaceous and Tertiary plays have been identified which will require additional seismic data to evaluate as potential drillable prospects.

In early 2009 ExxonMobil withdrew from the PSC; the ExxonMobil interest in the block reverted to Sterling. Following ExxonMobil's withdrawal, Phase 2 was extended by 18 months to November 2010.

AMPASINDAVA

Contract Summary

Contract type	PSC
Contact signed	15th July 2004
Effective start date	28th November 2004
Contract area	7,379 km ²
Participants	
Exxon Mobil (Operator)	70%
Sterling	30%
Exploration term	8 year period with possible 2 year extension
Phase 3	expires Nov 2010
Phase 3 work commitment	1 exploration well
Production term	25 year period with possible 5-10 year extension

Sterling farmed out the block to ExxonMobil in July 2005. Sterling, as operator, fulfilled the Phase 1 and Phase 2 work programme commitments for the block by completing G&G studies and acquiring more than 3,000 km of 2D seismic in 2006. Following acquisition, processing and interpretation of the 2D seismic data Sterling transfer operatorship to ExxonMobil at the end of 2006.

In late 2007 the Sifaka prospect was selected as a potential structure to drill and a site-survey was undertaken. In November 2008 the joint venture partners elected to enter Phase 3 of the exploration period which has a firm well commitment.

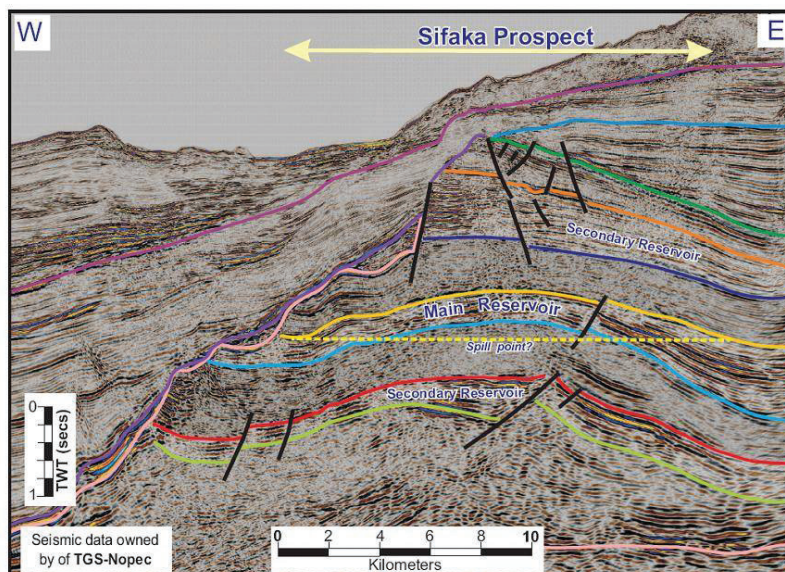
The Sifaka Prospect is located in the inboard portion of the Ampasindava block, in water depths of 500m to 1,800m. Sifaka is mapped as a large structure with the main reservoir target, Jurassic deepwater, turbiditesandstones, expected to be encountered at approximately 3,400m below the seabed.

RISC (Competent Persons Report, March 2008) has estimated the gross (100%) un-risked prospective resources for the Sifaka prospect as follows:

Low Estimate	150 million bbl
Best Estimate	1.2 billion bbl
High Estimate	4.8 billion bbl

The drilling of the Sifaka prospect will be the first exploration well to test the deepwater potential of Madagascar.

At the beginning of 2010, Sterling estimate ExxonMobil's remaining carry is approximately \$39 million towards the gross cost of drilling.



RESERVES REPORT

	2009 Oil (000 boe)	2009 Gas (mcf)	2009 Reserves (000 boe)	2008 Oil (000 boe)	2008 Gas (mcf)	2008 Reserves (000 boe)
A. Volumes of proven plus probable reserves						
At 1st January	4,990	80,049	18,332	7,070	85,344	21,294
Asset Acquisitions	–	–	–	74	371	136
Asset Disposals	(2,762)	(67,328)	(13,983)	(2,313)	(592)	(2,412)
Revision – USA ⁽¹⁾	(658)	(7,607)	(1,927)	2,080	1,134	2,269
Revision – Chinguetti ⁽²⁾	(553)	–	(553)	(1,201)	–	(1,201)
Production	(677)	(5,114)	(1,529)	(720)	(6,208)	(1,754)
At 31st December	340	–	340	4,990	80,049	18,332
B. Location of Reserves						
North America	–	–	–	3,767	80,049	17,108
West Africa	340	–	340	1,224	–	1,224
	340	–	340	4,991	80,049	18,332
C. Categorisation of Proven and Probable reserves:						
At the end of the year:						
Proven reserves	100%	–	100%	69%	57%	60%
Probable reserves	–	–	–	31%	43%	40%
Proven						
West Africa	340	–	340	756	–	756
North America	–	–	–	2,687	45,504	10,271
Probable						
West Africa	–	–	–	468	–	468
North America	–	–	–	1,080	34,545	6,838
	340	–	340	4,991	80,049	18,332

Notes:

1. North America: The reserves are based on evaluation reports prepared by independent petroleum engineers that assessed the reserves as at 1 April 2009 and 1 April 2008. Adjustments have been made by the Directors to allow reporting for the assets at the year-end and where, in their opinion, subsequent performance of assets, or further evaluation through drilling or work-overs, or through the impact of changes in prices or costs, justifies adjustments.
2. West Africa: the reserves stated are for the Chinguetti field only and are based on Sterling's own assessment of reserves, as at 31 December 2009. The assessment was made in accordance with the standards and definitions as set out on page 79.
3. Sterling has not booked reserves in West Africa relating to other Mauritanian discoveries, on the basis that there are no approved development plans for these discoveries.
4. In accordance with the guidelines of the AIM Market of the London Stock Exchange, Andrew Grosse, B.Sc. (Hons) Geology & Geophysics (1980), Exploration & Technical Director of Sterling Energy Plc, who has been involved in the oil industry for over 29 years, is the qualified person that has reviewed the assessment of reserves set out above.

SCHEDULE OF INTERESTS

	Location	Size (km ²)	Licence Name	Sterling Working Interest %	Sterling Net Revenue Interest %	Operated/ Non-operated
Africa						
Mauritania	Offshore	6,969	PSC A	n.a	Sliding scale royalty over 3%	Non-operated
	Offshore	8,095	PSC B	n.a	Sliding scale royalty over 6% (except 5.28% of the Chinguetti Field)	Non-operated
	Chinguetti		Funding Agreement With SMH	n.a	Economic interest for approximately 8% of Chinguetti project	Non-operated
Cameroon	Southern Douala Basin	2,319	Ntem	100%		Operator
Gabon	Southern Gabon	673	Ibekelia (TEA)	40%		Operator
	Southern Gabon	607	Iris Marin	32%		Non-operated
Madagascar	Offshore NW	17,650	Ambilobe	100%		Operator
	Offshore NW	7,379	Ampasindava	30% ⁽¹⁾		Non-operated
Middle East						
Iraq	Kurdistan	492	Sangaw North	53.33% ⁽²⁾		Operator

1. Carried for defined \$ amount
2. Carried for drilling costs for 1 exploration well

FINANCIAL REVIEW

SELECTED FINANCIAL DATA

		2009	2008
USA production	bopd	3,587	3,784
Chinguetti production	bopd	906	1,025
Total production	bopd	4,493	4,809
Year-end 2P reserves	000 boe	340	18,332
Revenue (continuing operations)	\$million	22.7	20.4
Revenue (discontinued operations)	\$million	50.2	83.1
EBITDA ⁽¹⁾	\$million	10.0	21.4
Loss after tax	\$million	(202.5)	(156.8)
Net cash investment in oil & gas assets	\$million	31.7	57.4
Year end cash (including partner funds)	\$million	113.9	23.8
Year end debt	\$million	–	(119.3)
Year end net cash/(debt)	\$million	113.9	(95.5)
Average realised oil price (net of hedges)	\$/bbl	62.02	67.21
Average realised gas price (net of hedges)	\$/mcf	5.93	8.82
Total cash operating costs per boe	\$/boe	16.06	18.55
Year end share price ⁽²⁾	Pence	155	95
Share price growth (based on year end share price)	%	63	(81)

1. EBITDA is calculated as earnings before interest, taxation, depreciation, amortisation, impairment and pre-licence expenditure on continuing operations

2. Adjusted for 40:1 share consolidation implemented in December 2009

HIGHLIGHTS

- Net loss of \$202.5 million in 2009 reflects pre-tax asset impairment charges of \$94.1 million, offset by a deferred tax credit of \$24.0 million, and a loss on disposal of the US business of \$118.8 million;
- Sterling repaid \$122.9 million of debt outstanding during the period and was debt free at the end of 2009;
- Equity placings in September and December raised a total of £81.3 million (\$133.3 million);
- Cash balances at year-end were \$113.9 million.

CONTINUING AND DISCONTINUED OPERATIONS

Following the disposal of the USA business on 2 December 2009, the Group's income statement has been represented for both 2009 and 2008 to show revenues and expenses from continuing operations only, with results from discontinued operations condensed into a single line item at the foot of the income statement. An analysis of the income statement showing both continuing and discontinued operations is presented in note 3.

REVENUE AND COST OF SALES

2009 production was 4,493 bopd, a decrease of 7% from the 4,809 bopd in 2008.

USA production decreased to 21.5 mmcfge/d (2008: 22.7 mmcfge/d). This was a result of natural production decline rates and the deferral of capital expenditure ahead of the disposal. The USA business accounted for 80% of production in 2009 (2008: 79%). Net Chinguetti field production for the year was equivalent to 906 bopd (2008: 1,025 bopd), including royalty barrels.

Currently, all of the Group's production is from the Chinguetti field and the Group's net production is approximately 715 bopd.

2009 Group turnover from continuing operations was \$22.7 million (2008: \$20.4 million), this was primarily as result of an increased average realised oil price from the Chinguetti liftings during the year, net of hedges (2009: \$68.62 per bbl, 2008: \$54.67 per bbl). Including discontinued operations, turnover decreased by 30% to \$72.9 million, including hedge settlement income of \$16.9 million, compared to 2008 turnover of \$103.6 million (after \$16.0 million expense for hedges). This decrease was a result of declining USA and Mauritanian production, US gas prices not recovering to the same degree as oil prices, and approximately one month less contribution to revenue by the USA business due to its disposal during the period.

OPERATING LOSS

The 2009 operating loss from continuing operations amounted to \$18.0 million. The operating loss from both continuing and discontinued operations amounted to \$214.4 million (2008: loss \$175.2 million) after pre-tax non-cash impairment charges of \$94.1 million and a pre-tax loss on the disposal of discontinued operations of \$118.8 million. Due to a deferred tax credit of \$24.0 million relating to the impairment, the post-tax impairment charge was \$70.1 million.

The total cost of sales from both continuing and discontinued operations decreased to \$57.6 million (2008: \$87.0 million), reflecting a reduction in the depletion charge in the year to \$33.5 million (2008: \$53.9 million), and lower operating costs. The decrease in depletion was as a result of the impairments to exploration, evaluation and property, plant and equipment assets, and because the USA business was classified as a discontinued operation on 20 October 2009. Under IFRS 5 discontinued operations are not depleted whilst held for sale.

Chinguetti cost of sales was \$13.5 million (2008: \$27.0 million) averaging \$40.79/bbl (2008: \$73.14/bbl), of which \$25.11/bbl related to production costs and \$15.68/bbl to depletion charges.

The \$94.1 million (2008: \$180.1 million) impairment charge was in recognition of poor field performance and a continued weakness in US gas prices. This impairment comprises the following:

- (i) \$17.9 million impairment of Chinguetti producing field, \$0.8 million impairment of the Chinguetti royalty asset, and \$3.3 million impairment of the Gabon exploration and evaluation assets.
- (ii) \$72.1 million impairment of USA assets of which exploration and evaluation assets accounted for \$69.9 million, and \$2.2 million was in relation to producing assets.

Pre-licence exploration costs of \$0.5 million (2008: \$2.7 million) were written off as required under IFRS.

Administrative costs for continuing operations and after capitalised costs and partner recharges fell by \$1.5 million to \$4.7 million in 2009 (2008: \$6.2 million). This was due to a reduction in the share-based payment expense and favourable movements in the average £ to \$ exchange rate during the year.

Total Group administrative expenses, including discontinued operations, increased by 8% to \$15.5 million (2008: \$14.3 million). This included a one-off charge for USA staff severance payments of \$2.6 million, and was after a non-cash share option charge of \$0.7 million (2008: \$1.5 million). The non-cash share option charge has decreased compared to the 2008 charge due a reduction in employees following the USA disposal during the year.

EBITDA AND NET LOSS

EBITDA for continuing operations totalled \$10.0 million (2008: \$21.4 million).

FINANCIAL REVIEW – *continued*

Finance costs for continuing operations less interest revenue from cash deposits were a net expense of \$13.6 million (2008: \$9.5 million). This reflects the interest cost, repayment of waiver fees and other costs associated with the Group's loans.

A deferred tax credit of \$26.0 million arose in 2009 (2008: \$27.9 million credit), including \$24.0 million relating to impairments which partly offset the USA impairment charge in the year.

Net loss after tax totalled \$202.5 million (2008: \$156.8 million loss) of which a net loss of \$170.8 million was attributable to discontinued operations. This net loss attributable to discontinued operations comprised a net loss on operations of \$52.0 million for 2009 and a loss of \$118.8 million on disposal. The loss per share was US\$2.10 per share (2008: US\$3.45 loss per share).

CASH FLOW

Cash inflow generated from operating activities was \$33.9 million (2008: \$56.7 million). Cash out-flow from continuing operations was \$4.5 million (2008: \$22.0 million), cash flow generated from discontinued operations was \$38.4 million (2008: \$34.7 million).

Net cash investments in oil and gas assets totalled \$31.7 million (2008: \$57.4 million) and primarily comprised \$22.3 million invested in the USA producing assets and \$5.9 million in USA non-producing assets. The Group's exploration expenditure in Kurdistan is carried by Addax up to the point of testing the first well.

The Company repaid \$122.9 million of debt during the period and was debt free at the end of 2009.

A net amount of £60.9 million was raised in September 2009 from an equity placing which strengthened the Company's balance sheet and secured the bank waiver. At the time of the placing, Sterling announced its intention to offer shares at the placing price to all of its shareholders. Following publication of the prospectus and approval of shareholders at the EGM, Sterling raised an additional net £20.4 million in December 2009.

BALANCE SHEET

At the end of 2009 non-current assets were \$11.1 million (2008: \$321.4 million). This decrease was primarily as a result of the USA disposal and impairments during the year. Net current assets increased to \$98.3 million (2008: net current liabilities \$16.2 million). During 2009 Sterling repaid \$122.9 million of principal leaving the Group debt free with a net cash position of \$113.9 million at the year end. At the end of 2009, net assets stood at \$88.1 million (2008: \$171.2 million).

The Group's total decommissioning provision decreased during the year by \$5.5 million to \$21.0 million (2008: \$26.5 million). The Chinguetti decommissioning provision increased by \$12.8 million. This was offset by the disposal of the USA business and the decommissioning work undertaken in USA during the year. The costs of Chinguetti decommissioning may exceed the value of reserves remaining and the Company may have to draw on funds from other sources to satisfy such costs.

HEDGING

At the end of 2009 the Group did not have any oil and gas price derivatives in place.

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.

Jonathan Cooper

Financial Director and Company Secretary

28 March 2010

CORPORATE SOCIAL RESPONSIBILITY

Sterling is committed to conducting its business in a responsible and sustainable way. Sterling recognises that it has corporate and social responsibilities to the local 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 or social responsibilities with any of these stakeholders.

BUSINESS INTEGRITY

The highest ethical standards are the cornerstone of Sterling's business. Sterling is committed to conducting its business with integrity, honesty and fairness. All business activities are reviewed to ensure it meets these standards. It also seeks to ensure that 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.

Sterling is a member of TRACE International Inc., the anti bribery association. Several of the Directors have completed the TRACE training and assessment.

COMMUNITY RESPONSIBILITY

Sterling is committed to being a good partner in the communities in which the Company operates. Engagement and dialogue with our local communities is essential in ensuring, where possible, projects benefit both the Company and the communities in which the project is located. During the year Sterling continued to hire additional local staff for both its Suleimaniah office in Kurdistan and its drilling operations on the Sangaw North block.

EMPLOYEES

Sterling is committed to providing a workplace free of discrimination where all employees are afforded equal opportunities and are rewarded upon merit and ability. In the implementation of this policy Sterling is committed to ensuring that all employees are given contracts with clear and fair terms. Staff are offered access to relevant training and encouraged to join professional bodies to enhance knowledge, competence and career development.

Sterling 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. Sterling has a whistle blowing policy which empowers employees to be proactive, to stop or report any failure to comply with legal obligations or Sterling'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 Company. The whistle blowing policy allows employees to make anonymous reports directly to a non-executive Director.

HEALTH, SAFETY, ENVIRONMENT AND SECURITY ('HSES')

It is an objective of Sterling that every individual is aware of his/her responsibility towards providing for a safe and secure working environment. HSES and social responsibility leadership are core competencies throughout Sterling's line management organisation. Sterling's HSES 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. Sterling will ensure 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. Sterling maximises its influence with joint venture partners to share its HSES and social responsibility values. Contractors are required to demonstrate and deliver a credible HSES and social responsibility programme. In order to achieve continual improvement, Sterling is committed to reviewing its HSES and social responsibility performance each quarter.

Sterling 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.

BOARD OF DIRECTORS

Alastair Beardsall, executive Chairman, aged 56

Alastair joined Sterling in September 2009. He has been involved in the oil industry for 30 years. For the first 12 years Alastair worked on international assignments with Schlumberger, the oil-field services Company. From 1992 he began working for independent exploration and production operators, with increasing responsibility for specific exploration, development and production ventures.

Between September 2003 and October 2009, Alastair was executive Chairman of Emerald Energy plc during which time Emerald grew from a market capitalisation of less than £8 million to a size that allowed the Company to enter the FTSE 250 index in January 2009. In October 2009 Emerald was acquired by Sinochem Resources UK Limited for £7.50 per share in a transaction that valued Emerald Energy at £532 million.

Andrew Grosse, Exploration and Technical Director, aged 51

Andrew joined Sterling in 2002 as the Company's Exploration Manager, and was appointed as a Director in January 2005. He has extensive international exploration experience with operating oil companies in Africa, the Middle East and North America.

Prior to joining Sterling, he was British Borneo's Exploration Manager for the Gulf of Mexico and then for International New Ventures. He began his career with Gulf Oil in Canada, and has also worked with BP Exploration and Ultramar Exploration.

Jonathan Cooper, Financial Director and Company Secretary, aged 41

Jonathan joined Sterling as Finance Director in February 2008. He is an experienced finance professional with advisory experience in the oil and gas industry.

Jonathan began his career with KPMG where he qualified as a Chartered Accountant, and in 1997 joined Dresdner Kleinwort Wasserstein where he worked as a Director in the Oil and Gas Corporate Finance Team. During this time he worked on mergers and acquisitions, public offerings and as strategic adviser to a wide range of companies including Gazprom, Lukoil, OMV, PKN Orlen, Unocal, Petronas and Harvest Natural Resources. Prior to joining Sterling, Jonathan spent two years working as Finance Director at Gulf Keystone Petroleum.

Richard Stabbins, non-executive Director, aged 66

Dick joined Sterling as a non-executive Director in January 2007 and was non-executive Chairman from July 2007 to September 2009. He chairs the Nominations Committee and is a member of the Audit and Remuneration Committees.

He is a geologist with more than 40 years of experience in the international energy industry, mainly in the independent sector. He has worked for the Saskatchewan (Canada) Department of Mineral Resources (1969-72), for Murphy Oil (1972-75) and for Ranger Oil (1975-81). He was Exploration Manager and subsequently Exploration Director of Goal Petroleum plc from 1981 until 1996.

From July 2000 until its acquisition by Sterling, he was a non-executive Director of Fusion Oil & Gas Plc. Dick currently manages a private Company, Montrose Industries Ltd, which has interests in a wide range of energy projects. He is a former Chairman (1990) and is an Honorary Member of the Petroleum Exploration Society of Great Britain, and a Council Member (2000-2003) of the Geological Society of London, whose Audit Committee he chairs.

Nicholas Clayton, non-executive Director, aged 46

Nicholas was appointed a non-executive Director of Sterling in October 2009. Nicholas is chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

BOARD OF DIRECTORS – *continued*

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 began his career at BP having obtained a first class honours degree in Business Studies, sponsored by BP, from Portsmouth Polytechnic in 1985.

He is currently a non-executive Director of Artumas Group Inc, an international oil Company listed on the Oslo Stock Exchange, and of Bridge Resources Corp., a Canadian listed Company with operations in the North Sea and North America. Nicholas also provides strategic advice to Geopark, an AIM-listed Company operating in Chile and Argentina.

Keith Henry, non-executive Director, aged 65

Keith was appointed a non-executive Director of Sterling 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 the Europe, Africa and FSU regions. 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 and Helius Energy 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.

CORPORATE GOVERNANCE

APPLICATION OF COMBINED CODE PRINCIPLES

The Directors are mindful of their duties and responsibilities to all Shareholders and of their statutory duties under the 2006 Companies Act, the core duty of which is to act in good faith and in a way most likely to promote the success of the Company for the benefit of its members as a whole. As an AIM listed company, the Company is not required to comply with the Combined Code, however, the Directors are committed to maintaining the highest standards of corporate governance. This statement describes how the Company has applied the main and supporting principles of corporate governance set out in the Combined Code published by the Financial Reporting Council in June 2008.

The Company has complied with the provisions set out in Section 1 of the Combined Code with the exception of the matters referred to below.

Provision A.2.1 Following the resignation of Graeme Thomson as CEO in December 2009, Alastair Beardsall has undertaken the roles and responsibilities of both CEO and Chairman. The Board of Sterling recognises that the current structure is not compliant with article A.2.1 of the Combined Code. The Board believes that appropriate challenge exists within the three members of the executive management, and the appointment of three senior and experienced non-executive directors ensures the Board's independence is maintained. The composition of both the executive management and the Board is reviewed periodically and as the level of activity at Sterling increases the Board will ensure the Company implements the changes to fully comply with provision A.2.1 of the Combined Code at the appropriate time.

Provision B.1.3 Non-executive Directors have been awarded share options. The awards of these options was approved in advance at the December 2009 extraordinary general meeting. Shares acquired by the exercise of options are not required to be held for at least one year after the non-executive Director leaves the Board as required under the Code. Notwithstanding the foregoing, the Board considers each of the non-executive Directors to be independent.

Provision A.6 Currently the Board does not undertake formal evaluation of its own performance and that of its Committees and individual Directors. The Board will introduce a formal evaluation process in 2010.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board Composition, Operation and Independence

The Board currently comprises the executive Chairman, two executive Directors and three non-executive Directors. Each of the executive Directors has extensive knowledge of the oil and gas industry combined with general business skills. All of the Directors bring independent judgment 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.

CORPORATE GOVERNANCE – continued

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	Remuneration Committee	Nominations Committee
Number Meetings in year	20	2	7	1
Alastair Beardsall (appointed 8 September 2009)	5	1*	6*	0
Chris Callaway (resigned 1 May 2009)	3	0	0	0
Nicholas Clayton (appointed 1 October 2009)	4	0	4	0
Jonathan Cooper	20	2*	0	0
Andrew Grosse	19	2*	0	0
Keith Henry (appointed 8 September 2009)	5	1	5	1
Graeme Thomson (resigned 22 December 2009)	18	2*	0	0
Richard Stabbins	20	2	7	1
Peter Wilde (resigned 1 October 2009)	16	2	3	1
Harry Wilson (resigned 30 June 2009)	12	1*	0	0

*Denotes attendance by invitation

During 2009 the Board met twenty times, this unusual number of meetings is attributable to discussions on bank waivers, corporate restructuring, fundraising, and the sale of the USA business. The Directors have access to independent professional advice, at the Group's expense, if and when required. There is a formal schedule of matters reserved for consideration by the Board and certain matters are delegated to committees of 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 or Finance Director have not been resolved or for which such contact is inappropriate.

The Board is responsible to Shareholders for the proper management of the Company. A Statement of Directors Responsibilities in respect of the financial statements is set out on page 34.

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 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.

Non-executive Directors have been issued with share options, under the NED LTIP. These awards were approved on 22 December 2009 in advance of the awards being made. In the opinion of the Board this aligns the objectives of the non-executive Directors with those of Shareholders. The NED LTIP is not subject to performance conditions for independence reasons.

The Company maintains Directors' and Officers' Liability insurance cover, the level of which is reviewed annually.

SUB-COMMITTEES

The Board has appointed the following sub-committees:

Audit Committee

This Committee currently comprises Richard Stabbins, Nicholas Clayton and Keith Henry, under the Chairmanship of Nicholas Clayton. It reviews the interim and annual financial statements, internal control matters and the scope and effectiveness of the external audit. The external auditors have unrestricted access to the Chairman of the Audit Committee. Audit Committee meetings are also attended by the external auditor where appropriate and, by invitation, the Chairman, Finance Director and Exploration and Technical Director.

Audit Committee Report for 2009

The Audit Committee met twice during the year. During these meetings the Audit Committee considered the following:

- the integrity of the financial statements and other formal announcements relating to the Group's financial performance and, in particular, reviewed the judgments that are contained within the financial statements;
- the Group's internal control and risk management policies and systems, and their effectiveness;
- Sterling's Whistle Blowing procedures to ensure that its employees are able to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters;
- 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 monitor the situation;
- the relationship with the external auditor, in particular satisfying itself as to the independence of the external auditor. Following an assessment of the quality of the service provided, auditor independence and the effectiveness of the audit process, the Committee recommended that the Board presents the resolution to the shareholders at the 2010 AGM to reappoint Deloitte LLP as external auditors; and
- monitoring a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

Nominations Committee

The members of this Committee are currently Richard Stabbins, Nicholas Clayton and Keith Henry under the Chairmanship of Richard Stabbins. The Nominations Committee considers the composition of the Board and makes recommendations on the appointment of new Directors.

Nominations Committee Report for 2009

The Nomination Committee met once during the year. During 2009, there were significant changes to the Sterling Board and as a result much of the work that would have been undertaken and considered by the Nominations Committee was undertaken and considered by the wider Board.

Nicholas Clayton and Keith Henry offer themselves for election at the AGM following their appointments 1 October 2009 and 8 September 2009 respectively. Richard Stabbins is retiring by rotation and offers himself for re-election. Their biographical details, provided on pages 18 to 19, demonstrate the range of experience and skills which each brings to Sterling. The Board considers that their performance continues to be effective and that each Director has the necessary commitment to fulfil their respective roles.

Remuneration Committee

The members of the Committee are Keith Henry, Richard Stabbins, and Nicholas Clayton, under the Chairmanship of Keith Henry.

Further details on the roles and responsibilities of the Remuneration Committee are described in greater detail in the Report on Directors' Remuneration, set out in pages 24 to 29.

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 Company'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 annual report and accounts are available to view. Additionally this annual report contains extensive information about the Company'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 7 May 2010 can be found in the notice of the meeting, on pages 83 to 87.

INTERNAL CONTROLS

In September 1999 the Turnbull Guidance (Internal Control: Guidance for Directors on the Combined Code) was published.

The Directors acknowledge their responsibility for establishing and maintaining the Group's and the Company's 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.

CONFLICTS OF INTEREST

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 authorization of such conflicts by the Board. In deciding whether to authorize a conflict matter or a potential conflict the Directors must have regard to their general duties under the Companies Act 2006.

REMUNERATION REPORT

REMUNERATION COMMITTEE

The Remuneration Committee is comprised of Keith Henry, Richard Stabbins and Nicholas Clayton. Keith Henry is the Chairman of the Remuneration Committee. The 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. Non-executive Directors' fees are considered and agreed by the Board.

The Remuneration Committee is permitted to appoint independent advisors to assist in the determination of level of remuneration. During 2009 the Remuneration Committee appointed independent advisors to assist in the preparation of the Company's long term incentive programs for the staff and non-executive Directors.

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 and share options awarded under the Staff Long Term Incentive Plan, with the balance between these components being salaries at levels around the middle of the range of salaries for peer companies and material additional remuneration resulting from performance adding materially to shareholder value. Sterling acknowledges the benefit of the executive Directors accepting appointments as non-executive Directors of other companies; if they accept more than two such appointments they are required to pass their fees for those appointments to the Company. The details of individual components of the executive remuneration package and service contracts are discussed below:

Basic Salary and Benefits: The salary and benefits are reviewed annually. Currently the Remuneration Committee uses remuneration data collected from published accounts and surveys of peer companies and does not use executive remuneration consultants. The Committee reviews this method on a regular basis.

Performance Related Bonuses: Performance bonuses are awarded to executive Directors by the Board, upon recommendations by the Remuneration Committee. Prior to each year the Remuneration Committee considers the levels of potential bonus payments and the corresponding set of objectives for which bonuses may be payable. At the end of each year the Remuneration Committee considers if the objectives have been achieved as well as individual contribution to the performance of the Group. The maximum level of performance bonus is capped as a percentage of annual salary.

Long Term Incentive Plans: During 2009 the Company reviewed the existing share based incentive schemes currently in place to motivate and incentivise its employees, and also took independent advice. Based on this review 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, awards are made in the form of options to acquire shares in the Company at the shares' nominal value. The All Staff LTIP is designed as a three year plan and the Company intends to grant annual awards in October each year based on the recommendations of the Remuneration Committee. It is proposed that the awards will only be earned subject to achieving performance conditions measured over the twelve month period following the grant (see note 27). Awards earned will not normally vest and be exercisable for a further 2 years and vesting will be conditional upon the recipient of the award remaining an employee of the Company. Although awards under the All Staff LTIP would normally be granted in October of each year, for 2009 the awards were made immediately after the EGM that approved the 2009 All Staff LTIP and were based upon the criteria that would have been used had the awards been made in October.

REMUNERATION REPORT – continued

Awards are made on similar terms to non-executive Directors of the Company, under a separate plan the NED LTIP. Awards under the NED LTIP are made by the Board and are not be subject to performance conditions for independence reasons.

Pensions: The Group operates a number of defined contribution pension schemes pursuant to which it contributes 10% percent of pensionable salary per eligible member.

Fees: The fees for non-executive Directors are determined by the Board within the limits stipulated in the Articles of Association. The non-executive Directors are not involved in any discussions or decision about their own remuneration. In the reported period, a revision was made to the level of fees and all non-executive Directors now receive fees of £30,000 per annum (2008: £34,500- £54,000).

SERVICE CONTRACTS

Each of the executive Directors has a service contract with the Company, details of which are as follows:

Director	Commencement of appointment	Date of current contract	Base annual salary	Notice period	Production Royalty entitlement **
Alastair Beardsall *	8 September 2009	8 September 2009	£220,000	12 months	–
Jonathan Cooper	4 February 2008	1 October 2009	£190,000	12 months	–
Andrew Grosse	11 February 2002	1 October 2009	£220,000	12 months	£98,438
Graeme Thomson ***	18 October 2002	18 October 2002	£345,159	12 months	£356,250
Harry Wilson ****	1 January 2003	1 January 2003	£346,000	12 months	£393,750

* Contracted to devote 80% of his working time to the business of Sterling Energy Plc.

** All future entitlements under the scheme for the Directors were settled in full during 2009.

***Resigned as a Director on the 22 December 2009, employment contract terminates 15 April 2010.

****Resigned as a Director 30 June 2009, employment contract expired on 28 August 2009.

The salaries paid to the Directors are reviewed annually with the most recent salary review being implemented on 1 October 2009. Save for the annual salary review disclosed above, the new service contracts entered into by the Company with the executive Directors on 8 September 2009 and 1 October 2009 are on substantially the same terms as the previous form of service contracts.

Non-executive Directors do not have service contracts, but instead each has a letter of appointment setting out the terms and conditions of his 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	£30,000
Keith Henry	8 September 2009	8 September 2009	£30,000
Richard Stabbins	19 January 2007	8 September 2009	£30,000

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.

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 \$98,000 in 2009 (2008 – \$103,000).

DIRECTORS AND THEIR INTERESTS

Directors' Remuneration and Share Options

Aggregate remuneration (audited)

	Fees and basic salary £	Compensation for loss of office £	Bonus £	Production* Royalty Entitlement £	Defined contribution pension £	Benefits in kind £	Total 2009 £	Total 2008 £
Executive Directors								
Alastair Beardsall (appointed 8 September 2009)	53,026	–	13,250	–	5,303	850	72,429	–
Jonathan Cooper	202,450	–	23,750	–	27,993	3,388	257,581	213,101
Paul Griggs (resigned 23 April 2008)	–	–	–	–	–	–	–	184,982
Andrew Grosse	240,940	–	27,500	98,438	33,391	4,327	404,596	347,229
Graeme Thomson (resigned 22 December 2009)	339,409	–	–	356,250	50,911	4,433	751,003	510,185
Harry Wilson (resigned 30 June 2009)	254,119	33,150	–	393,750	38,925	2,135	722,079	542,837
Non- Executive Directors								
Chris Callaway (resigned 1 May 2009)	11,500	–	–	–	–	–	11,500	34,500
Nicholas Clayton (appointed 1 October 2009)	7,500	–	–	–	–	–	7,500	–
Keith Henry (appointed 8 September 2009)	9,462	–	–	–	–	–	9,462	–
Richard Stabbins	46,846	–	–	–	–	–	46,846	54,000
Peter Wilde (resigned 1 October 2009)	34,500	–	–	–	–	–	34,500	34,500
Aggregate remuneration 2009	1,199,752	33,150	64,500	848,438	156,523	15,133	2,317,496	–
Aggregate remuneration 2008	1,314,166	40,000	120,000	239,063	177,983	30,123	–	1,921,335

* Production royalty entitlement replaced the production royalty bonus scheme.

All future entitlements under the scheme for the Directors were settled in full during 2009.

REMUNERATION REPORT – continued

Share Options (audited)

Details of options to acquire ordinary shares in the Company under the scheme approved in 2001 are as follows. The exercise price is shown in pence as this is the price at which the options are denominated under the scheme:

The number of options and exercise prices has been adjusted to reflect the 40:1 share consolidation that was implemented in December 2009.

	1st January 2009	Granted	31st December 2009	Exercise price	Exercise period
Andrew Grosse	37,500	–	37,500	160p	Up to 18/10/2012
	37,500	–	37,500	500p	Up to 09/03/2014
	12,500	–	12,500	680p	Up to 28/01/2015
	37,500	–	37,500	960p	Up to 29/06/2016
	125,000	–	125,000		
Graeme Thomson	17,500	–	17,500	160p	Up to 24/07/2011
	107,500	–	107,500	160p	Up to 18/10/2012
	42,500	–	42,500	280p	Up to 18/01/2013
	31,250	–	31,250	680p	Up to 15/04/2011
	25,000	–	25,000	960p	Up to 15/04/2011
	223,750	–	223,750		
Peter Wilde	6,250	–	6,250	160p	Up to 24/07/2011
	31,250	–	31,250	160p	Up to 18/10/2012
	37,500	–	37,500		
Harry Wilson	17,500	–	17,500	160p	Up to 24/07/2011
	107,500	–	107,500	160p	Up to 18/10/2012
	72,500	–	72,500	280p	Up to 18/01/2013
	43,750	–	43,750	680p	Up to 28/08/2010
	37,500	–	37,500	960p	Up to 28/08/2010
	278,750	–	278,750		
Total	665,000	–	665,000		

Share Options Lapsed During the Year (audited)

The number of options and exercise prices has been adjusted to reflect the 40:1 share consolidation that was implemented in December 2009.

Year Awarded	1st January 2009	Lapsed	31st December 2009	Exercise price	Exercise period
Chris Callaway					
2006	25,000	(25,000)	–	900p	Up to 14/02/2014
2006	5,000	(5,000)	–	960p	Up to 29/06/2016
Total	30,000	(30,000)	–		
Peter Wilde					
2005	12,500	(12,500)	–	680p	Up to 31/01/2015
2006	5,000	(5,000)	–	960p	Up to 29/06/2016
Total	17,500	(17,500)	–		
Richard Stabbins					
2007	25,000	(25,000)	–	640p	Up to 19/01/2017
2007	25,000	(25,000)	–	580p	Up to 24/07/2017
Total	50,000	(50,000)	–		

Directors' interests in Sterling Save As You Earn Option Scheme ('SAYE') (audited)

The Directors' interests in the SAYE scheme set up in 2007 are as follows:

	1st January 2009	Cancelled in year	31st December 2009	Option price	Earliest exercise date	Latest exercise date
Jonathan Cooper	10,101	–	10,101	95.04p	01/12/2011	01/06/2012
Andrew Grosse	10,101	–	10,101	95.04p	01/12/2011	01/06/2012
Graeme Thomson	10,101	–	10,101	95.04p	01/12/2011	01/06/2012
Harry Wilson	10,101	(10,101)	–	95.04p	–	–
	40,404	(10,101)	30,303			

Directors' interests in the Sterling 2007 Long Term Incentive Plan ('LTIP') (audited)

The Directors' interests in the 2007 LTIP are as follows:

The number of options and exercise price has been adjusted to reflect the 40:1 share consolidation that was implemented in December 2009.

	1st January 2009	Forfeited	Granted	Exercised	31st December 2009	Exercise price	Earliest exercise date	Latest exercise date
Chris Callaway	13,400	(13,400)	–	–	–	40p	n/a	n/a
Jonathan Cooper	105,000	–	–	–	105,000	40p	14/02/2011	14/05/2011
Andrew Grosse	105,950	–	–	–	105,950	40p	27/09/2010	14/05/2011
Richard Stabbins	21,275	(21,275)	–	–	–	40p	n/a	n/a
Graeme Thomson	132,650	–	–	–	132,650	40p	15/04/2010	15/07/2010
Peter Wilde	13,400	(8,934)	–	(4,466)	–	40p	n/a	n/a
Harry Wilson	147,225	(100,195)	–	(47,030)	–	40p	n/a	n/a
	538,900	(143,804)	–	(51,496)	343,600			

Approved by shareholders at the EGM held on 22 December 2009.

REMUNERATION REPORT – continued

The LTIPs for Mr Chris Callaway lapsed on his resignation on 1 May 2009.

The LTIPs for Mr Harry Wilson were exercised, to the extent vested when he ceased to be an employee on 28 August 2009.

The LTIPs for Mr Peter Wilde were exercised, to the extent they had vested, following his resignation on 1 October 2009.

The LTIPs for Mr Richard Stabbins were relinquished prior to grant of options under the NED LTIP.

All Staff Long-Term Incentive Plan (audited)

The Directors interests in the All Staff LTIP are as follows:

	1st January 2009	Granted	Exercised	31st December 2009	Exercise price	Earliest exercise date	Latest exercise date
Alastair Beardsall *	–	1,125,000	–	1,125,000	40p	01/10/2012	30/09/2014
Jonathan Cooper	–	400,000	–	400,000	40p	01/10/2012	30/09/2014
Andrew Grosse	–	475,000	–	475,000	40p	01/10/2012	30/09/2014
	–	2,000,000	–	2,000,000			

Approved by shareholders at the EGM held on 22 December 2009.

* In recognition of Alastair Beardsall's efforts in the fund raising and the September Placing, and as a means of retention, 50% of the options awarded to him will vest without performance criteria in October 2012, always provided he remains employed by the Company at that time.

Non-executive Directors Long-Term Incentive Plan (audited)

The Non-executive Directors' interests in the NED LTIP are as follows:

	1st January 2009	Granted	Exercised	31st December 2009	Exercise price	Earliest exercise date	Latest exercise date
Nicholas Clayton	–	125,000	–	125,000	40p	01/10/2012	30/09/2014
Keith Henry	–	125,000	–	125,000	40p	01/10/2012	30/09/2014
Richard Stabbins	–	125,000	–	125,000	40p	01/10/2012	30/09/2014
	–	375,000	–	375,000			

Approved by shareholders at the EGM held on 22 December 2009.

The rules of the LTIP schemes are summarised in note 27.

For and on behalf of the Board

Keith Henry

Chairman, Remuneration Committee

28 March 2010

DIRECTORS' REPORT

The Directors present their annual report on the affairs of Sterling and its subsidiaries, together with the financial statements and auditors' report for the year ended 31 December 2009.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Group throughout the year remained the exploration for and production of oil and gas in Africa, the Middle East and the USA. The USA business was sold on 2 December 2009. The significant developments during 2009 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, the Operational Review and Financial Review.

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

The Group uses a number of key performance indicators (KPI's) to assess the business performance against strategy. These are net debt (\$), Reserves (million boe), EBITDA (\$), production (bopd) and share price growth and analysis of the KPI's can be found in the Financial Review.

RESULTS AND DIVIDENDS

The Group loss for the financial year was \$202.5 million (2008: loss of \$156.8 million). This leaves an accumulated Group loss on retained earnings of \$446.3 million (2008: loss \$247.0 million) to be carried forward as a balance of the Group's retained earnings. As a result of the accumulated deficit of \$388.7 million on the retained earnings of the Company at the end of 2009 (2008: deficit \$238.8 million), the Directors do not recommend the payment of a dividend (2008: nil).

GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the operations review on pages 4 to 10. The financial position of the Company, its cash flows and liquidity position are described in the financial review on pages 13 to 16. In addition, note 26 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Company 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 the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Company 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 22 to the financial statements. Following completion of the capital raising on 23 December 2009, Sterling consolidated every 40 shares of 1 pence each into one ordinary share of 40 pence each. 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 27.

DIRECTORS' REPORT – *continued*

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

DIRECTORS

The Directors who served throughout the year were as follows:

Mr. Alastair Beardsall (appointed 8 September 2009)
Mr. Chris Callaway (resigned 1 May 2009)
Mr. Nicholas Clayton (appointed 1 October 2009)
Dr. Jonathan Cooper
Mr. Keith Henry (appointed 8 September 2009)
Mr. Andrew Grosse
Dr. Richard Stabbins
Mr. Graeme Thomson (resigned 22 December 2009)
Mr. Harry Wilson (resigned 30 June 2009)
Mr. Peter Wilde (resigned 1 October 2009)

Biographical details of serving Directors can be found in the Board of Directors section of this report.

DIRECTORS' ELECTION AND ROTATION

With regard to the appointment and replacement of the Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The powers of Directors are described in the Corporate Governance Report.

In accordance with article 106 of the Company's Article of Association Richard Stabbins offers himself for re-election, and in accordance with article 110 of the Company's Articles of Association Keith Henry and Nicholas Clayton offer themselves for election at the forthcoming AGM on 7 May 2010.

DIRECTORS' AND THEIR INTERESTS

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	22-March 2010	31-December 2009	31-December 2008
Alastair Beardsall**	500,000	500,000	n.a
Chris Callaway	n.a	n.a	2,500
Nicholas Clayton*	132,500	125,000	n.a
Jonathan Cooper**	58,012	58,012	12,500
Andrew Grosse**	696,211	696,211	185,012
Keith Henry	500,000	500,000	n.a
Richard Stabbins*	300,000	289,481	130,607
Graeme Thomson	n.a	n.a	433,638
Peter Wilde	n.a	n.a	21,750
Harry Wilson	n.a	n.a	703,002

* non-Executive Director, member of the audit, remuneration and nominations committees

** executive director

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

Of the above interests, Dr Richard Stabbins includes 140,000 (2008: 111,857) 40 pence ordinary shares held by Montrose Industries Limited a Company in which he has a direct 84.4% holding and is a director.

SUBSTANTIAL SHAREHOLDING

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 219,309,625 issued ordinary shares of 40 pence each of the Company at 22 March 2010:

	Number	%
Waterford Finance and Investment Limited	65,384,217	29.81
Invesco Asset Management Limited	48,165,876	21.96
Mr. Denis O'Brien	16,075,943	7.33
Artemis Investment Management Limited	11,138,885	5.08
Gartmore Investment Management Limited	9,652,728	4.40

SUPPLIER PAYMENT POLICY AND PRACTICE

The Company's policy is to settle terms of payment with suppliers when agreeing each transaction, ensuring that suppliers are made aware of the terms of payment and abide by them. At the 2009 year-end, the number of supplier days outstanding for the continuing operations of the Group was 60 days (restated 2008: 35 days).

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the group made charitable donations of \$5,000 (2008: \$24,000), principally to local charities serving the communities in which the group operates. No political contributions were made during the year.

BUSINESS RISK

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. Key risks in this regard are:

Category	Risk
Strategic and Economic	Inappropriate or inaccurate strategy and plans Failure to deliver on strategy and plans Business environment changes Significant competition
Operational	HSE incident or non-compliance Poor field performance Failure to add value through exploration Permits and/or approvals maybe difficult to sustain
Commercial	Failure to access new opportunities Failure to maximise value from existing interests Loss of control of key assets Dissatisfied stakeholders Failure to negotiate optimal contract terms Reserve estimations are not exact determinations

DIRECTORS' REPORT – *continued*

Category	Risk
Human Resources and Management Processes	Failure to recruit and retain key personnel Human error or deliberate negative action Inadequate management processes Insufficient timely information available to the management and the Board
Financial	Restrictions in capital markets impacting available financial resource Oil or gas price volatility impacting both revenues available and Bank debt called for repayment Cost escalation Fiscal changes Operations under-insured Foreign currency risk

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 risk mitigation is critical to Sterling in achieving its strategic objectives and protecting its assets, personnel and reputation. Sterling manages its risks by maintaining a balanced portfolio of projects and by seeking to ensure it is in compliance with the terms of its agreements, and through the application of appropriate policies and procedures, and via the recruitment and retention of a team of skilled and experience professionals.

FINANCIAL INSTRUMENTS

Information about the use of financial instruments, the Group's policy and objectives for financial risk management is given in note 26 to the financial statements.

AUDITORS

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

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

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

Jonathan Cooper
Director

28 March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the 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 are required to prepare group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements in accordance with IFRSs as adopted by the European Union. Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and which 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 Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report includes 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

Director

28 March 2010

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of Sterling Energy Plc for the year ended 31 December 2009 which comprise the consolidated and parent company income statement, the consolidated and parent Company statement of comprehensive income, the consolidated and parent Company statement of changes in equity, the consolidated and Company balance sheet, the consolidated and parent Company cash flow statements and the related notes 1 to 28. 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.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of paragraph 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 auditors' 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 Directors' Responsibilities Statement, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

OPINION OF THE 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 2009 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; 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 part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006 that would have applied were the Company a quoted Company; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 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.

Bevan Whitehead, Senior Statutory Auditor

For and on behalf of Deloitte LLP
Chartered Accounts and Statutory Auditors
London, UK

28 March 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Note	31st December 2009 \$000	31st December 2008 \$000
Continuing operations			
Revenue	4	22,709	20,444
Cost of sales	6	(13,498)	(26,971)
Gross profit/(loss)		9,211	(6,527)
Administrative expenses		(4,684)	(6,246)
Impairment of oil and gas assets	3	(22,055)	(100,012)
Other impairments	3	–	(833)
Profit on disposal of oil and gas assets	5	–	2,200
Profit on disposal of investment	16c	–	2,871
Pre-licence exploration costs	3	(512)	(2,014)
Operating loss	5	(18,040)	(110,561)
Interest revenue and other finance gains/ losses	8	(252)	116
Finance costs	8	(13,340)	(9,606)
Loss before tax		(31,632)	(120,051)
Tax	9	–	–
Loss for the financial period from continuing operations	5	(31,632)	(120,051)
Discontinued operations			
Loss from the period from discontinued operations	10	(170,851)	(36,779)
Loss for the year		(202,483)	(156,830)
Loss per share (USc)			
From continuing operations	12	(32.75)	(264.21)
From continuing & discontinued operations	12	(209.66)	(345.15)
Basic and diluted	12	(209.66)	(345.15)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	31st December 2009 \$000	31st December 2008 \$000
Loss for the year	(202,483)	(156,830)
Hedge movement	(15,574)	29,995
Currency exchange adjustments	1,155	(1,921)
Revaluation of shares	12	(657)
Total comprehensive expense for the year, net of tax	(216,890)	(129,413)
Tax	-	-
Total comprehensive expense for the year	(216,890)	(129,413)

CONSOLIDATED BALANCE SHEET

31 December 2009

	Note	31st December 2009 \$000	31st December 2008 \$000
Non-current assets			
Intangible royalty assets	13	1,818	3,791
Intangible exploration and evaluation assets	14	8,957	125,756
Property, plant and equipment	15	305	187,760
Investments	16a	18	996
Other receivables – restricted bank deposits		–	3,145
		11,098	321,448
Current assets			
Inventories		4,367	4,994
Trade and other receivables	17	2,578	32,606
Derivative financial instruments	26	–	16,071
Cash and cash equivalents		113,859	23,854
		120,804	77,525
Total assets		131,902	398,973
Current liabilities			
Trade and other payables	18	(22,525)	(39,533)
Derivative financial instruments	26	–	(497)
Bank loan	19	–	(53,700)
		(22,525)	(93,730)
Net current assets/(liabilities)		98,279	(16,205)
Non-current liabilities			
Bank loan	19	–	(65,570)
Deferred tax liabilities	20	–	(40,793)
Long-term provisions	21	(21,238)	(27,664)
		(21,238)	(134,027)
Total liabilities		(43,763)	(227,757)
Net assets		88,139	171,216
Equity			
Share capital	22	148,537	42,749
Share premium account	23	378,859	351,334
Share option reserve	23	7,104	9,869
Investment revaluation reserve	23	12	–
Currency translation reserve	23	(108)	(1,263)
Hedge reserve	23	–	15,574
Retained earnings	23	(446,265)	(247,047)
Total Equity		88,139	171,216

The financial statements of Sterling Energy Plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 28 March 2010

Signed on behalf of the Board of Directors

Jonathan Cooper, ACA
Director

Alastair Beardsall,
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

Group	Share capital account \$000	Share premium account \$000	Share option reserve \$000	Investment revaluation reserve \$000	Currency translation account \$000	Hedge reserve \$000	Retained earnings \$000	Total \$000
At 1 January 2008	31,811	341,414	8,368	657	658	(14,421)	(90,217)	278,270
Total comprehensive expense for the year	-	-	-	(657)	(1,921)	29,995	(156,830)	(129,413)
Issued share capital	10,938	9,920	-	-	-	-	-	20,858
Share option reserve charge for the year	-	-	1,501	-	-	-	-	1,501
At 1 January 2009	42,749	351,334	9,869	-	(1,263)	15,574	(247,047)	171,216
Total comprehensive expense for the year	-	-	-	12	1,155	(15,574)	(202,483)	(216,890)
Issued share capital	105,788	27,525	-	-	-	-	-	133,313
Share option reserve charge for the year	-	-	500	-	-	-	-	500
Transfer of share based payment reserve	-	-	(3,265)	-	-	-	3,265	-
At 31 December 2009	148,537	378,859	7,104	12	(108)	-	(446,265)	88,139

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2009

	Note	31st December 2009 \$000	31st December 2008 \$000
Operating activities			
Cash generated from operations	25	33,936	56,745
Net cash flow from operating activities		33,936	56,745
Investing activities			
Interest received		837	1,635
Capital expenditure		(31,688)	(112,874)
Increase in investment		–	(550)
Proceeds on disposal subsidiary		85,812	–
Proceeds on disposal of property, plant & equipment		9	16,526
Proceeds on farmout of exploration and evaluation asset		–	38,960
Decrease in restricted cash		–	2,620
Net cash generated/(used) in investing activities		54,970	(53,683)
Financing activities			
Net proceeds from issue of ordinary shares		133,314	20,858
Repayments on loan facilities		(122,909)	(30,409)
Interest paid		(8,768)	(8,347)
Decrease in overdraft		–	(3,781)
Net cash flow generated/(used) in financing activities		1,637	(21,679)
Net increase/(decrease) in cash and cash equivalents		90,543	(18,617)
Cash and cash equivalents at beginning of period		23,854	44,101
Effect of foreign exchange rate changes		(538)	(1,630)
Cash and cash equivalents at end of period		113,859	23,854

Cash and cash equivalents at 31 December 2009 includes \$4,146,000 that is restricted. This relates to short-term restrictions on cash following the US sale. These restrictions have now been lifted.

COMPANY STATEMENT OF COMPREHENSIVE EXPENSE

Year ended 31 December 2009

	31st December 2009 \$000	31st December 2008 \$000
Loss for the year	(153,175)	(150,379)
Hedge movement	(6,542)	17,695
Total comprehensive expense for the year, net of tax	(159,717)	(132,684)
Tax	-	-
Total comprehensive expense for the year	(159,717)	(132,684)

COMPANY BALANCE SHEET

31 December 2009

	Note	31st December 2009 \$000	31st December 2008 \$000
Non-current assets			
Property, plant and equipment	15	25	8,801
Investments	16	221,386	337,180
		221,411	345,981
Current assets			
Inventories		4,367	4,211
Trade and other receivables	17	28,978	96,785
Derivative financial instruments	26	–	6,542
Cash and cash equivalents		106,265	15,432
		139,610	122,970
Total assets		361,021	468,951
Current liabilities			
Trade and other payables	18	(194,203)	(169,735)
Bank loan	19	–	(53,700)
		(194,203)	(223,435)
Net current liabilities		(54,593)	(100,465)
Non-current liabilities			
Bank loan	19	–	(65,570)
Long-term provisions	21	(20,987)	(8,211)
		(20,987)	(73,781)
Total liabilities		(215,190)	(297,216)
Net assets		145,831	171,735
Equity			
Share capital	22	148,537	42,749
Share premium account	23	378,859	351,334
Share option reserve	23	7,104	9,869
Hedge reserve	23	–	6,542
Retained earnings	23	(388,669)	(238,759)
Total Equity		145,831	171,735

The financial statements of Sterling Energy Plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 28 March 2010

Signed on behalf of the Board of Directors

Jonathan Cooper, ACA
Director

Alastair Beardsall,
Director

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

Company	Share capital account \$000	Share premium account \$000	Share option reserve \$000	Hedge reserve \$000	Retained earnings \$000	Total \$000
At 1 January 2008	31,811	341,414	8,368	(11,153)	(88,380)	282,060
Total comprehensive expense for the year	–	–	–	17,695	(150,379)	(132,684)
Issued share capital	10,938	9,920	–	–	–	20,858
Share option reserve charge for the year	–	–	1,501	–	–	1,501
At 1 January 2009	42,749	351,334	9,869	6,542	(238,759)	171,735
Total comprehensive expense for the year	–	–	–	(6,542)	(153,175)	(159,717)
Issued share capital	105,788	27,525	–	–	–	133,313
Share option reserve charge for the year	–	–	500	–	–	500
Transfer of share based payment reserve	–	–	(3,265)	–	3,265	–
At 31 December 2009	148,537	378,859	7,104	–	(388,669)	145,831

COMPANY CASH FLOW STATEMENT

Year ended 31 December 2009

	Note	31st December 2009 \$000	31st December 2008 \$000
Operating activities			
Cash (used)/generated from operations	25	(3,034)	21,506
Net cash flow (used)/generated in operating activities		(3,034)	21,506
Investing activities			
Interest received		2,356	4,524
Capital expenditure		(1,076)	(18,925)
Net cash generated/(used) in investing activities		1,280	(14,401)
Financing activities			
Net proceeds from issue of ordinary shares		133,314	20,858
Repayments on loan facilities		(122,909)	(30,409)
Repayments from subsidiaries		90,317	–
Interest paid		(8,047)	(8,105)
Net cash flow generated/(used) in financing activities		92,675	(17,656)
Net increase/(decrease) in cash and cash equivalents		90,921	(10,551)
Cash and cash equivalents at beginning of period		15,432	26,540
Effect of foreign exchange rate changes		(88)	(557)
Cash and cash equivalents at end of period		106,265	15,432

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2009

1. ACCOUNTING POLICIES

a) General Information

Sterling Energy Plc is a Company incorporated in Great Britain under the Companies Act. The address of the registered office is 5 Chancery Lane, London, WC2A 1LG. The Company and the Group are engaged in the exploration for, and development and production of, 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.

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

The financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the Council of the European Union.

The financial statements are prepared under the historical cost convention except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

In the current financial year, the Group has adopted International Financial Reporting Standard 8 'Operating Segments', International Accounting Standard 1 'Presentation of Financial Statements' (revised 2007) and International Accounting Standard 23 'Borrowing Costs' (March 2007).

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group. The adoption of IFRS 8 has had no effect on the identified operating segments for the Group which are also the reportable segments.

IAS 1 (revised) requires the presentation of a statement of changes in equity as a primary statement, separate from the income statement and statement of other comprehensive income. As a result, a consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity for each period presented.

IAS 23 (March 2007) had no impact on the Group, as the Group already capitalises borrowing costs directly attributable to the construction of qualifying assets under its existing accounting policies.

At the date of authorisation of this financial information, the following Standards and Interpretations which have not been applied in this financial information were in issue but are not yet effective:

IFRS 1(amended)/	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or
IAS 27 (amended)	Associate
IAS 27 (amended)	Entity or Associate
IFRS 1 (amended)*	Additional Exemptions for First-time Adopters
IFRS 2 (amended)*	Group Cash-settled Share-based Payment Transactions
IFRS 3 (revised 2008)	Business Combinations
IFRS 9*	Financial Instruments
IAS 24 (revised 2009)*	Related Party Disclosures
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 28 (revised 2008)	Investment in Associates
IAS 32 (amended)*	Classification of Rights Issues
IFRIC 14 (amended)	Prepayment of a Minimum Funding Requirement
IFRIC 17	Distributions of Non-cash Assets to Owners

1. ACCOUNTING POLICIES – *continued*

IFRIC 18	Transfers of Assets from Customers
IFRIC 19*	Extinguishing Financial Liabilities with Equity Instruments
Improvements to IFRSs (2009)**	

* Not yet endorsed by EU.

** Improvements with effective date 1 January 2010 have not yet been endorsed by EU.

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group except for the treatment of acquisition of subsidiaries when IFRS 3 (revised 2008), IAS27 (revised 2008) and IAS28 (revised 2008) come into effect for business combinations for which the acquisition date is on or after 1 January 2010.

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 preparing the financial statements. Further detail is contained in the Directors Report.

d) Basis of consolidation

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 achieved where the Company has the power to govern the financial and operating policies of an invested entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

e) Revenue

Sales of petroleum and gas are recognised, net of any sales taxes when goods are delivered or the title has passed to the customer. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable. Royalties and tariff income are recognised as earned. Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established.

f) Oil and gas interests

Exploration and Evaluation assets ("E&E")

The Group accounts for oil and gas exploration under the full cost method having regard to the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources. E&E costs are initially capitalised within intangible assets other than goodwill. Such E&E costs include licence acquisition costs, geological and geophysical costs, costs of drilling exploration and appraisal wells, and an appropriate share of overheads. E&E costs are capitalised and accumulated in cost pools which are not larger than a segment. Expenditures incurred before the Group has obtained the legal rights to explore a specific area are expensed in the year that they are incurred.

NOTES TO THE FINANCIAL STATEMENTS – *continued*

1. ACCOUNTING POLICIES – *continued*

The Group's oil and gas assets are currently held in two cost pools; Africa and the Middle East (Continuing) and North America (Discontinued).

Costs relating to the exploration and evaluation of oil and gas interests are carried forward until the existence or otherwise of commercial reserves has been determined.

If commercial reserves have been discovered, the related E&E assets are assessed for impairment and the resultant carrying value is then reclassified as oil and gas assets within property, plant and equipment, on a field by field basis.

E&E assets that are determined not to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost less accumulated amortisation, subject to the relevant cost pool meeting an impairment test as set out below. Such E&E assets are amortised on a unit of production basis over the life of the proven and probable commercial reserves of the pool to which they relate.

Under the full cost method, impairment tests on E&E assets are conducted on an individual cost pool basis, including any development or producing assets, when facts and circumstances suggest that the carrying amount in the pool may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. Where the E&E assets concerned fall within the scope of an established full cost pool, the E&E assets are tested for impairment together with all development and production assets associated with that cost pool, as a single cash-generating unit. The aggregate carrying value is compared against the expected recoverable amount of the pool, generally by reference to the present value of the future cash flows expected to be delivered from production of commercial reserves. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and if the E&E is determined as unsuccessful the E&E assets concerned will be written off in full. Any impairment loss is separately recognised within the income statement.

Development and production assets are generally accumulated on a field-by-field basis and include the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures, incurred in finding commercial reserves, transferred from intangible E&E assets as outlined above. Depletion is provided for on a cash-generating unit basis on a unit of production basis over the life of the proven and probable commercial reserves taking into account the expected future costs to extract all such reserves.

Development and production assets ("PP&E")

An impairment test is performed on an individual cash-generating unit whenever events and circumstances indicate that the carrying value of an asset may exceed its recoverable amount. The recoverable amount is assessed as the present value of the future cash flows expected to be derived from production of commercial reserves.

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.

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 – 33% straight line

1. ACCOUNTING POLICIES – *continued*

g) 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 balance sheet date to reflect the current best estimate of the cost at present value. The unwinding of the discount is reflected as a finance cost. 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.

h) Intangible royalty interests

The carrying value of each individual royalty interest is amortised on the unit of production basis relative to the underlying asset and assessed individually for impairment when there is an indication that an impairment event may have occurred.

i) Foreign currencies

The US dollar is the reporting currency of the Company and the Group. Transactions denominated in other currencies are translated into US dollar 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 the profit and loss account.

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 balance sheet at the rates ruling at the balance sheet 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.

j) Taxation

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement 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. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax asset are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

NOTES TO THE FINANCIAL STATEMENTS – *continued*

1. ACCOUNTING POLICIES – *continued*

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 balance sheet 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 income statement, 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.

k) Investments

Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Group investments are classified as available-for-sale and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss of the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

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

l) Operating leases

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

m) Financial instruments

Derivative Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes party to the contractual provision of the instrument. The Group used derivative financial instruments to manage its exposure to movements in oil and gas prices, fluctuations in foreign exchange rates and interest rates.

Derivatives financial instruments are stated at fair value.

The purpose for which a derivative is used is established at inception. To qualify for hedge accounting, the derivative must be 'highly effective' in achieving its objective and this effectiveness must be documented at inception and throughout the period of the hedge relationship. The hedge must be assessed on an ongoing basis and determined to have been 'highly effective' throughout the financial reporting periods for which the hedge was designated.

1. ACCOUNTING POLICIES – *continued*

For the purpose of hedge accounting, hedges are classified as either fair value hedges, when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges, when they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the derivative and the hedged item at fair value is recognised immediately in the Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Income Statement.

For cash flow hedges, the portion of the gains and losses on the hedging instrument that is determined to be an effective hedge is taken to equity and the ineffective position, as well as any change in time value, is recognised in the Income Statement. The gains and losses taken to equity are subsequently transferred to the Income Statement during the period in which the hedged transaction affects the Income Statement or if the hedge is subsequently deemed to be ineffective. A similar treatment applies to foreign currency loans which are hedges of the Group's net investment in the net assets of a foreign operation.

During the year the Group designated a number of its oil and gas derivatives as cash flow hedges of future production (See note 26).

Financial assets at fair value through profit and loss (FVTPL)

Financial assets are classified as FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the Group is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in note 26.

NOTES TO THE FINANCIAL STATEMENTS – *continued*

1. ACCOUNTING POLICIES – *continued*

Trade receivables

Trade receivables are measured at initial recognition of their fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement 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 that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade payables

Trade payables are stated at their fair value.

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.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 month. Other derivatives are presented as current assets or current liabilities.

n) Pension costs

The Group operates a number of defined contribution pension schemes. The amount charged to the income statement 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 balance sheet.

o) 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 after 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.

1. ACCOUNTING POLICIES – *continued*

p) Over/underlift

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 less inventory is 'underlift' or 'overlift'. Underlifts are valued at the lower of cost and net realisable value and overlifts are valued at market value. Adjustments are made to cost of sales and balances included within receivables and payables as appropriate.

The Group's share of any physical inventory is accounted for at the lower of cost and net realisable value. Net realisable value represents the estimated selling prices less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

q) Inventories

The Group's share of any material and equipment inventories is accounted for at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

r) 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 balance sheet date, and are discounted to present value where the effect is material.

s) Finance costs and debt

Financial costs of debt are allocated to periods over the term of the related debt and at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to the income statement as finance costs over the term of the debt.

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 balance sheet 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.

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.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY – *continued*

Impairment of assets

Management is required to assess the oil and gas assets for indicators of impairment. 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 balance sheet is disclosed in note 16. As part of this assessment, management has carried out an impairment test on the Chinguetti oil and gas assets within property, plant and equipment. This test compares the carrying value at the balance sheet date with the expected discounted cash flows from the relevant projects. 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. 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.

Decommissioning

The Group 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 currently under further review by the operator and the Chinguetti partners. Sterling believes the field could be abandoned earlier than originally planned and allowance has been made for this in the calculation of the obligation.

Fair values

The determination of the fair values of oils and gas properties, particularly exploration and evaluation assets, acquired in business combinations, and the resulting measurement of any goodwill that may arise, requires the use of estimates similar to those described above

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 27.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives where their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 month. Other derivatives are presented as current assets or current liabilities.

3. OPERATING SEGMENTS

The Group operates in one business segment; the exploration for and production of oil and gas. The Group operates in two geographical segments North America, and Africa and the Middle East. The Group's continuing geographical segment relates to its Africa and Middle East operations. In December 2009 the Group completed the sale of its North America segment (note 10) and this segment is now classified as a discontinued operation for all years presented.

NOTES TO THE FINANCIAL STATEMENTS – *continued*

4. REVENUE

	Total	
	2009 \$000	2008 \$000
Continuing operations		
Revenue from the sale of oil and gas	21,455	18,352
Royalty income	1,254	2,092
Total operating revenue	22,709	20,444
Finance revenue	13	938
	22,722	21,382
Discontinuing operations (see note 10)		
Total operating revenue	50,199	83,124
Finance revenue	823	1,038
	51,022	84,162
	73,744	105,544

Revenue from the sale of oil and gas of continuing operations is stated net of \$4,011,000 hedge income in relation to cash settlements under hedging contracts (2008: expense \$8,679,000).

5. LOSS FOR THE YEAR

Loss from continuing operations is stated after charging (crediting):

	Note	Total	
		2009 \$000	2008 \$000
Staff costs	7	6,455	9,446
Depletion of oil and gas assets	6	5,190	15,265
Impairment expense	3	22,055	100,012
Other impairments	3	–	833
Depreciation of other fixed assets		295	600
Net foreign exchange losses	8	(265)	(822)
Profit on disposal of oil and gas assets		–	2,200
Profit on disposal of investment	16c	–	2,871
An analysis of auditor's remuneration is as follows:			
Fees payable to the Company's auditors for the audit of the			
Company's annual accounts		84	299
Audit of the Company's subsidiaries pursuant to legislation		55	53
Other services – interim review		78	156
Total audit fees		217	508
Tax advisory services		68	49
Total non audit fees		68	49

6. COST OF SALES

	Continuing operations	
	2009 \$000	2008 \$000
Amortisation and depletion of oil and gas properties	5,190	15,265
Operating costs	8,777	11,117
Over/(underlift) of product entitlement	(469)	589
	13,498	26,971

7. EMPLOYEE INFORMATION

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

	2009	2008
Africa & Middle East	17	15
North America (to 2 December 2009)	33	35
Corporate Support Staff	17	19
	67	69

The average monthly number of employees of the Company (including executive Directors) during the year was 1 (2008: 2).

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

	Continuing operations	
	2009 \$000	2008 \$000
Wages and salaries	5,426	8,123
Social security costs	501	707
Other pension costs	528	616
	6,455	9,446

	Company	
	2009 \$000	2008 \$000
Wages and salaries	457	649
Social security costs	30	36
	487	685

A portion of the Group's staff costs and associated overheads are recharged to the joint venture partners, expensed as operating costs, expensed as pre-licence expenditure or capitalised where they are directly attributable to ongoing capital projects. In 2009 this portion amounted to \$4,645,000 (2008: \$9,886,000).

NOTES TO THE FINANCIAL STATEMENTS – *continued*

8. INVESTMENT REVENUE AND FINANCE COSTS

	Continuing operations	
	2009 \$000	2008 \$000
Interest revenue and finance gains/(losses):		
Interest revenue on short-term deposits	13	938
Exchange differences	(265)	(822)
	(252)	116
Finance costs:		
Interest on bank loans and overdrafts	12,406	9,205
Unwinding of discount on decommissioning provision	708	271
Unwinding of discount on production royalty bonus provision	226	130
	13,340	9,606

9. TAXATION

	Continuing operations	
	2009 \$000	2008 \$000
Deferred tax – origination and reversal of timing differences	–	–
Current tax credit	–	–
Total credit	–	–

The difference between the tax credit of \$nil (2008: \$nil) and the amount calculated by applying the applicable standard rate of tax is as follows:

	Total	
	2009 \$000	2008 \$000
Loss before tax on continuing operations	(31,632)	(120,051)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28% (2008: 28.5%)	(8,857)	(34,215)
Effects of:		
Expenses not deductible for tax purposes	7,581	24,734
Capital allowances in excess of depreciation	(2,318)	(2,350)
Diference in UK tax rates	–	601
Other temporary diferences	228	2,381
Adjustment for tax losses	3,366	8,849
Tax credit for the year	–	–

With effect from 1 April 2008, the main rate of UK corporation tax reduced to 28%.

10. DISCONTINUED OPERATIONS

In April 2008 Sterling announced its intention to sell the USA business following a comprehensive strategic review of the Company's assets and prospects. This review concluded that focusing the Company's resources on higher impact opportunities in Africa and the Middle East would be in shareholders best interests. The sale documentation was signed on 20 October 2009 with a gross initial sale consideration of \$90.0 million, before closing adjustments, with an effective economic date of 1 April 2009. On completion, the consideration was adjusted for intra- group cash movements since 1 April 2009 and other costs. The sale completed on 2 December 2009, on which date control of the USA business passed to the acquirer, and Sterling repaid all bank debt.

In addition to the initial consideration, there is a three year 'upside sharing agreement', under which Sterling is entitled to a 40% share of the annual excess net production proceeds if the average business' realised oil price exceeds \$90 per barrel and/or the realised gas price exceeds \$9 per mcf in any of 2010-2012. The Company has analysed the Henry Hub and WTI forward curves over the agreement period, and assessed accounting disclosure required in the period (IAS 37/IAS 39) and has accounted for the agreement as a financial asset embedded derivative as the outcome of the agreement relates to commodity prices over future dates. At 31 December 2009 the value of the upside sharing agreement was determined to be insignificant, and therefore no amount has been recognised. See notes 1 and 26 for full accounting disclosure.

The results of the Group's discontinued USA operations are shown on the consolidated income statement and in Notes 3 and 4. Net operating cash flows from discontinued operations are shown in Note 25. During the period to the date of disposal the cash used in investing activities was \$27.5 million (2008 – \$30.0 million). Immediately prior to the sale, the Group's share of net assets associated with the USA operations was \$200.7 million (2008– \$265.3 million), comprising non- current assets of \$221.7 million (2008 – \$295.6 million), current assets of \$24.0 million (2008 – \$43.5 million), current liabilities including intra-group financing of \$148.3 million (2008 – \$139.0 million), and long term liabilities of \$27.9million (2008 – \$58.6 million).

Upon completion the Group recognised cash inflow of \$85.8 million, transaction costs of \$3.9 million, and a loss of \$170.8 million.

	Period ended 2 December 2009 \$000	Year Ended 2008 \$000
Revenue	50,199	83,124
Expenses	(128,242)	(147,765)
Loss before tax	(78,043)	(64,641)
Attributable tax expense	26,012	27,862
Loss on disposal of discontinued operations	(118,820)	–
Net loss attributable to discontinued operations	(170,851)	(36,779)

The balance sheet as at 1 January 2008 has not been re-presented as there have been no changes.

11. LOSS ATTRIBUTABLE TO STERLING ENERGY PLC

The loss for the financial year dealt with in the Company accounts of Sterling Energy Plc was \$153,175,000 (2008: loss of \$150,379,000). As provided by s408 of the Companies Act 2006, no income statement is provided in respect of Sterling Energy Plc.

NOTES TO THE FINANCIAL STATEMENTS – continued

12. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the Group Consolidated (continued and discontinued) loss for the financial year of \$202,483,000 (2008: loss \$156,830,000) and on 96,577,765 (restated 2008: 45,437,773) 40p ordinary shares, being the weighted average number of ordinary shares in issue.

The calculation of basic and diluted loss per share from continuing operations loss for the financial year of \$31,632,000 (2008: loss \$120,051,000) and on 96,577,765 (restated 2008: 45,437,773) 40p ordinary shares, being the weighted average number of ordinary shares in issue.

The calculation of basic and diluted loss per share from discontinued operations for the financial year of \$170,851,000 (2008: loss \$36,779,000) and on 96,577,765 (restated 2008: 45,437,773) 40p ordinary shares, being the weighted average number of ordinary shares in issue.

	Total	
	2009	2008
Loss per share (USc)		
From continuing & discontinued operations	(209.66)	(345.15)
From continuing operations	(32.75)	(264.21)
From discontinued operations	(176.91)	(80.94)

As the effect of any dilutive shares would decrease the loss per share, the basic and diluted losses per share are the same. In addition 6,029,480 (restated 2008: 3,391,150) share options were in issue that could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share because they are anti-dilutive.

13. INTANGIBLE ROYALTY ASSETS

	Group \$000
Net book value at 1 January 2008	16,600
Amortisation charge for the year	(1,508)
Impairment charge for the year	(11,301)
Net book value at 31 December 2008	3,791
Amortisation charge for the year	(1,147)
Impairment charge for the year	(826)
Net book value at 31 December 2009	1,818

Group net book value at 31 December 2009 comprises the value of rights to future royalties in respect of the Group's agreements covering licences PSCA and PSCB in Mauritania. 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.

An impairment assessment and any subsequent charge are calculated on an individual royalty interest basis. Future recoverable amounts are estimated by management based on 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.

14. INTANGIBLE EXPLORATION AND EVALUATION (E&E) ASSETS

	Group \$000
Net book value at 1 January 2008	155,581
Additions during the year	28,609
Disposals during the year (farm-out)	(39,988)
Amortisation charge for the year	(5,829)
Impairment charge for the year	(12,617)
Net book value at 31 December 2008	125,756
Additions during the year	7,422
Transfer to PPE	(700)
Disposals during the year – US sale	(45,743)
Amortisation charge for the year	(4,520)
Impairment charge for the year	(73,258)
Net book value at 31 December 2009	8,957

The amount for intangible exploration and evaluation assets represents investments in respect of exploration licences (see note 1f). Impairment tests on E&E assets are conducted on an individual cost pool basis when facts and circumstances suggest that the carrying amount in the pool may exceed its recoverable amount. The impairment recorded above relates to assets held in the USA of \$69.9 million (2008: \$nil), and Africa pool of \$3.3 million (2008: \$12.6 million) where the estimated recoverable amount of the property, plant and equipment and E&E in the pool was insufficient to cover the carrying amount.

15. PROPERTY, PLANT AND EQUIPMENT

Group	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
Cost			
At 1 January 2008	467,870	3,966	471,836
Additions during the year	57,692	845	58,537
Disposals during the year	(13,611)	–	(13,611)
At 31 December 2008	511,951	4,811	516,762
Additions during the year	35,369	265	35,634
Disposals during the year – US sale	(361,449)	(2,305)	(363,754)
At 31 December 2009	185,871	2,771	188,642

NOTES TO THE FINANCIAL STATEMENTS – *continued*

15. PROPERTY, PLANT AND EQUIPMENT – *continued*

Group	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
Accumulated depreciation and impairment			
At 1 January 2008	(126,169)	(2,750)	(128,919)
Disposals during the year	3,471	–	3,471
Charge for the year	(46,549)	(781)	(47,330)
Impairment charge for the year	(156,224)	–	(156,224)
At 31 December 2008	(325,471)	(3,531)	(329,002)
Disposals during the year – US sale	187,506	1,427	188,933
Charge for the year	(27,850)	(362)	(28,212)
Impairment charge for the year	(20,056)	–	(20,056)
At 31 December 2009	(185,871)	(2,466)	(188,337)
Net book value at 31 December 2009	–	305	305
Net book value at 31 December 2008	186,480	1,280	187,760

The impairment charge in the year for the Group relates to the Group's Mauritanian and USA interests. The impairment charge calculated by reference to assessment of future discounted cash flows expected to be delivered from production of commercial reserves against the individual cash generating unit carrying values.

Company	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
Cost			
At 1 January 2008	150,060	147	150,207
Additions during the year	22,697	–	22,697
At 31 December 2008	172,757	147	172,904
Additions during the year	13,115	28	13,143
At 31 December 2009	185,872	175	186,047
Accumulated depreciation and impairment			
At 1 January 2008	(73,889)	(147)	(74,036)
Charge for the year	(14,134)	–	(14,134)
Impairment Charge for the year	(75,933)	–	(75,933)
At 31 December 2008	(163,956)	(147)	(164,103)
Charge for the year	(4,044)	(3)	(4,047)
Impairment Charge for the year	(17,872)	–	(17,872)
At 31 December 2009	(185,872)	(150)	(186,022)
Net book value at 31 December 2009	–	25	25
Net book value at 31 December 2008	8,801	–	8,801

16. FIXED ASSET INVESTMENTS

a) Investment held by the Group

As at 31 December 2009, the Group's investments consist of shares held in various oil and gas companies.

b) Investment in subsidiaries

	Company \$000
Cost	
At 1 January 2008	338,399
Additions during the year (capital contribution)	56,549
Impairment during the year	(57,768)
At 31 December 2008	337,180
Reduction during the year	(9,984)
Disposals during the year	(105,810)
At 31 December 2009	221,386

	Country of incorporation	Class of shares held	Proportion of voting rights held	Nature of business
Sterling Energy (UK) Limited *	United Kingdom	Ordinary	100%	Exploration for oil and gas
Westmount Resources Inc *	USA	Ordinary	100%	Production of oil and gas
Sterling Energy (Mauritania) Limited *	United Kingdom	Ordinary	100%	Dormant
Sterling Energy (International) Limited **	United Kingdom	Ordinary	100%	Exploration for oil and gas
Sterling Oil Limited *	United Kingdom	Ordinary	100%	Investment holding company
Sterling Energy (North America) Limited *	United Kingdom	Ordinary	100%	Investment holding company
Sterling Northwest Africa Holdings Limited ***	Jersey, CI	Ordinary	100%	Exploration for oil and gas
Sterling Energy (Mauritania) Limited ****	Jersey, CI	Ordinary	100%	Exploration for oil and gas
Sterling Cameroon Holdings Limited ****	Jersey, CI	Ordinary	100%	Investment holding company
Sterling Cameroon Limited ****	Jersey, CI	Ordinary	100%	Exploration for oil and gas
Sterling Dome Flore Holdings Limited ****	Jersey, CI	Ordinary	100%	Investment holding company
Sterling Dome Flore Limited ****	Jersey, CI	Ordinary	100%	Exploration for oil and gas
Sterling Oil and Gas (Iris Marin) Limited ****	Jersey, CI	Ordinary	100%	Exploration for oil and gas
Sterling Oil and Gas (Themis Marin) Limited ****	Jersey, CI	Ordinary	100%	Exploration for oil and gas

* Held directly by the Company, Sterling Energy Plc

** Held directly by Sterling Energy (UK) Limited

*** Held directly by Sterling Oil Limited

**** Held directly or indirectly through Sterling Northwest Africa Limited

c) Profit on disposal of fixed asset investments

	Group 2009 \$000	Group 2008 \$000
Forum Energy PLC	–	2,615
Sterling Energy Mauritania A Limited	–	256
Total	–	2,871

NOTES TO THE FINANCIAL STATEMENTS – *continued*

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Trade receivables	662	22,042	171	937
Amounts owed by subsidiary undertakings	–	–	27,979	95,649
Other debtors	393	8,752	67	158
Amounts advanced to joint venture partners	1,037	249	667	–
Prepayments and accrued income	486	1,563	94	41
	2,578	32,606	28,978	96,785

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Trade payables	4,760	15,426	1,499	282
Amounts owed to subsidiary undertakings	–	–	179,579	156,931
Amounts advanced from joint venture partners	1,998	1,974	–	742
Other taxation and social security	–	148	–	–
Accruals and deferred income	15,767	18,018	13,125	11,780
Bank overdraft	–	3,967	–	–
	22,525	39,533	194,203	169,735

The Directors consider that the carrying amount of trade and other payables approximates their fair value.

19. LONG-TERM AND SHORT-TERM DEBT

Group & Company	2009 \$000	2008 \$000
Bank loan current	–	53,700
Bank loan non current	–	65,570
	–	119,270

Following the sale of its USA business, Sterling repaid the bank loan facility in full. Prior to the expiry of the April 2009 waiver in mid August 2009, which had allowed Sterling to reschedule its loan repayments, Sterling negotiated a revised waiver. This revised waiver was conditional upon the receipt, by Sterling, of the proceeds of the placing announced on 14 August 2009 and a repayment to the banks of \$35 million of principal. Following the shareholder vote at the EGM held on 8 September 2009 approving the placing, the \$35 million was paid to the banks on 9 September 2009. The placing raised £62.5 million (before expenses) by way of a placing of 4,807,315,000 new 1p ordinary shares (120,182,875 new 40p Ordinary Shares) at a price of 1.3 pence per share.

On 2 December 2009 the Company completed the sale of the USA business and repaid all outstanding debt at that date, and at the year-end was debt free.

20. DEFERRED TAX LIABILITIES

	2009 \$000	2008 \$000
Group		
At 1 January	40,793	69,512
Other	–	(783)
Loss on discontinued operations	(26,012)	(27,936)
Loss on disposal of discontinued operations	(14,781)	–
	–	40,793

At the balance sheet date the Group had an unrecognised deferred tax asset of \$33,756,000 (2008: \$28,195,000) 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.

Company

At the balance sheet date the Company had an unrecognised deferred tax asset of \$33,816,000 (2008: \$28,027,000) relating primarily to unused losses and unutilised capital allowances.

21. LONG-TERM PROVISIONS

	2009 \$000	2008 \$000
Group		
Decommissioning provision (a)	20,987	26,481
2003 Production royalty bonus scheme (b)	251	1,183
	21,238	27,664

a) Decommissioning provisions

	North America \$000	Africa and Middle East \$000	Total \$000
Group			
At 1 January 2008	17,586	4,509	22,095
Additions in year	4,596	3,431	8,027
Released on disposal during the year	(4,752)	–	(4,752)
Unwinding of discount	840	271	1,111
At 31 December 2008	18,270	8,211	26,481
Additions in year	–	12,068	12,068
Released on disposal during the year	(970)	–	(970)
Amounts paid during the year	(5,112)	–	(5,112)
Disposal of subsidiary	(13,561)	–	(13,561)
Unwinding of discount	1,373	708	2,081
At 31 December 2009	–	20,987	20,987

The amounts shown above for Africa and Middle East represent the estimated costs for decommissioning the Group's producing interests in respect of its economic interest in the Chinguetti field in Mauritania. Additions in the year reflect latest information from the operator, as disclosed in note 2.

NOTES TO THE FINANCIAL STATEMENTS – *continued*

21. LONG-TERM PROVISIONS – *continued*

The Company amount of \$20,987,000 (2008 \$8,211,000) in Africa represents the amount provided within the Company for future decommissioning expenditure.

b) 2003 Production royalty bonus scheme

	2009 \$000	2008 \$000
Group		
At 1 January	1,183	2,150
Unwinding of discount	226	130
Amounts paid during the year	(1,110)	–
Adjustment to Tax Rates	–	81
Transferred to current liabilities	(194)	(1,119)
Foreign exchange movements	146	(59)
	251	1,183

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- 2008 scheme, and 2009 onwards scheme, see note 27) and no further sums will accrue. All future entitlements under the Scheme to Directors who served in 2009 have been settled in full in 2009. 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.

22. SHARE CAPITAL

	2009 \$000	2008 \$000
Called up, allotted and fully paid		
219,304,551 (2008 restated: 58,137,765) ordinary shares of 40p	148,537	42,749

Movements during the year included:

- 4,807,315,000: 1p Ordinary shares (120,182,875 40p new Ordinary Shares) were issued by way of a Placing on 8 September 2009 in order to repay \$35 million of debt upon receipt of the placing proceeds, provide a stronger negotiating position for the Company with respect to its USA disposal process and strengthen the working capital position of the Group;
- The Open Offer of 1,585,072,352: 1p Ordinary shares (39,626,809: 40p new Ordinary shares) on 23 December 2009 which provided all shareholders the opportunity to subscribe for two new ordinary shares for every nine existing held, at the same price as the September Placing;
- The Firm Placing of 52,224,231: 1p Ordinary shares (1,305,606: 40p new Ordinary shares) on 23 December 2009 to certain employees and management of the Company;
- Further movements during the year consisted of 1,881,208: 1p Ordinary shares (47,030: 40p new Ordinary shares) during November 2009 which were issued to a former employee who exercised share options in the year;
- Following the completion of the capital raising on 23 December 2009 a share consolidation was undertaken to consolidate every 40 Ordinary of 1 pence each shares then in issue in the capital of the Company (8,772,003,400 1p Ordinary shares) to one 40p Ordinary share (219,300,085 40p Ordinary Shares). Fractions of Ordinary shares created as a result of the Consolidation are being aggregated and sold in the market place for the benefit of the Company;
- Issue of 4,466 Ordinary Shares of 40 pence to a former employee on 31 December 2009.

23. RESERVES

Group	Share premium account \$000	Share option reserve \$000	Investment revaluation reserve \$000	Currency translation account \$000	Hedge reserve \$000	Retained earnings \$000	Total \$000
At 1 January 2008	341,414	8,368	657	658	(14,421)	(90,217)	246,459
Premium on shares issued	11,010	-	-	-	-	-	11,010
Share issue costs	(1,090)	-	-	-	-	-	(1,090)
Currency translation adjustments	-	-	-	(1,921)	-	-	(1,921)
Disposal of held for sale investment	-	-	(657)	-	-	-	(657)
Hedge movement	-	-	-	-	29,995	-	29,995
Share option reserve charge for the year	-	1,501	-	-	-	-	1,501
Loss for the year	-	-	-	-	-	(156,830)	(156,830)
At 1 January 2009	351,334	9,869	-	(1,263)	15,574	(247,047)	128,467
Premium on shares issued	31,634	-	-	-	-	-	31,634
Share issue costs	(4,109)	-	-	-	-	-	(4,109)
Currency translation adjustments	-	-	-	1,155	-	-	1,155
Investment revaluation	-	-	12	-	-	-	12
Hedge movement	-	-	-	-	(15,574)	-	(15,574)
Share option reserve charge for the year	-	500	-	-	-	-	500
Transfer of share based payment reserve	-	(3,265)	-	-	-	3,265	-
Loss for the year	-	-	-	-	-	(202,483)	(202,483)
At 31 December 2009	378,859	7,104	12	(108)	-	(446,265)	(60,398)

Company	Share premium account \$000	Share option reserve \$000	Hedge reserve \$000	Retained earnings \$000	Total \$000
At 1 January 2008	341,414	8,368	(11,153)	(88,380)	250,249
Premium on shares issued	11,010	-	-	-	11,010
Share issue costs	(1,090)	-	-	-	(1,090)
Charge for the year	-	1,501	-	-	1,501
Hedge movement	-	-	17,695	-	17,695
Loss for the year	-	-	-	(150,379)	(150,379)
At 1 January 2009	351,334	9,869	6,542	(238,759)	128,986
Premium on shares issued	31,634	-	-	-	31,634
Share issue costs	(4,109)	-	-	-	(4,109)
Share option reserve charge for the year	-	500	-	-	500
Transfer of share based payment reserve	-	(3,265)	-	3,265	-
Hedge movement	-	-	(6,542)	-	(6,542)
Loss for the year	-	-	-	(153,175)	(153,175)
At 31 December 2009	378,859	7,104	-	(388,669)	(2,706)

NOTES TO THE FINANCIAL STATEMENTS – *continued*

24. OPERATING LEASES AND CAPITAL COMMITMENTS

	Group		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Minimum lease payments under operating leases recognised as an expense in the year	5,628	4,897	3,475	3,419

There were no operating lease payments made by the Company during the year. At the balance sheet date outstanding commitments for minimum lease payments under non-cancellable operating leases fall due as follows:

	Group		Company	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Within one year	4,497	4,942	3,438	3,393
In the second to fifth year inclusive	9,178	13,614	6,851	10,107
After five years	–	2,884	–	–
	13,675	21,440	10,289	13,500

Operating lease payments represent the Group's share of rentals for an FPSO (Floating Production Storage and Offtake) vessel in Mauritania and rentals payable for certain of its office properties.

25. CASH FLOWS FROM OPERATING ACTIVITIES

	2009 \$000	2008 \$000
Group		
Operating activities:		
Operating loss from continuing operations	(18,040)	(110,561)
Operating loss from discontinued operations	(196,316)	(64,670)
	(214,356)	(175,231)
Depletion and amortisation	33,878	54,667
Impairment expense	94,140	180,142
Other impairments	–	2,833
Inventory revaluation	–	4,730
Loss/(gain) on disposal of fixed assets	682	(8,182)
Loss on disposal of subsidiary	118,820	–
Share-based payment provision	500	1,501
Operating cash flow prior to working capital	33,664	60,460
Decrease/(increase) in inventories	626	(4,689)
Decrease in trade and other receivables	21,964	1,938
Decrease in trade and other payables	(22,317)	(964)
	33,936	56,745
Cash generated/(outflow) from continuing operations	(4,517)	21,973
Cash generated from discontinued operations	38,453	34,772
	33,936	56,745

25. CASH FLOWS FROM OPERATING ACTIVITIES – *continued*

	2009 \$000	2008 \$000
Company		
Operating activities:		
Operating loss	(140,813)	(145,473)
Depletion and amortisation	4,046	14,134
Impairment expense	146,804	133,701
Other impairments	–	833
Loss on disposal of subsidiary	355	–
Share-based payment provision	500	1,501
Operating cash flow prior to working capital	10,892	4,696
Decrease/(increase) in inventories	(156)	592
Decrease/(increase) in trade and other receivables	(14,245)	(92,481)
Decrease in trade and other payables	475	108,699
	(3,034)	21,506

26. FINANCIAL INSTRUMENTS

Capital risk management and liquidity risk

The Group is not subject to externally imposed capital requirements. The capital structure of the Group 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 earnings as disclosed in note 23. The Group uses cash flow models, which are regularly updated, to monitor liquidity risk.

Gearing ratio

	2009 \$000	2008 \$000
Group		
Debt	–	119,270
Cash and cash equivalents	(113,859)	(23,854)
Net debt	(113,859)	95,416
Equity	88,139	171,216
Net debt to equity ratio	n/a	56%

NOTES TO THE FINANCIAL STATEMENTS – *continued*

26. FINANCIAL INSTRUMENTS – *continued*

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.

Group	Carrying amount		Fair value	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Financial assets				
Cash and cash equivalents	113,859	23,854	113,859	23,854
Derivative instruments in designated hedge accounting relationships – investments	–	16,071	–	16,071
Other financial assets at fair value	18	996	18	996
Trade and other receivables	2,578	32,606	2,578	32,606
Total	116,455	73,527	116,455	73,527

Financial Liabilities

Derivative instruments in designated hedge accounting relationships – investments	–	497	–	497
Financial liabilities at amortised cost – bank loan	–	119,270	–	119,270
Trade and other payables	22,525	39,533	22,525	39,533
Total	22,525	159,300	22,525	159,300

Company	Carrying amount		Fair value	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Financial assets				
Cash and cash equivalents	106,265	15,432	106,265	15,432
Derivative instruments in designated hedge accounting relationships – investments	–	6,542	–	6,542
Trade and other receivables	999	1,173	999	1,173
Total	107,264	23,147	107,264	23,147

Financial Liabilities

Financial liabilities at amortised cost – bank loan	–	119,270	–	119,270
Trade and other payables	14,624	13,660	14,624	13,660
Total	14,624	132,930	14,624	132,930

The fair values of financial assets and financial liabilities are valued at amortised cost value less any credit risk provision in respect of assets. Due to the short term nature of these assets and liabilities such values approximate their fair values at 31 December 2009 and 31 December 2008.

All outstanding cash flow hedges in respect of the Group's oil and gas production were settled during the year.

26. FINANCIAL INSTRUMENTS – *continued*

Financial risk management objectives

The Group'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 does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest rate risk management

The Group does not have any outstanding borrowings and hence, the Group 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 for derivative and non-derivative instruments at the balance sheet date and assuming the amount of the balances at the balance sheet 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 balance sheet 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/(decrease)		Company Increase/(decrease)	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Loans at amortised amount	–	(1,193)	–	(1,193)
Cash and cash equivalents	1,139	239	1,063	154
	1,139	(954)	1,063	(1,039)

Foreign currency translation risk

The Group's reporting currency is the US dollar; being the currency in which the majority of the Group's revenue and expenditure is transacted. The US dollar is the functional currency of the Company and the majority of its subsidiaries. Less material elements of its management, services and treasury functions are transacted in sterling. The majority of balances are held in US dollars with transfers to sterling and other local currencies as required to meet local needs. At the end of 2009 there were no net material monetary liabilities or assets not denominated in the functional currency of the subsidiary involved. The Group does not enter into derivative transactions to manage its foreign currency translation or transaction risk.

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. The Group 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. The Group's business is diversified in terms of both region and the number of counter-parties and the Group does not have significant exposure to any single counter-party or Group of counter-parties with similar characteristics.

NOTES TO THE FINANCIAL STATEMENTS – *continued*

26. FINANCIAL INSTRUMENTS – *continued*

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 2009 is nil (2008: 5.4%).

Group	Less than six months \$000	Six months to one year \$000	One to six years \$000	Total \$000	Interest \$000	Principal \$000
2009						
Trade payables	6,759	–	–	6,759	–	–
2008						
Trade payables	17,400	–	–	17,400	–	17,400
Derivative financial instruments	20	477	–	497	–	497
Long-term debt	53,412	3,161	69,078	125,651	(6,381)	119,270
Company	Less than six months \$000	Six months to one year \$000	One to six years \$000	Total \$000	Interest \$000	Principal \$000
2009						
Trade payables	1,499	–	–	1,499	–	–
2008						
Trade payables	1,024	–	–	1,024	–	1,024
Derivative financial instruments	–	–	–	–	–	–
Long-term debt	53,412	3,161	69,078	125,651	(6,381)	119,270

Embedded derivatives (USA upside sharing agreement)

The fair value calculation based on the forward curves at the 2009 year-end indicates that there is no current value in the embedded derivative in the upside sharing agreement at 31 December 2009.

Values need to be assessed at every balance sheet date, however given the conditions of the upside sharing agreement, hedges currently in place for the USA business, the economic environment, and the low risk of oil/gas prices reaching threshold levels there is a low likelihood of material value to Sterling Energy Plc. Accordingly, no amounts are recognised in these financial statements, and no sensitivity analysis is presented.

27. 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 \$500,000 (2008: \$1,501,000). The Company recognised a reversal of prior year charge, within administration costs, in respect of share-based payments under equity-settled share option plans of \$114,000 (2008: \$98,000).

27. **SHARE – BASED PAYMENTS** – *continued*

Share options (2002 – 2007)

The number of options and exercise prices has been adjusted to reflect the 40:1 share consolidation. Movements during the year on share options were as follows:

	2009 Number of share options (restated)	2009 Weighted average exercise price (pence) (restated)	2008 Number of share options (restated)	2008 Weighted average exercise price (pence) (restated)
Outstanding at the beginning of period	1,466,625	432	1,721,625	468
Forfeited during the period	(218,500)	736	(210,000)	704
Exercised during the period	–	–	(45,000)	160
Outstanding at the end of the year	1,248,125	397	1,466,625	432
Exercisable at the end of the year	1,248,125	397	1,404,125	428

For all options the Group plan provides for a grant price equal to the average quoted market price of the Company's shares on the date of Grant.

All options are equity settled. The vesting period for all options is generally two years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, some options are forfeited if the employee leaves the Group before the options vest.

The range of exercise prices for options outstanding at the end of the year was:

Year of grant:	2009 Weighted average exercise price (pence) (restated)	2009 Number (restated)	2008 Number (restated)
2001	160	58,750	58,750
2002	160	546,250	546,250
2003	280	193,750	193,750
2004	500	83,125	83,125
2005	680	153,750	231,250
2006	951	200,000	291,000
2007	620	12,500	62,500

No share options were exercised during 2009 (In 2008 the weighted average share price at the date of exercise was 160 pence (restated)). The options outstanding at the end of the year have a weighted average contractual life of 4.06 years (2008: 5.13 years). The cost of share options is spread over the vesting period of two years. The weighted average fair value of options granted during the period was Nil pence (2008: Nil).

NOTES TO THE FINANCIAL STATEMENTS – *continued*

27. SHARE – BASED PAYMENTS – *continued*

Fair values were measured by use of the Black-Scholes pricing model. The inputs to the model were as follows:

	2009 Number	2008 Number
Weighted average share price (pence) (2008 restated)	157	324
Weighted average exercise price (pence) (2008 restated)	n/a	160
Average expected volatility	54.91%	54.58%
Expected life (years)	5	5
Average risk-free rate (%)	0.75%	3.83%
Expected dividends	None	None

The expected life of the options is based on the best estimate of the Directors following a review of the profile of the award holders. Expected volatility was estimated by calculating the historical volatility of the Company's share price over the year preceding the grant of the options.

No performance criteria are attached to the outstanding options, other than the requirement that the employee must complete two years of service with certain exceptions such as a Company takeover, compulsory redundancy or else at the discretion of the Directors.

2007 Long Term Incentive Plan ('2007 LTIP')

The number of options and exercise prices has been adjusted to reflect the 40:1 share consolidation. In accordance with the approved 2007 LTIP scheme, the Company granted nominal cost options to the Directors to acquire ordinary shares ("Shares") (the 'A' Options) and at the same time, granted nominal cost options to acquire shares to the trustees of the Sterling Energy Plc Employee Benefit Trust (the "EBT") (the 'B' Options). The trustees of the EBT agreed to make awards to the Directors of reversionary interests, which would initially be represented by the B Options. During 2009 the outstanding options under the 2007 Directors LTIP were transferred and reverted to the 2007 approved staff LTIP scheme. The All Staff Long Term Incentive Plan ("All Staff LTIP") was approved by shareholders and introduced in 2009, and as a result no further awards or grants under other existing Company share performance schemes will be made, subsisting awards and grants will remain in place and the schemes will be allowed to time lapse.

The Company also granted nominal cost options to acquire Shares to other employees under the approved 2007 LTIP.

Movement during the year on share options were as follows:

	2009 Number of share options (restated)	2008 Number of share options (restated)
Outstanding at the beginning of period	1,987,025	1,113,350
Granted during the period	158,590	1,139,375
Exercised during the period	(52,104)	–
Lapsed during the period	(830,229)	(265,700)
Outstanding at the end of the year	1,263,282	1,987,025
Exercisable at the end of the year	–	–

27. SHARE – BASED PAYMENTS – *continued*

The nominal cost options outstanding at the end of the year have a weighted average remaining contractual life of 1.45 years (2008: 2.28 years). The cost of these shares is spread over the vesting period of 3 years (2008: 3 years). The weighted average fair value of the options granted during the year was nil pence (2008: 48.16 pence).

The actual number of shares that will be finally awarded out of the maximum number stated above under the LTIP, or alternative cash settlement at the parent Company's option, will depend upon the achievement of performance criteria measured over a vesting period of three years for each award. Up to 50% of the nominal cost options will vest based on a comparison of the total shareholder return ("TSR") of the parent Company as measured against a comparator group of companies ("the First Performance Condition"). The TSR of each Company with the comparator group will be statistically ranked.

The LTIP options exercised during the year equate to the pro-ratio of number of options for early departure of good leavers of the Company and are based on 'completed months' on share options since grant dates to date of departure.

The number of options that ultimately vest is based on the Company's relative ranking as follows:

TSR compared to comparator group

Below Median	25.0%
Median to Upper Quartile	32.5%
Upper Quartile to Upper Decile	42.5%
Above Upper Decile	50.0%

Up to the other 50% of the nominal cost options will vest based on the share price growth of the Company's shares at the date of grant or at the amendment date for options granted before the amendment date ("the Second Performance Condition") as follows:

Share price growth %

Below 50%	25.0%
50% – 75%	30.0%
75% – 100%	35.0%
100% – 125%	40.0%
125% – 150%	45.0%
above 150%	50.0%

The aggregated incremental fair value of \$1,029,103 will be expensed over the remaining vesting periods (1 to 2 years).

The Company used the inputs noted below to measure the fair values of the old and new nominal cost options.

NOTES TO THE FINANCIAL STATEMENTS – *continued*

27. SHARE – BASED PAYMENTS – *continued*

These fair values were calculated using modified binomial option pricing models. The inputs to these models were as follows:

	2009	2008 (restated)
Share price (pence)	n/a	144
Exercise price (pence)	40	40
Expected volatility	54.91%	54.58%
Expected life (years)	1 to 2	2 to 3
Risk free rate (%)	0.75%	3.83%
Expected dividends	None	None
For options subject to the First Performance Condition – the weighted expected % of vesting	29.78%	29.78%

Expected volatility was estimated by calculating the historical volatility of the Company's share price over the three years preceding the grant of the LTIP shares.

For the options that are subject to the First Performance Condition, a weighted expected percentage of options vesting were applied. This was estimated based on the Company's historical TSR performance against the comparator Group on a quarterly basis from 2000 to 2009.

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

During 2009 the Company reviewed the existing share based incentive schemes in place to motivate and incentivise its employees, and took independent advice. Based on this review a new long term incentive plan was introduced to align the interests of the employees and Shareholders. In accordance with the approved All Staff LTIP, the Company has granted options to its staff and non-executive Directors to acquire shares in the Company.

The movement during the year on the share options were as follows:

	2009 Number of Share options	Exercise price (pence)
Outstanding at the beginning of the year	–	–
Granted during the period	3,143,088	40
Forfeited during the period outstanding at the end of the year	–	–
Outstanding at the end of the year	3,143,088	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 the year end have a contractual life of 4.75 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 64.73 pence. The number of options that vest are based on a comparison of the growth of the Company's share price ("SESP") against the growth of the FTSE350 index ("Index") for the year ending 30 September 2010, with the share price at 30 September 2009 re-determined as £1.57 following the share consolidation undertaken on 23 December 2009.

27. SHARE – BASED PAYMENTS – *continued*

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

If the 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 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.

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:

	2009
Share price (pence)	157
Exercise price (pence)	40
Expected volatility	54.91%
Expected life (years)	3
Risk free rate (%)	0.75%
Expected dividends	Nil

Expected volatility was estimated by calculating the historical volatility of the Company's share price over the three years preceding the share placing at 29 September 2008. In modifying the binomial model, the Company has calculated the mean (5%) and the standard deviation (12%) of the historical year-on-year growth rates for the years ended 30 September 2002 to 2009. 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 options value.

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

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

	2009 Number of Share options	Exercise price (pence)
Outstanding at the beginning of the year	–	–
Granted during the period	375,000	40
Forfeited during the period outstanding at the end of the year	–	–
Outstanding at the end of the year	375,000	40
Exercisable at the end of the year	–	–

NOTES TO THE FINANCIAL STATEMENTS – *continued*

27. SHARE – BASED PAYMENTS – *continued*

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 the year end have a contractual life of 4.75 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 119.90 pence.

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 the employment is terminated on death or as good leavers.

Fair values were measured by use of a binomial model, using the same inputs as the basic (pre-modified) model for the All Staff Long-Term Incentive Plan above.

28. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. At the year end the Company had amounts payable to subsidiary companies of \$151,600,000 (2008: \$61,282,000). Amounts owed by related parties and amounts owed to related parties are as follows:

	Note	As at 31st December 2009 \$000	As at 31st December 2008 \$000
Amounts owed by related parties			
Sterling Energy (International) Limited	17	26	25
Sterling North West Africa Holdings Limited	17	–	529
Sterling Energy (Mauritania) Limited	17	27,917	27,917
Lepco USA Intercompany Receivables	17	36	36
SE USA Intercompany Receivables	17	–	67,141
		27,979	95,649
Amounts owed to related parties			
Sterling Energy (UK) Limited	18	35,019	13,130
Sterling North West Africa Holdings Limited	18	14,270	13,569
Sterling Energy (Mauritania) Limited	18	130,000	130,000
Sterling Oil Limited	18	290	230
Sterling Energy (North America) Ltd	18	–	2
		179,579	156,931

Other transactions with related parties include cost allocations for services provided by Sterling Energy (UK) Limited to other group companies.

28. RELATED PARTY TRANSACTIONS – continued

Transactions with Directors

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

	2009	2008
	\$000	\$000
Short-term employee benefits	3,332	3,134
Compensation for loss of office	52	74
Post employee benefits	245	328
Share-based payments	366	715
	3,995	4,251

DEFINITIONS AND GLOSSARY OF TERMS

Year ended 31 December 2009

\$	US Dollars
1P	Proven reserves or in-place quantities depending on the context
2007 LTIP	the 2007 Long Term Incentive Plan
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
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
boepd	barrel of oil equivalent per day
Borrowing Base Facility	the facility made available under the Senior Facility Agreement
Bcf	billion cubic feet of gas
Board	the Board of Directors of the Company
boe	barrel of oil equivalent, a measure of the gas component converted into its equivalence in barrels of oil
Capex	capital expenditure
Combined Code	the Combined Code on Corporate Governance
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.
Directors	the directors of the Company
EBITDA	earnings before interest, taxation, depreciation, depletion and amortisation, impairment and pre-licence expenditure
E&E	Exploration and evaluation assets
farmin & farmout	a transaction under which one party (farmout party) transfers part of its interest to a contract to another party (farmin party) in exchange for a consideration which may comprise the obligation to

	pay for some of the farmout party costs relating to the contract and a cash sum for past costs incurred by the farmout party
Firm Placing	the firm placing of shares pursuant to the prospectus dated 4 December 2009
FPSO	Floating, Production, Storage and Offloading vessel
G&G	geological and geophysical
Group	the Company and its subsidiary undertakings
HSES	Health, Safety, Environment and Security
hydrocarbons	organic compounds of carbon and hydrogen
km	kilometre(s)
km ²	square kilometre (s)
KRG	Kurdistan Regional Government of Iraq
lead	indication of a possible exploration prospect
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
mmcfg/d	million cubic feet of gas per day
mmcfge/d	million cubic feet of gas equivalent per day
mmscf/d	million cubic feet at standard pressure and temperature per day
NED LTIP	Non-executive Director Long Term Incentive Plan adopted in 2009
Open Offer	the invitation to qualifying shareholders to subscribe for open offer shares pursuant to the prospectus dated 4 December 2009
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
petroleum	oil, gas, condensate and natural gas liquids
Petronas	PC Mauritania I PTY LTD
PP&E	Property, Plant & Equipment
prospect	a potential sub-surface accumulation of hydrocarbons which has been identified but not drilled
Prospective Resources	those quantities of petroleum which are estimated, as at a given date, to be potentially recoverable from undiscovered accumulations

DEFINITIONS AND GLOSSARY OF TERMS – *continued*

Year ended 31 December 2009

PSC	production sharing contract
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-classified based on project maturity and/or characterised by development and production status
reservoir	a porous and permeable rock capable of containing fluids
RI	royalty interest
RISC	RISC (UK) Limited of Golden Cross House, 8 Duncannon Street, London WC2N 4JF
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
Senior Facility Agreement	\$125 million borrowing base facility agreement dated 26 September 2007
September Placing	the placing of 4,807,315,000 ordinary 1 pence shares at a price of 1.3 pence per share to raise £62.5 million which was completed in September 2009
shares	40p Ordinary Shares
spud	to commence drilling a well
sq km	square kilometre
sq mi	square mile
Tcf	trillion cubic feet of gas
TEA	technical evaluation agreement
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
United States or US	the United States of America
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

PROFESSIONAL ADVISERS

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EC2V 7AN

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Barclays Commercial Bank
1 Churchill Place
London
E14 5HP

Legal

Ashurst Broadwalk Street
5 Appold Street
London EC2A 2HA

Auditors

Deloitte LLP
Chartered Accountants
London

Registered Office

5 Chancery Lane
Clifford's Inn
London
WC2A 1LG

ANNUAL GENERAL MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Sterling Energy Plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Information relating to the appointment of a proxy may be found in the notes appended to this notice of Annual General Meeting.

STERLING ENERGY PLC (the "Company")

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Sterling Energy Plc will be held at Ashurst LLP, Broadwalk House, 5 Appold Street, London, EC2A 2HA on 7 May 2010, at 11.00 a.m. to consider and, if thought fit to pass, the following resolutions. Resolution 9 shall be proposed as a special resolution and all other resolutions shall be proposed as ordinary resolutions.

ORDINARY RESOLUTIONS

1. To receive and adopt the Accounts for the financial year ended 31 December 2009, together with the reports of the Directors and auditors thereon. **(Resolution 1)**
2. To approve the Remuneration Report contained in the Accounts for the financial year ended 31 December 2009. **(Resolution 2)**
3. In accordance with article 106 of the Company's Articles of Association, to re-elect Richard Stabbins, who retires by rotation, as a Non Executive Director of the Company. **(Resolution 3)**
4. In accordance with article 110 of the Company's Articles of Association, to elect Keith Henry as a Non Executive Director of the Company (appointed since the last annual general meeting). **(Resolution 4)**
5. In accordance with article 110 of the Company's Articles of Association, to elect Nicholas Clayton as a Non Executive Director of the Company (appointed since the last annual general meeting). **(Resolution 5)**
6. To reappoint Deloitte LLP as auditors of the Company. **(Resolution 6)**
7. To authorise the Directors to set the remuneration of the auditors. **(Resolution 7)**
8. That the Directors be generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act"), to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares:
 - (a) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the Act) of £29,241,283 (such amount to be reduced by the nominal amount allotted or granted under (b) below in excess of such sum); and
 - (b) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount (within the meaning of Section 551(3) and (6) of the Act) of £58,482,567 (such amount to be reduced by any allotments or grants made under (a) above) in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities), but subject to such

exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever,

these authorities to expire at the conclusion of the next Annual General Meeting of the Company (or if earlier on 30 June 2011), (save that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or rights to be granted, after such expiry and the Directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authorities conferred hereby had not expired).

(Resolution 8)

SPECIAL RESOLUTION

9. That subject to the passing of Resolution 8, the Directors be given power pursuant to section 570(1) and 573 of the Companies Act 2006 (the "Act") to:

(a) allot equity securities (as defined in section 560 of the Act) of the Company for cash pursuant to the authority conferred by that resolution; and

(b) sell ordinary shares (as defined in section 560(1) of the Act) held by the Company as treasury shares for cash, as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited to the allotment of equity securities for cash:

(i) in connection with or pursuant to an offer or invitation to acquire equity securities (but in the case of the authority granted under Resolution 8(b), by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment or sale but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal regulatory or practical difficulties which may arise under the laws of or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and

(ii) in the case of the authority granted under Resolution 8(a) above, and otherwise than pursuant to paragraph (i) of this resolution, up to an aggregate nominal amount of £4,386,192, and shall expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 30 June 2011), save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the Directors may allot equity securities, or sell treasury shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

(Resolution 9)

By order of the Board
Jonathan Cooper
Company Secretary
28 March 2010

Registered Office:
Sterling Energy Plc
5 Chancery Lane
London
WC2A 1LG

EXPLANATORY NOTES TO THE RESOLUTIONS

The following explanatory information is provided by way of background to the business of the meeting:

Resolution 8

Your Directors may allot shares and grant rights to subscribe for, or convert any security into, shares only if authorised to do so by shareholders. The authority granted at the last Annual General Meeting is due to expire at this year's Annual General Meeting. Accordingly, Resolution 8 will be proposed as an ordinary resolution to grant new authorities to allot shares and grant rights to subscribe for, or convert any security into, shares (a) up to an aggregate nominal amount of £29,241,283 and (b) in connection with a rights issue up to an aggregate nominal amount (when added to allotments under part (a) of the resolution) of £58,482,567.

These amounts represent approximately one third and approximately two thirds respectively of the total issued ordinary share capital of the Company at 26 March 2010, in accordance with current guidelines of the Associate of British Insurers (the "ABI") insofar as they affect the Company. If given, these authorities will expire at the next Annual General Meeting of the Company or on 30 June 2011, whichever is the earlier. Your Directors have no present intention of issuing shares pursuant to this authority.

Resolution 9

Your Directors also require additional authority from shareholders to allot equity securities or sell treasury shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The authority granted at the last Annual General Meeting is due to expire at this year's Annual General Meeting. Accordingly, Resolution 9 will be proposed as a special resolution to grant such authority. Apart from offers or invitations in proportion to the respective number of shares held, the authority will be limited to the allotment of equity securities and sales of treasury shares for cash up to an aggregate nominal value of £4,386,193 (being five per cent. of the Company's issued ordinary share capital at 26 March 2010). If given, this authority will expire at the next Annual General Meeting of the Company or on 30 June 2011, whichever is the earlier. Your Directors do not have any present intention of exercising this authority, but consider it desirable to have the flexibility to use it should opportunities arise. Your Directors will have due regard to institutional guidelines in relation to any exercise of this authority, in particular, the requirement for advance consultation and explanation before making any non pre-emptive cash issue pursuant to this resolution which exceeds 7.5% of the Company's issued share capital in any rolling 3 year period.

Recommendation

Your Directors believe that all the proposed resolutions to be considered at the Annual General Meeting as set out in this document are in the best interests of the Company and its shareholders as a whole. Accordingly, your Directors unanimously recommend that you vote in favour of them as they intend to do in respect of their own beneficial holdings.

NOTES:

1. Appointment of a proxy

Only holders of ordinary shares are entitled to attend and vote at this meeting.

A member is entitled to appoint another person as their proxy to exercise all or any of their rights to attend to speak and to vote at the Annual General Meeting. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by them. A proxy need not be a member of the Company. A Form of Proxy for the Annual General Meeting is enclosed and should be completed and returned so as to reach the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by hand, post or courier (during normal

business hours only), not later than 48 hours before the time of the Annual General Meeting. Completion of a Form of Proxy or any CREST Proxy Instruction will not preclude a member attending and voting in person at the meeting.

Alternatively, you can register your proxy vote electronically by means of a website provided by the Company's registrar (www.capitashareportal.com), where full instructions are provided. In order to register your vote on-line you will need to enter the Investor Code which is given in the enclosed Form of Proxy. This website can only be used for the purpose stated above, not for sending any other document or information.

2. CREST electronic proxies

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

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

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

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

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

3. Documents on display

There will be available for inspection at the registered office of the Company during normal business hours from the date of this notice until the time of the annual general meeting and at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting:

EXPLANATORY NOTES TO THE RESOLUTIONS – *continued*

- (a) copies of service agreements under which Directors of the Company are employed, and copies of the terms and conditions of appointment of Non-Executive Directors; and
- (b) the Company's Articles of Association.

4. Right to attend and vote

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the Annual General Meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), only those persons who have their name entered in the register of members' of the Company at 6:00 p.m. on 5 May 2010 or, in the event of any adjournment, by 6:00 p.m. on the date which is two days before the day of the adjourned meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5. Corporate members

Any corporate which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6. Electronic Communication

You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

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