

**ANNUAL REPORT AND ACCOUNTS 2010**



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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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## 2010 SUMMARY

- Sangaw North-1 exploration well testing the potential of the Sangaw North block.
- Received \$15.6 million of net cash flow from Chinguetti field operations during 2010 (2009: \$13.3 million).
- Cash resources as at 31 December 2010 \$111.7 million including partner funds (2009: \$113.9 million).
- Company remains debt free.

# CHAIRMAN'S STATEMENT

During 2010 Sterling's primary focus was the drilling activity at Sangaw North-1; an exploration well testing a large prospective structure in the Kurdistan autonomous region of Iraq. We have encountered many geological and mechanical challenges while drilling this well, however the expertise of our drilling team, with the support of our joint venture partners, has meant we could continue operations in a safe and controlled manner, albeit at a slower overall pace. The delay to the drilling program caused by the geological and mechanical events was further extended by the 'crowning incident' on the rig caused by the rig contractor. However frustrating these delays may be, the financial impact for Sterling has been mitigated as our drilling costs for Sangaw North-1 well are carried by Addax. I thank all the stakeholders in the Sangaw North project for their assistance and support during a very exciting and challenging drilling operation.

## **FINANCIAL**

As a result of the re-structuring undertaken at the end of 2009, the Company remains in a very strong financial position with some \$101.6 million of own funds at the end of 2010; our approved work programme for 2011 is fully funded and we have funds available for new venture activity. As an explorer without significant production we generally fund our day to day activities from our cash resource; our \$15.6 million of net cash flow during 2010 from the Chinguetti field operation in Mauritania exceeded our general overhead costs and made a significant contribution towards our cost of operations.

## **BOARD AND MANAGEMENT CHANGES**

On 9 November 2010 Angus MacAskill was appointed as Sterling's Chief Executive Officer and a Director; Angus has some 30 years of hands-on experience covering many aspects of exploration, development and production activity and thus the management of Sterling's field operations is now one of his direct responsibilities. On 15 November 2010, Malcolm Pattinson was appointed a non-executive Director; Malcolm has spent most of his career as a geo-scientist and his experience will greatly assist in our new venture activity. On 31 December 2010, Richard Stabbins stepped down as a non-executive Director; we thank Richard for his contribution over the years and wish him well in his retirement.

## **OUTLOOK FOR 2011 AND BEYOND**

There remain some further tasks to complete to fully evaluate the results seen at the Sangaw North-1 exploration well and we shall report on these when appropriate. Sterling also has other assets to move forward. Whilst we have little control over the resolution of the border dispute between Cameroon and Equatorial Guinea, the large prospects identified from 3D seismic are ready to drill when force majeure can be lifted; the Ntem block contains significant potential value waiting to be tested with the drill bit.

With the challenges at Sangaw North being overcome we have re-focused some of our skills and resources towards new ventures; the management of operations is now under Angus MacAskill and Andrew Grosse will lead our exploration and new venture activities. During 2011 one of our key objectives is to add to our portfolio of assets; additions will be sought to broaden our exposure to opportunities in Africa and the Middle East; however outstanding opportunities outside of these areas will also be considered.

I would like to thank all Sterling's staff for their diligent efforts during 2010 and hope the rewards for all stakeholders will come in 2011 and beyond.

**Alastair Beardsall**  
*Chairman*

25 March 2011

## CHIEF EXECUTIVE'S REVIEW

The Company is focused in Africa and the Middle East and holds high potential interests in three areas, Kurdistan, Cameroon and Madagascar. During 2010, the Company made considerable progress in testing one of the very large exploration projects within its current portfolio, with drilling commencing on the Sangaw North-1 well in Kurdistan on 1 February 2010. Drilling operations have been very challenging but, by the end of the year, the well had been drilled to the base of the Cretaceous aged formations, two flow tests had been completed, and operations were being conducted to allow drilling to the deeper Jurassic targets.

The prospectivity being tested by this well is highly material. Prior to drilling, the gross un-risked prospective resources within the Cretaceous formations were independently estimated to be some 800 million barrels in the case of oil, with gas at least as likely to be discovered. While it is disappointing that the two flow tests within the Cretaceous did not establish commercial amounts of hydrocarbons in the intervals tested, they did establish the presence of gas within the shallower horizons of the Cretaceous formations in the structure.

Following the two flow tests the well was deepened and gas has also been identified during drilling operations in the upper section of the Jurassic formations, but not yet evaluated. We remain encouraged that there may be a very material prospective resource yet to be tested in 2011 by this well. Sterling's in-house estimates are some 3.8 trillion cubic feet of gross un-risked prospective resources in the case of gas and 500 million barrels in the case of oil within the Jurassic and deeper Triassic formations. In addition, we believe, based on gas shows while drilling, that there may be potential for further flow testing in the deeper horizons of the Cretaceous formations.

Sterling's exploration portfolio contains additional potential of a similar material scale. Further technical studies in the Company's deep-water Ntem licence in Cameroon have increased our confidence in the four Cretaceous aged prospects previously mapped, each with gross un-risked prospective resources of several hundred million barrels. These exciting prospects are in similar geological plays to those that have emerged as highly successful discoveries in West Africa over the last few years. We look forward to progressing activity in this licence once the maritime border which forms part of its boundary has been agreed between the neighbouring governments.

In the East African region, the Company has a material interest in the giant Sifaka prospect in the deep-water Ampasindava licence in Madagascar. This prospect has been independently assessed as having 1.2 billion barrels of gross un-risked prospective resources. The drilling of this prospect, operated by ExxonMobil, awaits resolution of the political situation in the country, with elections due to take place in 2011.

The Company has built a portfolio with highly material interests in large scale exploration projects in three emerging exploration areas in Africa and the Middle East. During 2010, focus has been on execution of the Company's first operated well in Kurdistan. In 2011, we look forward to delivery of the results from this well and, through the Company's expertise and experience in these regions, adding to the portfolio of exciting and material exploration opportunities.

**Angus MacAskill**  
*Chief Executive Officer*

25 March 2011

# OPERATIONS REVIEW

## KURDISTAN

### **Sangaw North PSC (WI 53.33% & Operator)**

The Sangaw North-1 exploration well, the first to be drilled on the Sterling operated Sangaw North Block, spudded on 1 February 2010. The well, targeting Cretaceous and Jurassic aged reservoir intervals has a planned depth of 3,660m and the well design allows drilling to a total depth of 4,160m to test deeper Jurassic and Triassic aged reservoirs. The decision to drill the additional deeper section will be based on drilling results encountered up to the decision point.

Whilst drilling the upper part of the Cretaceous reservoir section from 1,450m to 2,395m, through the carbonates of the Shiranish and Kometan Formations, gas shows and drill cuttings with fluorescence were observed, indicating the presence of hydrocarbons in the wellbore. The analysis of open hole wireline and image log data further suggested potential hydrocarbon bearing zones and open hole drill stem tests ("DST") were undertaken over two prospective intervals.

DST-1 tested an open-hole interval within the Cretaceous age Kometan formation. During the 6 hour flow period, an initial recovery of gas was followed by flowing water with minor gas content.

DST-2 tested an open-hole interval of the Shiranish formation, initially producing gas at an estimated flow rate of 4 mmscf/d along with some drilling fluids. However the gas flow decreased and was replaced with water, believed to be formation water, flowing at an estimated rate of 4,300 bbl/d. During a second flow period, the well initially produced water followed by gas at an estimated flow rate of 1 mmscf/d. However again the gas flow decreased and was replaced with water at an estimated rate of 750 bbl/d.

Following the intermediate testing program, the well was drilled below 2,395m to evaluate the lower part of the Cretaceous reservoir section. Whilst drilling at 3,396m, approaching the planned depth for setting a liner prior to drilling into the Jurassic reservoir targets, the well encountered a zone of high formation pressure. As a result hydrocarbon gas, containing approximately 0.5% hydrogen sulphide, entered into the wellbore and pressure was observed at surface.

The gas influx was contained, removed from the wellbore and flared. The drilling fluid in the wellbore was also replaced with heavier fluid to control the higher formation pressure encountered at the base of the well. During these operations, the drill pipe was adversely affected by the hydrogen sulphide within the gas, leading to the drill pipe parting at a depth of approximately 850m. Operations to retrieve the parted drill pipe resulted in the recovery of 1,100m of drill pipe, with no further recovery being possible.

The well was then side tracked in the open hole from a depth of 1,750m. The side track has been drilled to approximately 3,360m, and a liner has been run and cemented in place. The well is preparing to drill ahead to evaluate the Jurassic formations to 3,660m and is expected to penetrate the same formations from which gas containing hydrocarbons and hydrogen sulphide entered the well in the previous wellbore. Operations are being conducted using drill pipe resistant to the effects of hydrogen sulphide.

Drilling of the Sangaw North-1 exploration well has taken longer than initially anticipated due to the difficult drilling conditions encountered in the well. While the presence of commercial hydrocarbons has not yet been demonstrated, the Company is encouraged by hydrocarbon shows observed in the deeper Cretaceous section and the hydrocarbon gas observed at 3,396m in the previous wellbore from below a thick sealing interval in the upper Jurassic.

Sterling's best estimate of gross un-risked prospective recoverable resources for the Jurassic and Triassic reservoir targets is 3.8 tcf in the case of gas, with the equivalent estimated to be 500 mmbbl in the case of oil. Following the influx of gas at 3,396m, Sterling considers the chance of finding hydrocarbons in the Jurassic formations to be materially higher than the independent estimate of around 10% prior to drilling, and that gas with condensate is the most likely hydrocarbon to be discovered. However, there is currently not sufficient information from the well to directly determine the volume or type of hydrocarbons present.

Exploration success experienced by other operators confirms the highly prospective nature of the Kurdistan region. Heritage recently announced a major gas and condensate discovery at Miran West, 45km to the north, with gas in-place of 9 tcf and well flow rates from individual Jurassic intervals of 26 mmscf/d. Western Zagros reported contingent resources in Tertiary formations of 850 bcf of gas and 33 mmbbl of condensate following flow testing of the Kurdamir-1 well, 20km to the southeast of Sangaw North-1, at rates of 27 mmscf/d and 1,170 bopd condensate.

The first sub-period of the exploration phase of the PSC has been extended by one year to allow for the completion of drilling operations in the Sangaw North-1 well and the evaluation of the results of this well. The first sub-period, including the one year extension, will now continue until November 2011. The second, and final, sub-period of the exploration phase of the PSC has a duration of 2 years.

## **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 1,500km<sup>2</sup> 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. 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 prospective recoverable resources of several hundred million barrels each. Sterling intends to farmout an interest in this licence.

Tertiary oil, gas and condensate discoveries made by Noble Energy to the north of the block are now under development, and further discoveries have been reported this year by Euroil (Bowleven) extending both the Tertiary and Cretaceous plays. These results highlight the prospectivity of these plays which are well developed in the Ntem block.

## **MADAGASCAR**

Sterling's Ambilobe and Ampasindava blocks are located in the deepwater basin offshore north-west Madagascar. Progress of the exploration programmes has remained slow during 2010 due to the political situation in the country. Since the coup in March 2009, the government of Madagascar has not been recognised by its African neighbours or the United Nations. Government and presidential elections are planned to take place during 2011.

Prior to November 2010, discussions commenced with OMNIS, the state regulator, to prolong the current exploration period of both the Ambilobe and Ampasindava production sharing contracts. The outcome of these discussions is expected in 2011.

### **Ampasindava (WI 30%)**

The production sharing contract (PSC) for Ampasindava is in the third phase of the exploration period with a minimum work commitment of one exploration well. The large Sifaka prospect is ready to drill and has been independently estimated to contain a gross un-risked best estimate prospective recoverable resources of 1.2 billion bbl (RISC Competent Persons Report, March 2008). ExxonMobil (WI 70%, Operator) and Sterling plan to drill this well once political stability is established.

## OPERATIONS REVIEW – *continued*

Following the farm-in by ExxonMobil in 2005, Sterling's costs are carried up to a fixed amount. The cost to drill the Sifaka prospect is estimated to exceed the remaining carry and the Company intends to farm down the current working interest to cover these costs. It is currently unlikely that an exploration well will commence drilling before 2013.

### **Ambilobe (WI 100% & Operator)**

The PSC for Ambilobe is in the 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. A number of leads of Cretaceous and Tertiary age have been identified, located in both shallow and deep waters. During 2010, further technical studies have been conducted and the planning of an environmental impact assessment for a 3D seismic survey has been initiated.

## **MAURITANIA**

### **Chinguetti (Economic Interest via Funding and Royalty Agreements)**

Gross production continued to decline during 2010, but at a reduced rate. Production declined from 8,600 bopd in January to 7,400 bopd in December. The average production net to Sterling during 2010 was 654 bopd.

As a result of the lower observed decline rate, Sterling estimates that at the end of 2010 Chinguetti held a remaining 6.1 mmbbl of gross 2P reserves that could be accessed with the existing wells. This is reflected in the upwards revision of Sterling's net reserves to 0.42 mmbbl.

No in-fill drilling or work-over activity took place on the Chinguetti field during 2010. The annual planned FPSO shutdown was postponed until 2011.

Petronas, the operator, continues to investigate the potential for a Phase 3 drilling campaign to access contingent resources from the Chinguetti field. However further development may not be economic and, in the absence of Phase 3, the field could be abandoned earlier than originally planned.

The joint venture partners in PSC A and PSC B are reportedly negotiating the extension of both contracts with the Mauritanian Government, as well as discussing potential development options and gas markets for the Banda gas field. In the event these are extended, Sterling would be entitled to revenue under its royalty interest agreements with Premier Oil from any commercial development of Banda or other discoveries within these contract areas.

## **GABON**

### **Iris Marin (WI 32%)**

The Iris Marin Production Sharing Contract (Sterling 32% WI) expired on 13 May 2010.

### **Ibekelia (WI 40% & Operator)**

Sterling (40% WI, Operator) and its joint venture partners have discontinued negotiations for a production sharing contract for the Ibekelia block.

**Andrew Grosse**

*Exploration and Technical Director*

25 March 2011



## KURDISTAN – SANGAW NORTH



### Contract Summary

Contract type	PSC
Contract signed	10 November 2007
Contract area	492 km <sup>2</sup>
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% and other participants by the same proportion.	
Exploration period expires	November 2013
1st Sub-period	3 years
1st Sub-period extension	1 year
2nd Sub-period	2 years
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

### Overview

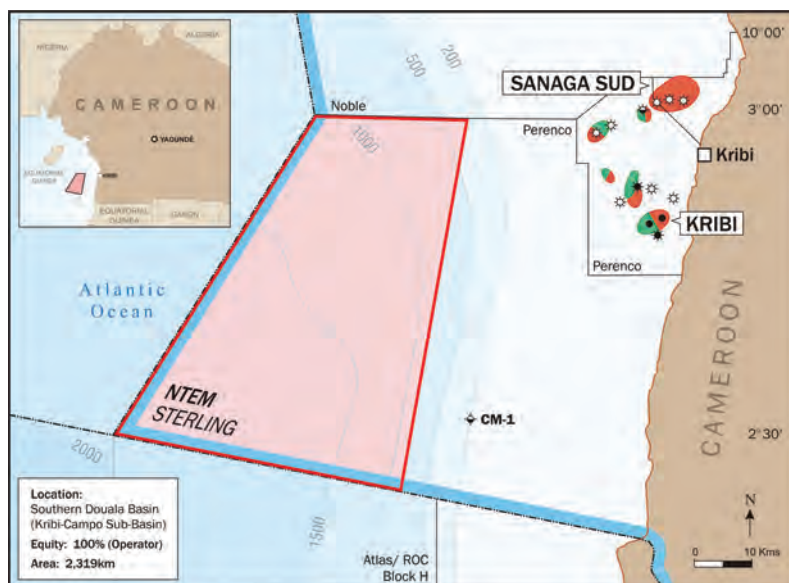
The Sangaw North block lies approximately 140 km south east of Erbil, the capital of the Kurdistan region of Iraq. The block is located 50 km south west of Suleimaniah and 50 km southeast of the giant Kirkuk oil field. It is on trend with both the Taq Taq oil discovery (90 km) and the Chemchemical gas 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. Subsequently, the 1st sub-period was extended by one year to November 2011. Sterling is currently drilling the Sangaw North-1 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 the 2D seismic data that was acquired in 2008/09. Results to date from this large, multi-horizon prospect have not established commercial amounts of hydrocarbons in the intervals tested, but they have established the presence of gas within the shallower horizons of the Cretaceous and in the upper Jurassic. Further testing of the deeper horizons of the Cretaceous formations may be undertaken once the well reaches TD. However deeper reservoir potential, for both oil and gas/condensate, remains in a number of Jurassic and Triassic objectives with summed mean gross un-risked prospective resources in excess of 500 mmbbl in the case of oil or 3.8 tcf in the case of gas. Drilling of the deeper section will be undertaken during 1H 2011.

# OPERATIONS REVIEW – continued

## CAMEROON – NTEM



### Contract Summary

Contract type	Concession	
Contract signed	14 March 2001	
Contract effective date	3 September 2002	
Contract area	2,319 km <sup>2</sup>	
Participants		
Sterling (Operator)	100%	
Licence term remaining	In force majeure, minimum work and financial obligations are suspended	
Current work period	15 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

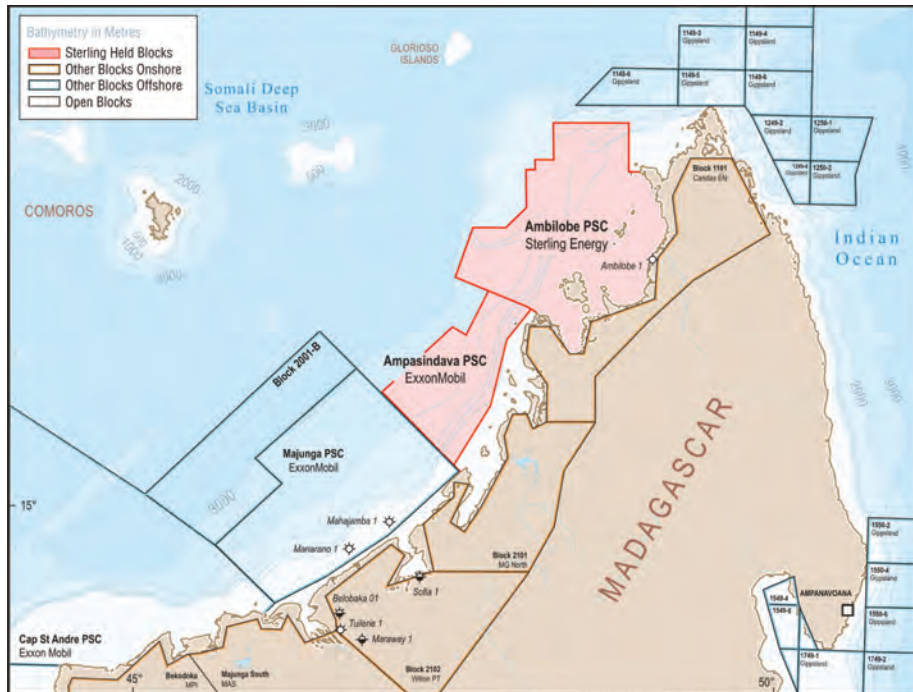
f) Production concession duration is 25 years, renewable for 10 years

### Overview

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. 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. 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 gross un-risked prospective resources of several hundred million barrels each based upon Company estimates.

## MADAGASCAR



### AMBILOBE

#### Contract Summary

Contract type	PSC
Contact signed	15 July 2004
Effective start date	28 November 2004
Contract area	17,650 km <sup>2</sup>
Participants	
Sterling (Operator)	100%
Exploration term	8 year period with possible 2 year extension
Phase 2	Due to end November 2010, extension discussions ongoing
Phase 2 work commitment	completed
Production term	25 year period with possible 5-10 year extension

#### Overview

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

In July 2005 Sterling farmed out 70% interest to ExxonMobil. 550 km of new 2D seismic data was purchased and reprocessing of more than 5,500 km of 2D data was undertaken. 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 May 2008, Phase 2 of the exploration period was extended by 1 year.

In early 2009 ExxonMobil withdrew from the PSC and their interest reverted to Sterling.

Prior to November 2010, discussions commenced to prolong Phase 2 of the licence.

## AMPASINDAVA

### Contract Summary

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

### Overview

The Phase 1 and Phase 2 work programme commitments for the block were fulfilled by completing G&G studies and acquiring more than 3,000 km of 2D seismic. In July 2005, Sterling farmed out 70% interest to ExxonMobil. Following acquisition, processing and interpretation of the new 2D seismic data, Sterling transferred operatorship to ExxonMobil at the end of 2006.

In late 2007 the Sifaka prospect was selected as the first prospect for drilling 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.

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 deep-water turbidite sandstones, expected to be encountered at approximately 3,000m below the seabed.

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

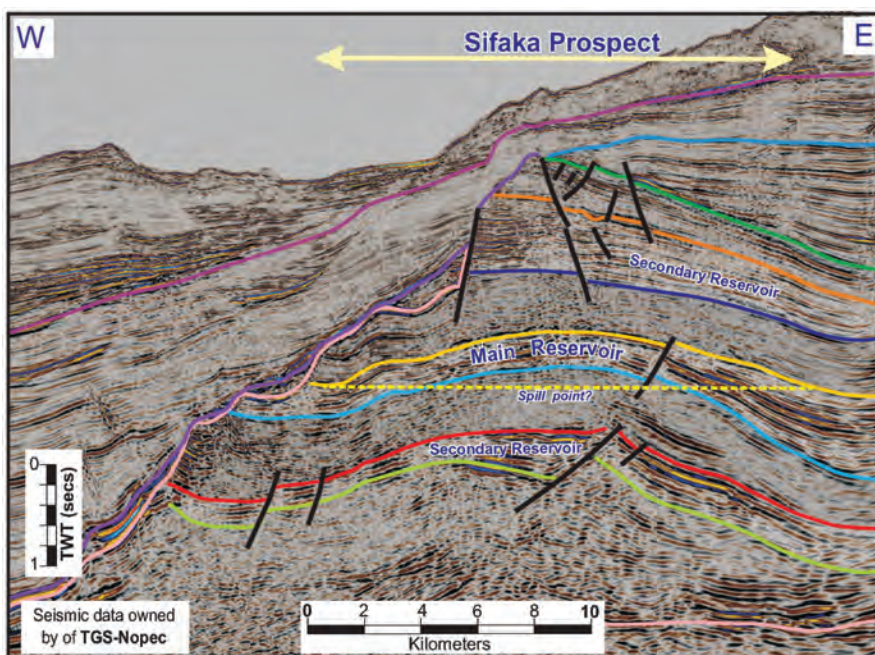
Low Estimate (P90)	150 million bbl
Best Estimate (P50)	1.2 billion bbl
High Estimate (P10)	4.8 billion bbl

RISC estimated the mean gross (100%) un-risked prospective resources to be 2 billion bbl.

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

Prior to November 2010, discussions commenced to prolong Phase 3 of the licence.

At the beginning of 2011, Sterling estimate ExxonMobil's remaining carry is approximately \$37 million towards the gross cost of drilling.



## RESERVES SUMMARY

	2010 Oil (000 boe)	2010 Gas (mcf)	2010 Reserves (000 boe)	2009 Oil (000 boe)	2009 Gas (mcf)	2009 Reserves (000 boe)
<b>Volumes of Proven plus Probable Reserves</b>						
At 1st January	<b>340</b>	–	<b>340</b>	4,990	80,049	18,331
Asset Disposals	–	–	–	(2,762)	(67,328)	(13,983)
Revision – USA	–	–	–	(658)	(7,607)	(1,926)
Revision – Chinguetti <sup>(1,2)</sup>	<b>320</b>	–	<b>320</b>	(553)	–	(553)
Production	<b>(239)</b>	–	<b>(239)</b>	(677)	(5,114)	(1,529)
At 31st December	<b>421</b>	–	<b>421</b>	340	–	340

### Notes:

- (1) The reserves stated are for the Chinguetti field only and are based on Sterling's own assessment of reserves, as at 31 December 2010. Sterling's interest in the Chinguetti field is through its Funding Agreement and Royalty Agreements, Sterling does not have a direct equity participation in the Chinguetti field. The assessment was made in accordance with the standards and definitions as set out on page 71.
- (2) Sterling has not booked reserves relating to other Mauritanian discoveries, on the basis that there are no approved development plans for these discoveries.
- (3) In accordance with the guidelines of the AIM Market of the London Stock Exchange, 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 30 years, is the qualified person that has reviewed the assessment of reserves set out above.

## SCHEDULE OF INTERESTS

	Location	Size (km <sup>2</sup> )	Licence Name	Sterling Working Interest %	Sterling Net Revenue Interest %	Operated/ Non-operated
<b>Africa</b>						
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
Madagascar	Offshore NW	17,650	Ambilobe <sup>(1)</sup>	100%		Operator
	Offshore NW	7,379	Ampasindava <sup>(1)</sup>	30% <sup>(2)</sup>		Non-operated
<b>Middle East</b>						
Iraq	Kurdistan	492	Sangaw North	53.33% <sup>(3)</sup>		Operator

(1) The current exploration period was due to end in November 2010. Sterling and Exxon are in discussions with OMNIS, the State oil Company of Madagascar, with regard to extending the current exploration periods of both licences.

(2) Carried for defined \$ amount.

(3) Carried for drilling costs for 1 exploration well up to the point of testing.

# FINANCIAL REVIEW

## SELECTED FINANCIAL DATA

		2010	2009
Chinguetti production	bopd	<b>654</b>	906
Year end 2P reserves	000 boe	<b>421</b>	340
Revenue (continuing operations)	\$million	<b>25.3</b>	22.7
Revenue (discontinued operations)	\$million	–	50.2
EBITDA <sup>(1)</sup>	\$million	<b>11.3</b>	10.5
Profit/(loss) after tax	\$million	<b>5.8</b>	(202.5)
Net cash investment in oil & gas assets	\$million	<b>12.2</b>	31.7
Year end cash (including partner funds)	\$million	<b>111.7</b>	113.9
Year end debt	\$million	–	–
Year end net cash (including partner funds)	\$million	<b>111.7</b>	113.9
Average realised oil price (net of hedges)	\$/bbl	<b>80.44</b>	62.02
Average realised gas price (net of hedges)	\$/mcf	–	5.93
Total cash operating costs per boe (produced)	\$/boe	<b>38.15</b>	26.52 <sup>(2)</sup>
Year end share price	Pence	<b>84</b>	155
Share price growth/(contraction)	%	<b>(46)</b>	63

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

(2) Excludes discontinued operations.

## HIGHLIGHTS

- Net profit of \$5.8 million in 2010;
- Cash balances at year end were \$111.7 million (2009: \$113.9 million);
- Average 2010 Chinguetti production 654 bopd (2009: 906 bopd);
- Debt free throughout 2010.

## REVENUE AND COST OF SALES

2010 production averaged 654 bopd, including Royalty barrels, a decrease of 28% from the 906 bopd averaged in 2009. Currently, all of the Group's production is from the Chinguetti field and the Group's net production is approximately 623 bopd.

Group turnover from continuing operations was \$25.3 million (2009: \$22.7 million) based on 315,000 barrels sold. This was primarily as a result of an increased average realised oil price from the Chinguetti liftings during the year to \$80.44 per bbl (2009: \$68.62 per bbl). Volumes lifted were down 7% compared to 2009.

## PROFIT FROM OPERATIONS

The 2010 profit from operations amounted to \$7.3 million (2009 loss from continuing operations: \$18.0 million).

Chinguetti cost of sales amounted to \$13.6 million (2009: \$13.5 million) averaging \$43.11/bbl (2009: \$40.79/bbl).

A \$0.2 million (2009: \$22.0 million) impairment charge was made in relation to African exploration assets.

Pre-licence exploration costs of \$0.7 million (2009: \$0.5 million) were written off as required under IFRS.

Administrative costs for continuing operations, after capitalised costs and partner recharges, fell by \$1.0 million to \$3.7 million in 2010 (2009: \$4.7 million). This was due to an increase in costs recovered from joint venture partners,

## FINANCIAL REVIEW – *continued*

and reduced head office costs. This was after a non-cash share option charge of \$1.9 million (2009: \$0.7 million). The non-cash share option charge has increased compared to the 2009 charge due to the increased number of options under the All Staff LTIP and an increase in the share price volatility used to calculate the option value.

### **EBITDA AND NET PROFIT**

EBITDA for continuing operations totalled \$11.3 million (2009: \$10.5 million).

Net profit after tax totalled \$5.8 million (2009: \$202.5 million loss). The basic profit per share was \$0.03 per share (2009: US\$2.10 loss per share).

Interest revenue and finance costs were a net expense of \$1.4 million (2009: net expense \$13.6 million) reflecting foreign exchange losses of \$0.6 million on GBP cash balances held at 31 December 2010 which are reported in US Dollars. Non-cash finance costs of \$1.0 million relate to the unwinding of the decommissioning discount on the Chinguetti abandonment provision. Interest revenue was \$0.2 million.

No dividend is proposed to be paid for the year ended 31 December 2010.

### **CASH FLOW**

Net Group cash inflow generated from operating activities was \$10.5 million (2009: \$33.9 million including discontinued North America segment).

Net cash investments in oil and gas assets totalled \$12.2 million (2009: \$31.7 million) primarily comprising of \$9.0 million invested in Kurdistan relating to testing costs on the Sangaw North-1 well, \$1.8 million invested in Cameroon, and \$1.0 million invested in Madagascar. The Group's exploration drilling expenditure for Sangaw North-1 is carried by Addax, with Sterling paying its share of testing costs.

### **STATEMENT OF FINANCIAL POSITION**

Cash and cash equivalents were \$111.7 million at the year end (2009: \$113.9 million) of which \$10.1 million was held on behalf of partners, leaving a cash balance of \$101.6 million available for Sterling's own use at 31 December 2010. At the end of 2010, net assets/total equity stood at \$95.8 million (2009: \$88.1 million), and non-current assets were \$21.8 million (2009: \$11.1 million). This increase was primarily as a result of investment in the Kurdistan and Cameroon assets. Net current assets decreased to \$96.3 million (2009: \$98.3 million).

The Group's Chinguetti decommissioning provision increased during the year by \$1.0 million to \$22.0 million (2009: \$21.0 million).

### **HEDGING**

At the end of 2010 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**

*Finance Director and Company Secretary*

25 March 2011



# 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 they meet 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. The executive 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 and contractors for both its Suleimaniah office in Kurdistan and its drilling operations on the Sangaw North block. In addition to employment, Sterling has also assisted with basic infrastructure projects for the local population in the vicinity of the Sangaw North well site.

## **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 ensures that appropriate emergency response systems are in place to reduce and mitigate the impact and losses of any incident and any residual risks and that it is in compliance with all relevant laws, regulations and industry standards. 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 57**

Alastair joined Sterling in September 2009. He has been involved in the oil industry over 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.

### **Angus MacAskill, Chief Executive Officer, aged 51**

Angus joined Sterling as Chief Executive Officer in November 2010. His career in the oil and gas industry started in 1981 with 5 years at Schlumberger on assignments in Africa. Angus joined Mobil Oil and, during 10 years with the company, held a number of production, reservoir engineering and managerial posts in the UK and Norway.

Since 1997, Angus has worked for a number of independent exploration and production companies, including Enterprise Oil and Elixir Petroleum, in commercial, managerial and executive positions of increasing responsibility.

Angus joined Emerald Energy in 2006 as Chief Operating Officer and in December of that year was appointed Chief Executive Officer. During the following three years, the company experienced material growth following exploration successes in its assets in South America and the Middle East, prior to being acquired by Sinochem in 2009.

### **Andrew Grosse, Exploration and Technical Director, aged 52**

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 42**

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.

### **Nicholas Clayton, non-executive Director, aged 47**

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.

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 Chairman 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 66**

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.

**Malcolm Pattinson, non-executive Director, aged 67**

Malcolm was appointed a non-executive Director of Sterling in November 2010. Malcolm is Chairman of the Nominations Committee and a member of the Audit and Remuneration Committees.

Malcolm is a geoscientist with 40 years of experience. Until 2001 he was the Vice President of exploration for Ranger Oil (which became CNR); and prior to this he was exploration Vice President for Hamilton Oil (which became BHP). From 2001 to 2006 Malcolm was a consultant for Tullow Oil.

Malcolm is an honorary life member and former chairman of the Petroleum Exploration Society of Great Britain, and was awarded the medal for outstanding achievement in 1996 by the Petroleum Group of the Geological Society. He is the chairman of GTO Limited and has recently stepped down as a Director of Aurelian Oil and Gas Plc.

# 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 the Combined Code with the exception of the matters referred to below.

Provision A.2.1 During much of 2010, Alastair Beardsall undertook the roles and responsibilities of both CEO and Chairman. During this time the appropriate challenge existed within the three members of the executive management, and the three senior and experienced non-executive Directors ensured the Board's independence was maintained. The roles and responsibilities of CEO and Chairman were divided when Angus MacAskill was appointed as CEO on 9 November 2010, with Alastair Beardsall continuing as executive Chairman. Following Angus MacAskill's appointment the Company is fully compliant with provision A.2.1 of the Combined Code.

Provision B.1.3 Non-executive Directors have been awarded share options under the NED LTIP. The NED LTIP and original option awards were approved, by shareholders, in advance at the December 2009 extraordinary general meeting. Future NED LTIP awards will be voted on by shareholders. 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 Combined Code. Notwithstanding the foregoing, the Board considers each of the non-executive Directors to be independent.

## THE BOARD OF DIRECTORS AND ITS COMMITTEES

### Board Composition, Operation and Independence

The Board currently comprises the executive Chairman, three 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 judgement to bear on issues of strategy, performance, resources, key appointments and standards. The Board meets regularly throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

The Board is responsible to the Shareholders for the proper management of the Company. A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on page 32.

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

Non-executive Directors have been issued with share options, under the NED LTIP. The original awards for Nicholas Clayton, Keith Henry and Richard Stabbins were approved by shareholders on 22 December 2009. It is proposed that Malcolm Pattinson will be awarded 125,000 options under the NED LTIP. In the opinion of the Board the NED LTIP aligns the objectives of the non-executive Directors with those of Shareholders. The NED LTIP is not subject to performance conditions for independence reasons.

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, CEO or Finance Director have not been resolved or for which such contact is inappropriate.

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

### 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
<b>Number Meetings in year</b>	<b>8</b>	<b>3</b>	<b>3</b>	<b>3</b>
Alastair Beardsall	8	3*	2*	0
Nicholas Clayton	8	3	3	3
Jonathan Cooper	8	3*	0	0
Andrew Grosse	7	2*	0	0
Keith Henry	8	3	3	3
Angus MacAskill (appointed 9 November 2010)	1	0	0	0
Malcolm Pattinson (appointed 15 November 2010)	1	0	0	0
Richard Stabbins (resigned 31 December 2010)	7	2	3	3

\*Denotes attendance by invitation

### Induction and Training

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

### Evaluation of the Board's Performance

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

in a meeting of the non-executive Directors, led by the Senior Independent Director. This review takes into account the views of executive Directors.

### **Retirement and Re-election**

The Company's Articles of association require that any Director who has been a Director at the preceding two annual general meetings and who was not 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.

### **SUB-COMMITTEES**

The Board has appointed the following sub-committees:

#### **Audit Committee**

This Committee currently comprises Nicholas Clayton, Keith Henry and Malcolm Pattinson, 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, Chief Executive Officer, Finance Director and Exploration and Technical Director.

#### **Audit Committee Report for 2010**

The Audit Committee met three times 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. During the year the Group undertook a competitive audit tender process. Following this process, BDO LLP was appointed as the Group's auditors. The Committee recommends that the Board presents the resolution to the shareholders at the 2011 AGM to reappoint BDO 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 Nicholas Clayton, Keith Henry and Malcolm Pattinson under the Chairmanship of Malcolm Pattinson. The Nominations Committee considers the composition of the Board and makes recommendations on the appointment of new Directors. The Nomination Committee also co-ordinates the performance evaluation of Directors and Senior Management and considers those candidates presenting themselves for election at the AGM.

### **Nominations Committee Report for 2010**

The Nomination Committee met three times during the year during 2010.

Angus MacAskill and Malcolm Pattinson offer themselves for election at the AGM following their appointments 9 November 2010 and 15 November 2010 respectively. Jonathan Cooper and Andrew Grosse retire by rotation and offer themselves for re-election at the AGM. Their biographical details, provided on pages 16 to 17, demonstrate the range of experience and skills which each brings to Sterling. The Nominations Committee and 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, Nicholas Clayton and Malcolm Pattinson 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 23 to 27.

### **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](http://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 28 April 2011 can be found in the notice of the meeting, on pages 76 to 78.

### **INTERNAL CONTROLS**

In September 1999 the Turnbull Guidance (Internal Control: Guidance for Directors on the Combined Code) was published, and revised in October 2005.

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.

## CORPORATE GOVERNANCE – *continued*

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 authorisation of such conflicts by the Board. In deciding whether to authorise 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, Nicholas Clayton and Malcolm Pattinson. 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.

## 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 All 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:** In 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.

During the year and following a recommendation from the Remuneration Committee the performance period for the All Staff LTIPs awarded during the period 1 October 2009 to 30 September 2010 was amended by the Board. The original performance period was one year, which was amended to three years (the amended period from 1 October 2009 to 30 September 2012). The performance conditions for options granted under the All Staff LTIP will remain unchanged.

The Remuneration Committee made its recommendation based on several considerations; to bring the length of the performance period in-line with other similar long term incentive plans, and as the performance conditions to be satisfied before the options vest are measured as relative performance compared to the performance of the FTSE 350 index and not as absolute share price performance, this amendment does not re-base the performance parameters of the original awards.

## 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% per cent 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.

### 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
Alastair Beardsall	8 September 2009	1 January 2011	£80,000*	6 months
Jonathan Cooper	4 February 2008	1 October 2009	£195,700	12 months
Andrew Grosse	11 February 2002	1 October 2009	£226,600	12 months
Angus MacAskill	9 November 2010	9 November 2010	£250,000	6 months

\*As of 1 January 2011 contracted to devote 20% of his working time to the business of Sterling Energy Plc.

The salaries paid to the Directors are reviewed annually with the most recent salary review being implemented on 1 January 2011.

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

Director	Commencement of appointment	Date of current contract	Base fees per annum
Nicholas Clayton	1 October 2009	1 October 2009	£30,000
Keith Henry	8 September 2009	8 September 2009	£30,000
Malcolm Pattinson	15 November 2010	15 November 2010	£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 \$68,000 in 2010 (2009 – \$98,000).

## 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 £	<b>Total 2010 £</b>	Total 2009 £
<i>Executive Directors</i>								
Alastair Beardsall (appointed 8 September 2009)	220,000	–	99,000	–	22,000	5,581	<b>346,581</b>	72,429
Jonathan Cooper	190,000	–	42,750	–	19,000	2,883	<b>254,633</b>	257,581
Andrew Grosse	236,923	–	60,500	–	22,000	4,728	<b>324,151</b>	404,596
Angus MacAskill (appointed 9 November 2010)	36,218	–	–	–	3,622	–	<b>39,840</b>	–
Graeme Thomson (resigned 22 December 2009)	104,026	185,753	–	–	36,706	52	<b>326,537</b>	751,003
Harry Wilson (resigned 30 June 2009)	–	–	–	–	–	–	–	722,079
<i>Non-Executive Directors</i>								
Chris Callaway (resigned 1 May 2009)	–	–	–	–	–	–	–	11,500
Nicholas Clayton (appointed 1 October 2009)	30,000	–	–	–	–	–	<b>30,000</b>	7,500
Keith Henry (appointed 8 September 2009)	30,000	–	–	–	–	–	<b>30,000</b>	9,462
Malcolm Pattinson (appointed 15 November 2010)	3,885	–	–	–	–	–	<b>3,885</b>	–
Richard Stabbins (resigned 31 December 2010)	30,000	–	–	–	–	–	<b>30,000</b>	46,846
Peter Wilde (resigned 1 October 2009)	–	–	–	–	–	–	–	34,500
Aggregate remuneration 2010	<b>881,052</b>	<b>185,753</b>	<b>202,250</b>	–	<b>103,328</b>	<b>13,244</b>	<b>1,385,627</b>	–
Aggregate remuneration 2009	1,199,752	33,150	64,500	848,438	156,523	15,133	–	2,317,496

Directors' interests in LTIP's are accounted for under IFRS 2 (Share-based payments), accounting charges in the period are detailed in note 26.

## 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:

	1st January 2010	Granted	31st December 2010	Exercise price	Exercise period
Andrew Grosse	37,500	–	<b>37,500</b>	160p	Up to 18/10/2012
	37,500	–	<b>37,500</b>	500p	Up to 09/03/2014
	12,500	–	<b>12,500</b>	680p	Up to 28/01/2015
	37,500	–	<b>37,500</b>	960p	Up to 29/06/2016
<b>Total</b>	<b>125,000</b>	<b>–</b>	<b>125,000</b>		

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

The Directors' interests in the SAYE scheme set up in 2008 are as follows:

	1st January 2010	Cancelled in year	31st December 2010	Option price	Earliest exercise date	Latest exercise date
Jonathan Cooper	10,101	–	<b>10,101</b>	95.04p	01/12/2011	01/06/2012
Andrew Grosse	10,101	–	<b>10,101</b>	95.04p	01/12/2011	01/06/2012
	<b>20,202</b>	<b>–</b>	<b>20,202</b>			

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

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

	1st January 2010	Lapsed	Granted	Exercised	31st December 2010	Exercise price	Earliest exercise date*	Latest exercise date*
Jonathan Cooper	105,000	–	–	–	<b>105,000</b>	40p	14/02/2011	14/05/2011
Andrew Grosse	105,950	(42,975)	–	–	<b>62,975</b>	40p	08/10/2010	14/05/2011
	<b>210,950</b>	<b>(42,975)</b>	<b>–</b>	<b>–</b>	<b>167,975</b>			

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

### All Staff Long-Term Incentive Plan (audited)

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

	1st January 2010	Granted	Exercised	31st December 2010	Exercise price	Earliest exercise date	Latest exercise date
Alastair Beardsall**	1,125,000	–	–	<b>1,125,000</b>	40p	01/10/2012	30/09/2014
Jonathan Cooper	400,000	192,893	–	<b>592,893</b>	40p	01/10/2012	30/09/2015
Andrew Grosse	475,000	223,350	–	<b>698,350</b>	40p	01/10/2012	30/09/2015
Angus MacAskill	–	1,000,000	–	<b>1,000,000</b>	40p	01/10/2013	30/09/2015
	<b>2,000,000</b>	<b>1,416,243</b>	<b>–</b>	<b>3,416,243</b>			

\*\*In recognition of Alastair Beardsall's efforts in the fund raising and the September 2009 Placing, and as a means of retention, 50 per cent of the options awarded to him in 2009 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 2010	Lapsed	Granted	Exercised	31st December 2010	Exercise price	Earliest exercise date*	Latest exercise date*
Nicholas Clayton***	125,000	–	–	–	<b>125,000</b>	40p	01/10/2012	30/09/2014
Keith Henry***	125,000	–	–	–	<b>125,000</b>	40p	01/10/2012	30/09/2014
Richard Stabbins***	125,000	(72,916)	–	–	<b>52,084</b>	40p	31/03/2011	30/06/2011
	375,000	(72,916)	–	–	<b>302,084</b>			

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

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

The rules of the LTIP schemes are summarised in note 26.

For and on behalf of the Board

**Keith Henry**

*Chairman, Remuneration Committee*

25 March 2011

# 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 2010.

## 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, and the Middle East. The significant developments during 2010 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 Chief Executive's Review, the Operational Review and the 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 profit for the financial year was \$5.8 million (2009: loss of \$202.5 million). This leaves an accumulated Group retained deficit of \$431.4 million (2009: deficit \$439.2 million) to be carried forward. As a result of the accumulated retained deficit of \$371.5 million of the Company at the end of 2010 (2009: deficit \$381.6 million), the Directors do not recommend the payment of a dividend (2009: 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 14. In addition, note 25 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 18 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of the employee share schemes are set out in note 26.

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 during the year were as follows:

Mr. Alastair Beardsall  
Mr. Nicholas Clayton  
Dr. Jonathan Cooper  
Mr. Andrew Grosse  
Mr. Keith Henry  
Mr. Angus MacAskill (appointed 9 November 2010)  
Mr. Malcolm Pattinson (appointed 15 November 2010)  
Dr. Richard Stabbins (resigned 31 December 2010)

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 section.

In accordance with article 110 of the Company's Articles of Association Angus MacAskill and Malcolm Pattinson offer themselves for election at the forthcoming AGM on 28 April 2011.

In accordance with article 106 of the Company's Articles of Association Jonathan Cooper and Andrew Grosse retire by rotation and offer themselves for re-election at the forthcoming AGM.

## 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	23-March 2011	31-December 2010	31-December 2009
Alastair Beardsall**	500,000	500,000	500,000
Nicholas Clayton*	132,500	132,500	125,000
Jonathan Cooper**	58,012	58,012	58,012
Andrew Grosse**	696,211	696,211	696,211
Keith Henry*	500,000	500,000	500,000
Angus MacAskill**	–	–	–
Malcolm Pattinson*	12,810	12,810	–
Richard Stabbins*	n/a	300,000	289,481

\* 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 (2009: 140,000) 40 pence ordinary shares held by Montrose Industries Limited a Company in which he has a direct 84.4% holding and is a Director.

## DIRECTORS' REPORT – continued

### 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 219,363,506 issued ordinary shares of 40 pence each of the Company at 23 March 2011:

	Number	%
Waterford Finance and Investment Limited	65,384,217	29.81
Invesco Asset Management Limited	44,886,777	20.46
Mr. Denis O'Brien	16,190,443	7.38
Artemis Investment Management Limited	11,138,885	5.08

### SUPPLIER PAYMENT POLICY AND PRACTICE

The Company's and Group'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 2010 year end, the number of supplier days outstanding for the continuing operations of the Group was 69 days (2009: 60 days).

### CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group made charitable donations of \$2,500 (2009: \$5,000), 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. The Company has identified certain risks pertinent to its business including:

Category	Risk
Strategic and Economic	Inappropriate or inaccurate strategy and plans
	Failure to deliver on strategy and plans
	Business environment changes
	Significant competition
	Regulatory barriers to entry
	Operations in territories which are susceptible to political, fiscal and social instability
	Limited diversification
	Shareholder concentration
Operational	HSE incident or non-compliance
	Poor field performance
	Failure to add value through exploration
	Licences, permits and/or approvals maybe difficult to sustain
	Reliance on other operators
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 and production estimations are not exact determinations
	Regulatory compliance and legal



<b>Category</b>	<b>Risk</b>
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 and reserves Counterparty default Cost escalation and budget overruns 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 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 25 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.

During the year the Group undertook a competitive audit tender process. Following this process, BDO LLP was appointed as the Group's auditors.

BDO LLP has expressed its willingness to continue in office as auditors and a resolution to appoint BDO will be proposed at the forthcoming annual general meeting.

**Jonathan Cooper**

*Director*

25 March 2011

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

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

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

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

## **WEBSITE PUBLICATION**

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

## **DIRECTORS' RESPONSIBILITY STATEMENT**

We confirm that to the best of our knowledge:

- 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

**Angus MacAskill,**

*Director*

25 March 2011

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STERLING ENERGY PLC

We have audited the financial statements of Sterling Energy Plc for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of changes in equity, the consolidated and company statement of financial position, the consolidated and company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of 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 statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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.

The directors have voluntarily chosen to comply with the requirements of the Listing Rules and Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports Regulations) 2008 made under Section 421 of the Companies Act 2006 ("Schedule 8") with regard to the directors' remuneration report.

Our responsibility is to audit and express an opinion on the directors' remuneration report as if the company were a Listed company.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## 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 2010 and of the group's profit for the year then ended;
- the group and parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and
- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

## OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STERLING ENERGY PLC – *continued*

## **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

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

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

**Scott Knight**, Senior Statutory Auditor

For and on behalf of BDO LLP,

*Statutory Auditor*

London

United Kingdom

25 March 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Note	31st December 2010 \$000	31st December 2009 \$000
<b>Continuing operations</b>			
Revenue	4	25,314	22,709
Cost of sales	6	(13,565)	(13,498)
<b>Gross profit</b>		<b>11,749</b>	9,211
Other administrative expenses		(3,649)	(4,684)
Impairment of oil and gas assets		(152)	(22,055)
Pre-licence exploration costs		(698)	(512)
<b>Total administrative expenses</b>		<b>(4,499)</b>	(27,251)
<b>Profit/(loss) from operations</b>	5	<b>7,250</b>	(18,040)
Finance income	8	224	13
Finance costs	8	(1,629)	(13,605)
<b>Profit/(loss) before tax</b>		<b>5,845</b>	(31,632)
Tax	9	-	-
<b>Profit/(loss) for the year from continuing operations</b>		<b>5,845</b>	(31,632)
<b>Discontinued operations</b>			
Loss for the year from discontinued operations	10	-	(170,851)
<b>Profit/(loss) for the year attributable to the owners of the parent</b>		<b>5,845</b>	(202,483)
<b>Other comprehensive income/(expense)</b>			
Hedge movement		-	(15,574)
Currency translation adjustments		(127)	1,155
Revaluation of investments		(12)	12
Total other comprehensive expense for the year		(139)	(14,407)
<b>Total comprehensive income/(expense) for the year attributable to the owners of the parent</b>		<b>5,706</b>	(216,890)
<b>Basic profit/(loss) per share (USc)</b>			
From continuing operations	12	2.66	(32.75)
From continuing & discontinued operations	12	2.66	(209.66)
<b>Diluted profit/(loss) per share (USc)</b>			
From continuing operations	12	2.65	(32.75)
From continuing & discontinued operations	12	2.65	(209.66)

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Note	31st December 2010 \$000	31st December 2009 \$000
<b>Non-current assets</b>			
Intangible royalty assets	13	824	1,818
Intangible exploration and evaluation assets	14	20,793	8,957
Property, plant and equipment	15	175	305
Investments		–	18
		<b>21,792</b>	11,098
<b>Current assets</b>			
Inventories		901	4,367
Trade and other receivables	17	17,695	2,578
Cash and cash equivalents		111,679	113,859
		<b>130,275</b>	120,804
<b>Total assets</b>		<b>152,067</b>	131,902
<b>Equity</b>			
Share capital	18	148,573	148,537
Share premium		378,859	378,859
Investment revaluation reserve		–	12
Currency translation reserve		(235)	(108)
Retained deficit		(431,380)	(439,161)
<b>Total equity</b>		<b>95,817</b>	88,139
<b>Non-current liabilities</b>			
Long-term provisions	21	22,231	21,238
		<b>22,231</b>	21,238
<b>Current liabilities</b>			
Trade and other payables	22	34,019	22,525
		<b>34,019</b>	22,525
<b>Total liabilities</b>		<b>56,250</b>	43,763
<b>Total equity and liabilities</b>		<b>152,067</b>	131,902

The financial statements of Sterling Energy Plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 25 March 2011.

Signed on behalf of the Board of Directors

Jonathan Cooper, ACA  
Director

Angus MacAskill,  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Share capital \$000	Share premium \$000	Investment revaluation reserve \$000	Currency translation reserve \$000	Hedge reserve \$000	Retained deficit* \$000	Total \$000
At 1 January 2009	42,749	351,334	–	(1,263)	15,574	(237,178)	171,216
Loss for the year	–	–	–	–	–	(202,483)	(202,483)
Investment revaluation	–	–	12	–	–	–	12
Currency translation adjustments	–	–	–	1,155	–	–	1,155
Hedge movement	–	–	–	–	(15,574)	–	(15,574)
Issued share capital	105,788	27,525	–	–	–	–	133,313
Share option charge for the year	–	–	–	–	–	500	500
At 31 December 2009	148,537	378,859	12	(108)	–	(439,161)	88,139
Profit for the year	–	–	–	–	–	5,845	5,845
Investment revaluation	–	–	(12)	–	–	–	(12)
Currency translation adjustments	–	–	–	(127)	–	–	(127)
Issued share capital	36	–	–	–	–	–	36
Share option charge for the year	–	–	–	–	–	1,936	1,936
<b>At 31 December 2010</b>	<b>148,573</b>	<b>378,859</b>	<b>–</b>	<b>(235)</b>	<b>–</b>	<b>(431,380)</b>	<b>95,817</b>

\* The share option reserve has been included within the retained deficit reserve.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Note	31st December 2010 \$000	31st December 2009 \$000
<b>Operating activities</b>			
Cash generated from operations	24	10,460	33,936
<b>Net cash flow from operating activities</b>		<b>10,460</b>	<b>33,936</b>
<b>Investing activities</b>			
Interest received		224	837
Purchase of property, plant and equipment		(178)	(23,567)
Exploration and evaluation costs		(12,030)	(8,121)
Proceeds on disposal of subsidiaries		–	85,812
Proceeds on disposal of available for sale assets		20	–
Proceeds on disposal of fixtures and fittings		8	9
<b>Net cash (used in)/generated from investing activities</b>		<b>(11,956)</b>	<b>54,970</b>
<b>Financing activities</b>			
Net proceeds from issue of ordinary shares		36	133,314
Repayments on loan facilities		–	(122,909)
Interest paid and banking charges		(14)	(8,768)
<b>Net cash flow generated from financing activities</b>		<b>22</b>	<b>1,637</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,474)</b>	<b>90,543</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>113,859</b>	<b>23,854</b>
Effect of foreign exchange rate changes		(706)	(538)
<b>Cash and cash equivalents at end of year</b>		<b>111,679</b>	<b>113,859</b>



# COMPANY STATEMENT OF FINANCIAL POSITION

31 December 2010

	Note	31st December 2010 \$000	31st December 2009 \$000
<b>Non-current assets</b>			
Property, plant and equipment	15	15	25
Investments	16	223,137	221,386
		<b>223,152</b>	221,411
<b>Current assets</b>			
Inventories		901	4,367
Trade and other receivables	17	47,185	28,978
Cash and cash equivalents		100,936	106,265
		<b>149,022</b>	139,610
<b>Total assets</b>		<b>372,174</b>	361,021
<b>Equity</b>			
Share capital	18	148,573	148,537
Share premium		378,859	378,859
Retained deficit		(371,480)	(381,565)
<b>Total equity</b>		<b>155,952</b>	145,831
<b>Non-current liabilities</b>			
Long-term provisions	21a	22,032	20,987
		<b>22,032</b>	20,987
<b>Current liabilities</b>			
Trade and other payables	22	194,189	194,203
		<b>194,189</b>	194,203
<b>Total liabilities</b>		<b>216,221</b>	215,190
<b>Total equity and liabilities</b>		<b>372,174</b>	361,021

The financial statements of Sterling Energy Plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 25 March 2011.

Signed on behalf of the Board of Directors

Jonathan Cooper, ACA  
Director

Angus MacAskill,  
Director

# COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Share capital \$000	Share premium \$000	Hedge reserve \$000	Retained deficit* \$000	Total \$000
At 1 January 2009	42,749	351,334	6,542	(228,890)	171,735
Loss for the year	–	–	–	(153,175)	(153,175)
Hedge movement	–	–	(6,542)	–	(6,542)
Issued share capital	105,788	27,525	–	–	133,313
Share option charge for the year	–	–	–	500	500
At 31 December 2009	148,537	378,859	–	(381,565)	145,831
Profit for the year	–	–	–	8,149	8,149
Issued share capital	36	–	–	–	36
Share option charge for the year	–	–	–	1,936	1,936
<b>At 31 December 2010</b>	<b>148,573</b>	<b>378,859</b>	<b>–</b>	<b>(371,480)</b>	<b>155,952</b>

\* The share option reserve has been included within the retained deficit reserve.

# COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Note	31st December 2010 \$000	31st December 2009 \$000
<b>Operating activities</b>			
Cash used from operations	24	<b>(4,478)</b>	(3,034)
<b>Net cash flow used in operating activities</b>		<b>(4,478)</b>	(3,034)
<b>Investing activities</b>			
Interest received		<b>224</b>	2,356
Capital expenditure		–	(1,076)
Proceeds on disposal of subsidiary		<b>8</b>	–
<b>Net cash generated from investing activities</b>		<b>232</b>	1,280
<b>Financing activities</b>			
Net proceeds from issue of ordinary shares		<b>36</b>	133,314
Repayments on loan facilities		–	(122,909)
Repayments from subsidiaries		–	90,317
Interest paid and banking charges		<b>(6)</b>	(8,047)
<b>Net cash flow generated from financing activities</b>		<b>30</b>	92,675
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(4,216)</b>	90,921
<b>Cash and cash equivalents at beginning of year</b>		<b>106,265</b>	15,432
Effect of foreign exchange rate changes		<b>(1,113)</b>	(88)
<b>Cash and cash equivalents at end of year</b>		<b>100,936</b>	106,265

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2010

## 1. ACCOUNTING POLICIES

### a) General information

Sterling Energy Plc is a public Company incorporated in the United Kingdom under the UK 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 and the functional currency of the Company.

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

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

The following new standards and amendments to standards are mandatory for the first time for the Group for financial year beginning 1 January 2010. Except as noted, the implementation of these standards is not expected to have a material effect on the Group.

Standard	Effective date	Impact on initial application
IAS 27 – Amendment – Consolidated and Separate Financial Statements	1 Jul 2009	The amendment affects the acquisition of subsidiaries achieved in stages and disposals of interests. Amendment does not require the restatement of previous transactions.
IFRS 3 – Revised – Business Combinations	1 Jul 2009	The revision to IFRS 3 introduced a number of changes in accounting for acquisition costs and recognition of intangible assets in business combinations. The revised standard does not require the restatement of previous business combinations.
IAS 39 – Amendment – Financial Instruments: Recognition and Measurement: Eligible Hedged Items	1 Jul 2009	The amendment clarifies the principles for determining eligibility of hedged items.
IFRS 2 – Amendment – Group Cash-settled Share-based Payment Transactions	1 Jan 2010	The amendments clarifies that where a parent (or another group entity) has an obligation to make a cash-settled share-based payment to another group entity's employees or suppliers, the entity receiving the goods or services should account for the transaction as equity – settled.
Improvements to IFRSs (2009)	Generally 1 Jan 2010	The improvements in this Amendment clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards. The improvements did not have any impact on the current or prior years' financial statements.
IFRIC 17 – Distributions of Non-cash Assets to Owners	1 Jan 2010	The interpretation provides guidance on how to measure distribution of assets other than cash.
IFRIC 18 – Transfer of Assets from Customers	1 Jan 2010	The interpretation clarifies the treatment of agreements in which an entity receives from a customer an item of property that it must use to provide the customer with an on-going access to goods or services.

# NOTES TO THE FINANCIAL STATEMENTS – *continued*

## 1. ACCOUNTING POLICIES – *continued*

Standard	Effective date	Impact on initial application
IFRIC 9/ IAS 39 – Amendment – Embedded Derivative	1 Jan 2010	The amendment clarifies the treatment of embedded derivatives in host contracts that are classified out of fair value through profit or loss.
IFRIC 16 – Hedges of a Net Investment in a Foreign Operation	1 Jan 2010	The interpretation provides guidance for application of hedge accounting in foreign operations.

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

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

Standard	Description	Effective date
IAS 32	Amendment – Classification of Right Issues	1 Feb 2010
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 Jul 2010
IFRS 1	Amendment – First Time Adoption of IFRS	1 Jul 2010
IAS 24	Revised – Related Party Disclosures	1 Jan 2011
IFRIC 14	Amendment – IAS 19 Limit on a defined benefit asset	1 Jan 2011
IFRS 7*	Amendment – Transfer of financial assets	1 Jul 2011
IFRS 1*	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters Improvements to IFRSs (2010)*	1 Jul 2011 1 Jan 2011
IAS 12*	Deferred Tax: Recovery of Underlying Assets	1 Jan 2012
IFRS 9*	Financial instruments	1 Jan 2013

The Group has not yet assessed the impact of IFRS 9. Except for the amended disclosure requirements of IAS 24 (the above revised standards), amendments and interpretations are not expected to materially affect the Group's reporting or reported numbers.

\*Not yet endorsed by European Union.

### 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 the 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 statement of comprehensive income and expense from the effective date of acquisition or up to the effective date of disposal, as appropriate.

## 1. ACCOUNTING POLICIES – *continued*

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

Jointly controlled operations are arrangements in which the Group holds an interest on a long term basis which are jointly controlled by the Group and one or more ventures under a contractual arrangement. The Group's exploration, development and production activities are sometimes conducted jointly with other companies in this way. Since these arrangements do not constitute entities in their own right, the consolidated financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Group's interests.

### e) Revenue

Sales of oil 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 on an entitlement basis. 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

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. 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.

Following the disposal of the North American business the Group has two continuing oil and gas segments; 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, subject to the relevant cost pool meeting an impairment test as set out below.

## 1. ACCOUNTING POLICIES – *continued*

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 statement of comprehensive income.

### **Development and production assets**

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.

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

## **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 reporting 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.

**1. ACCOUNTING POLICIES – continued**

**h) Intangible royalty interests**

The carrying value of each individual royalty interest is initially stated at cost, and amortised on the unit of production basis relative to the underlying asset 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 functional and reporting currency of the Company and the reporting currency of 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 profit or loss.

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

**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 statement of comprehensive income because it excludes items of income or expense that are taxable or deductible on other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting 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. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 1. ACCOUNTING POLICIES – *continued*

#### 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 in other comprehensive income, 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 Statement of Financial Position 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 statement of financial position when the Group becomes party to the contractual provision of the instrument. During 2010 the Group did not use any derivative financial instruments to manage risk. Historically, the Group used derivative financial instruments to manage its exposure to movements in oil and gas prices. 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.

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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income. The gains and losses taken to equity are subsequently transferred to the Statement of Comprehensive Income during the period in which the hedged transaction affects the Statement of Comprehensive Income 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.



## 1. ACCOUNTING POLICIES – *continued*

### **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 25.

### **Trade receivables**

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

### **Cash and cash equivalents**

Cash and cash equivalents comprise demand deposits, and other short term highly liquid investments, with an original maturity of less than 3 months, and 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 initially at their fair value and subsequently at their amortised cost.

# NOTES TO THE FINANCIAL STATEMENTS – *continued*

## 1. ACCOUNTING POLICIES – *continued*

### **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 Statement of Comprehensive Income for these schemes is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

### **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 before vesting and early exercise. The inputs to the model include: the share price at the date of grant; exercise price; expected volatility; expected dividends; risk-free rate of interest; and patterns of exercise of the plan participants.

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

### **p) Over/(under) lift**

Lifting or off take arrangements for oil and gas produced in certain of the Group's operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative liftings is 'underlift' or 'overlift'. Underlifts 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.

## 1. ACCOUNTING POLICIES – *continued*

### 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 reporting date, and are discounted to present value where the effect is material.

### s) Segment reporting

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

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

## 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

### 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 statement of financial position 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 reporting 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 oil and gas properties, particularly exploration and evaluation assets, 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 26.

### **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 months. Other derivatives are presented as current assets or current liabilities.

## 3. OPERATING SEGMENTS

The Group's two continuing operating segments are its Africa and Middle East segments. The UK corporate office is a technical and administrative cost centre. The operating results of each of these segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance.

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

### 3. OPERATING SEGMENTS – continued

The following tables present revenue, profit and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2010, and for the year ended 31 December 2009.

	Africa		Middle East		North America (discontinued)		Total	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Income Statement</b>								
Revenue	<b>25,314</b>	22,709	–	–	–	50,199	<b>25,314</b>	72,908
Cost of sales	<b>(13,565)</b>	(13,498)	–	–	–	(44,104)	<b>(13,565)</b>	(57,602)
<b>Gross profit</b>	<b>11,749</b>	9,211	–	–	–	6,095	<b>11,749</b>	15,306
Impairment provision	<b>(152)</b>	(22,055)	–	–	–	(72,085)	<b>(152)</b>	(94,140)
Pre-licence								
exploration costs	<b>(698)</b>	(512)	–	–	–	(18)	<b>(698)</b>	(530)
Loss on disposal of								
assets	–	–	–	–	–	(682)	–	(682)
<b>Segment result</b>	<b>10,899</b>	(13,356)	–	–	–	(66,690)	<b>10,899</b>	(80,046)
Unallocated								
corporate expenses							<b>(3,649)</b>	(15,487)
<b>Profit/(loss) from operations</b>							<b>7,250</b>	(95,533)
Profit/(loss) on disposal of subsidiary							–	(118,820)
Finance income							<b>224</b>	837
Finance costs							<b>(1,629)</b>	(14,979)
<b>Profit/(loss) before tax</b>							<b>5,845</b>	(228,495)
Tax							–	26,012
<b>Profit/(loss) attributable to owners of the parent</b>							<b>5,845</b>	(202,483)
Profit/(loss) for the year from continuing operations							<b>5,845</b>	(31,632)
Profit/(loss) for the year from discontinued operations							–	(170,851)
							<b>5,845</b>	(202,483)

	Corporate		Africa		Middle East		North America (discontinued)		Total	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Other segment information</b>										
<i>Capital additions</i>										
Property, plant and equipment	<b>178</b>	210	–	1,048	–	–	–	22,309	<b>178</b>	23,567
Exploration and evaluation	–	–	<b>3,045</b>	2,001	<b>8,985</b>	189	–	5,231	<b>12,030</b>	7,421
Depreciation & amortisation	<b>(299)</b>	(294)	<b>(1,003)</b>	(5,193)	–	–	–	(28,391)	<b>(1,302)</b>	(33,878)
Impairment provision	–	–	<b>(152)</b>	(22,055)	–	–	–	(72,085)	<b>(152)</b>	(94,140)
<b>Statement of financial position</b>										
Non-current assets*	<b>159</b>	297	<b>12,268</b>	10,421	<b>9,365</b>	380	–	–	<b>21,792</b>	11,098
Segment assets**	<b>102,004</b>	108,488	<b>7,841</b>	5,500	<b>20,430</b>	6,816	–	–	<b>130,275</b>	120,804
Segment liabilities***	<b>(1,873)</b>	(3,299)	<b>(34,692)</b>	(34,100)	<b>(19,685)</b>	(6,364)	–	–	<b>(56,250)</b>	(43,763)

Revenue from continuing operations includes amounts of \$24.0 million from one single customer (2009: \$17.4 million).

\*Segment non-current assets include \$9.4 million in Cameroon (2009: \$7.6 million) and \$9.4 million in Kurdistan (2009: \$0.4 million).

\*\*Carrying amounts of segment assets exclude investments in subsidiaries.

\*\*\*Carrying amounts of segment liabilities exclude intra-group financing.

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 4. REVENUE

	Total	
	2010 \$000	2009 \$000
<b>Continuing operations</b>		
Revenue from the sale of oil and gas	23,978	21,455
Royalty income	1,336	1,254
<b>Total operating revenue</b>	<b>25,314</b>	22,709
Finance revenue	224	13
	<b>25,538</b>	22,722
<b>Discontinued operations (see note 10)</b>		
Total operating revenue	–	50,199
Finance revenue	–	823
	–	51,022
	<b>25,538</b>	73,744

Revenue from the sale of oil and gas of continuing operations is stated net of \$nil hedge income/expense in relation to cash settlements under hedging contracts (2009: income \$4,011,000).

### 5. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from continuing operations is stated after charging:

		Total	
	Note	2010 \$000	2009 \$000
Staff costs	7	5,772	5,954
Share based payments	7	1,936	500
Depletion of oil and gas assets	6	994	5,190
Impairment expense	3	152	22,055
Depreciation of other non-current assets		308	295
Net foreign exchange losses	8	551	265

#### **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	62	84
Audit of the Company's subsidiaries pursuant to legislation	31	55
Other services – interim review	–	78
<b>Total audit fees</b>	<b>93</b>	217
Tax advisory services to previous auditors	36	68
<b>Total non audit fees</b>	<b>36</b>	68

## 6. COST OF SALES

	Continuing operations	
	2010 \$000	2009 \$000
Amortisation and depletion of oil and gas properties	994	5,190
Operating costs	9,105	8,777
Over/(under) lift of product entitlement	3,466	(469)
	<b>13,565</b>	<b>13,498</b>

## 7. EMPLOYEE INFORMATION

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

	2010	2009
Africa & Middle East	20	17
North America (to 2 December 2009)	–	33
Corporate Support Staff	14	17
	<b>34</b>	<b>67</b>

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

	Continuing operations	
	2010 \$000	2009 \$000
Wages and salaries	4,912	4,925
Social security costs	497	501
Other pension costs	363	528
Share-based payments	1,936	500
	<b>7,708</b>	<b>6,455</b>

A portion of the Group's staff costs and associated overheads are recharged to the joint venture partners, expensed as pre-licence expenditure or capitalised where they are directly attributable to on-going capital projects. In 2010 this portion amounted to \$6,807,000 (2009: \$5,885,000).

## 8. FINANCE INCOME AND FINANCE COSTS

	Continuing operations	
	2010 \$000	2009 \$000
<b>Interest revenue:</b>		
Interest revenue on short-term deposits	224	13
	<b>224</b>	<b>13</b>
<b>Finance costs:</b>		
Interest on bank loans and bank charges	14	12,406
Unwinding of discount on decommissioning provision	1,045	708
Unwinding of discount on production royalty bonus provision	19	226
Exchange differences	551	265
	<b>1,629</b>	<b>13,605</b>

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 9. TAXATION

The difference between the tax credit of \$nil (2009: \$nil) and the amount calculated by applying the applicable standard rate of tax is as follows:

	Continuing operations	
	2010 \$000	2009 \$000
Deferred tax – origination and reversal of timing differences	–	–
Current tax credit	–	–
<b>Total credit</b>	<b>–</b>	<b>–</b>
	<b>Total</b>	
	2010 \$000	2009 \$000
Profit/(loss) before tax on continuing operations	<b>5,845</b>	(31,632)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 28% (2009: 28%)	<b>1,637</b>	(8,857)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	<b>866</b>	7,581
Capital allowances in excess of depreciation	<b>(3,644)</b>	(2,318)
Other temporary differences	<b>(25)</b>	228
Adjustment for tax losses	<b>1,166</b>	3,366
Tax charge for the year	<b>–</b>	<b>–</b>

### 10. DISCONTINUED OPERATIONS

The sale of the US business 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 2010 the value of the upside sharing agreement was determined to be insignificant, and therefore no amount has been recognised. See notes 1 and 25 for full accounting disclosure.

The results of the Group’s discontinued USA operations for 2009 are shown on the consolidated statement of comprehensive income and in notes 3 and 4. Upon completion the Group recognised cash inflow of \$85.8 million, transaction costs of \$3.9 million, and a loss of \$170.8 million.



## 10. DISCONTINUED OPERATIONS – continued

	Period ended 2nd December 2009 \$000
Revenue	50,199
Expenses	(128,242)
Loss before tax	(78,043)
Attributable tax expense	26,012
Loss on disposal of discontinued operations	(118,820)
Net loss attributable to discontinued operations	(170,851)

## 11. PROFIT ATTRIBUTABLE TO THE COMPANY

The profit for the financial year dealt within the Company accounts of Sterling Energy Plc was \$8,149,000 (2009: loss of \$153,175,000). As provided by s408 of the Companies Act 2006, no individual statement of comprehensive income and expense is provided in respect of the Company.

## 12. PROFIT/(LOSS) PER SHARE

The calculation of basic profit per share is based on the Group consolidated profit for the financial year of \$5,845,000 (2009: loss \$202,483,000) and on 219,332,806 (2009: 96,577,765) ordinary shares, being the weighted average number of ordinary shares in issue. For the year ended 31 December 2010, the basic earnings per share were 2.66 US¢ per share (2009: loss 209.66 US¢ per share).

For the year ended 31 December 2010, the fully diluted earnings per share were 2.65 US¢ per share (2009: n/a). This is computed based on 220,865,039 (2009: 96,577,765) ordinary shares, being the total used for the computation of the basic earnings per share as adjusted in assuming the exercise of 1,532,233 of the 7,745,726 options granted or approved for grant as at 31 December 2010.

For the year ended 31 December 2010, the basic and diluted earnings per share from discontinued operations were nil US¢ per share (2009: loss 176.91 US¢ per share). The calculation of basic and diluted loss per share from discontinued operations for the financial year is based on a discontinued profit for the year of \$nil (2009: loss \$170,851,000) and on 219,332,806 (2009: 96,577,765) ordinary shares, being the weighted average number of ordinary shares in issue.

## 13. INTANGIBLE ROYALTY ASSETS

	Group \$000
Net book value at 1 January 2009	3,791
Amortisation charge for the year	(1,147)
Impairment charge for the year	(826)
Net book value at 31 December 2009	1,818
Amortisation charge for the year	(994)
<b>Net book value at 31 December 2010</b>	<b>824</b>

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 13. INTANGIBLE ROYALTY ASSETS – *continued*

Group net book value at 31 December 2010 comprises the value of rights to future royalties in respect of the Group's agreements covering licences PSC A and PSC B 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 2009	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
Additions during the year	12,030
Impairment charge for the year	(194)
<b>Net book value at 31 December 2010</b>	<b>20,793</b>

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 Africa pool of \$0.2 million (2009: \$3.3 million), and in the US of \$nil (2009: \$69.9 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
<b>Cost</b>			
At 1 January 2009	511,951	4,811	516,762
Additions during the year	35,369	265	35,634
Disposals during the year	(361,449)	(2,305)	(363,754)
At 31 December 2009	185,871	2,771	188,642
Additions during the year	–	178	178
Adjustments during the year	(42)	–	(42)
<b>At 31 December 2010</b>	<b>185,829</b>	<b>2,949</b>	<b>188,778</b>

15. PROPERTY, PLANT AND EQUIPMENT – *continued*

Group	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
<b>Accumulated depreciation and impairment</b>			
At 1 January 2009	(325,471)	(3,531)	(329,002)
Disposals during the year	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)
Charge for the year	–	(308)	(308)
Impairment reversal for the year	42	–	42
<b>At 31 December 2010</b>	<b>(185,829)</b>	<b>(2,774)</b>	<b>(188,603)</b>
<b>Net book value at 31 December 2010</b>	<b>–</b>	<b>175</b>	<b>175</b>
Net book value at 31 December 2009	–	305	305
Net book value at 31 December 2008	186,480	1,280	187,760
	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
<b>Company</b>			
<b>Cost</b>			
At 1 January 2009	172,756	148	172,904
Additions during the year	13,115	28	13,143
At 31 December 2009	185,871	176	186,047
Adjustments during the year	(42)	–	(42)
<b>At 31 December 2010</b>	<b>185,829</b>	<b>176</b>	<b>186,005</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2009	(163,955)	(148)	(164,103)
Charge for the year	(4,044)	(3)	(4,047)
Impairment charge for the year	(17,872)	–	(17,872)
At 31 December 2009	(185,871)	(151)	(186,022)
Charge for the year	–	(10)	(10)
Impairment reversal for the year	42	–	42
<b>At 31 December 2010</b>	<b>(185,829)</b>	<b>(161)</b>	<b>(185,990)</b>
<b>Net book value at 31 December 2010</b>	<b>–</b>	<b>15</b>	<b>15</b>
Net book value at 31 December 2009	–	25	25
Net book value at 31 December 2008	8,801	–	8,801

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 16. INVESTMENT IN SUBSIDIARIES

	Company \$000
<b>Cost</b>	
At 1 January 2009	337,180
Reduction during the year (waiver of capital contribution)	(9,984)
Impairment during the year	(105,810)
At 31 December 2009	221,386
Additions during the year	1,751
<b>At 31 December 2010</b>	<b>223,137</b>

The principal subsidiary undertakings at the year end are as follows (these undertakings are included on consolidation):

	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
Sterling Energy (International) Limited **	United Kingdom	Ordinary	100%	Exploration for oil and gas
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

\* 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

### 17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Trade receivables	6,945	662	6,557	171
Amounts owed by subsidiary undertakings	–	–	40,541	27,979
Other receivables	212	393	41	67
Amounts due from joint venture partners	10,122	1,037	–	667
Prepayments and accrued income	416	486	46	94
	<b>17,695</b>	2,578	<b>47,185</b>	28,978

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

## 18. SHARE CAPITAL

	2010 \$000	2009 \$000
<b>Authorised, called up, allotted and fully paid</b>		
219,363,506 (2009: 219,304,551) ordinary shares of 40p	<b>148,573</b>	148,537

Movements during the year included:

1. Issue of 5,074 Ordinary Shares of 40 pence to a former employee on 19 March 2010.
2. Issue of 53,881 Ordinary Shares of 40 pence to a former employee on 26 July 2010.

## 19. RESERVES

Reserves within equity are as follows:

### Share capital

Amounts subscribed for share capital at nominal value.

### Share premium account

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

### Investment revaluation reserve

Gains/losses arising on the revaluation of the Group's investments that are classified as available-for-sale.

### Currency translation reserve

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

### Hedge reserve

Gains/losses arising on the effective portion of hedging instruments carried at fair value in a qualifying hedge.

### Retained deficit

Cumulative net gains and losses recognised in the Statement of Comprehensive Income less any amounts reflected directly in other reserves.

## 20. DEFERRED TAX LIABILITIES

	2010 \$000	2009 \$000
<b>Group</b>		
At 1 January	–	40,793
Loss on discontinued operations	–	(26,012)
Loss on disposal of discontinued operations	–	(14,781)
	–	–

At the reporting date the Group had an unrecognised deferred tax asset of \$28,487,000 (2009: \$33,756,000) 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. At the reporting date the Company had an unrecognised deferred tax asset of \$28,329,000 (2009: \$33,816,000) relating primarily to unused losses and unutilised capital allowances.

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 21. LONG-TERM PROVISIONS

	2010 \$000	2009 \$000
<b>Group</b>		
Decommissioning provision (a)	<b>22,032</b>	20,987
2003 Production royalty bonus scheme (b)	<b>199</b>	251
	<b>22,231</b>	21,238

#### a) Decommissioning provisions

	North America \$000	Africa \$000	Total \$000
<b>Group</b>			
At 1 January 2009	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
Unwinding of discount	–	1,045	1,045
<b>At 31 December 2010</b>	<b>–</b>	<b>22,032</b>	<b>22,032</b>

The amounts shown above for Africa represent the estimated costs for decommissioning the Group's producing interests in respect of its economic interest in the Chinguetti field in Mauritania.

The Company amount of \$22,032,000 (2009: \$20,987,000) in Africa represents the amount provided within the Company for future decommissioning expenditure.

#### b) 2003 Production royalty bonus scheme

	2010 \$000	2009 \$000
<b>Group</b>		
At 1 January	<b>251</b>	1,183
Unwinding of discount	<b>19</b>	226
Amounts paid during the year	–	(1,110)
Transferred to current liabilities	<b>(63)</b>	(194)
Foreign exchange movements	<b>(8)</b>	146
	<b>199</b>	251

This scheme was intended to reward key persons for the successful performance of certain assets after financial thresholds had been reached for the period since listing in 2002. The scheme was terminated in 2007 and replaced by the LTIP scheme ('2007 LTIP', and the 'All Staff LTIP', see note 26) and no further sums will accrue. The Company has the option to require the one remaining beneficiary to subscribe for new ordinary shares for the net amount arising after tax and national insurance from 2008 onwards.

## 22. TRADE AND OTHER PAYABLES

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Trade payables	<b>14,696</b>	4,760	<b>81</b>	1,499
Amounts owed to subsidiary undertakings	–	–	<b>181,656</b>	179,579
Amounts advanced from joint venture partners	<b>92</b>	1,998	–	–
Accruals and deferred income	<b>19,231</b>	15,767	<b>12,452</b>	13,125
	<b>34,019</b>	22,525	<b>194,189</b>	194,203

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

## 23. OPERATING LEASES AND CAPITAL COMMITMENTS

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Minimum lease payments under operating leases recognised as an expense in the year	<b>4,598</b>	5,628	<b>3,594</b>	3,475

At the reporting date outstanding commitments for minimum lease payments under non-cancellable operating leases fall due as follows:

	Group		Company	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Within one year	<b>4,401</b>	4,497	<b>3,373</b>	3,438
In the second to fifth year inclusive	<b>7,970</b>	9,178	<b>6,738</b>	6,851
	<b>12,371</b>	13,675	<b>10,111</b>	10,289

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.

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 24. CASH FLOWS FROM OPERATING ACTIVITIES

	2010 \$000	2009 \$000
<b>Group</b>		
<b>Operating activities:</b>		
Profit/(loss) before tax from continuing operations	5,845	(31,632)
Loss before tax from discontinued operations	–	(196,866)
Finance income and other finance gains/losses	(224)	(572)
Finance costs	1,629	14,714
Depletion and amortisation	1,302	33,878
Impairment expense	152	94,140
(Gain)/loss on disposal of property, plant and equipment	(8)	682
Loss on disposal of subsidiary	–	118,820
Gain on disposal of available for sale assets	(14)	–
Share-based payment charge	1,936	500
Operating cash flow prior to working capital movements	10,618	33,664
Decrease in inventories	3,466	626
(Increase)/decrease in trade and other receivables	(15,117)	21,964
Increase/(decrease) in trade and other payables	11,493	(22,317)
	<b>10,460</b>	<b>33,936</b>
Cash generated/(outflow) from continuing operations	10,460	(4,517)
Cash generated from discontinued operations	–	38,453
	<b>10,460</b>	<b>33,936</b>
	2010 \$000	2009 \$000
<b>Company</b>		
<b>Operating activities:</b>		
Profit/(loss) before tax	8,149	(151,620)
Finance income and other finance gains/losses	(224)	48
Finance costs	1,968	10,759
Depletion and amortisation	9	4,046
Impairment (reversal)/expense	(42)	146,804
Loss on disposal of subsidiary	–	355
Gain on disposal of property, plant and equipment	(8)	–
Share-based payment charge	1,936	500
Operating cash flow prior to working capital movements	11,788	10,892
Decrease/(increase) in inventories	3,466	(156)
Increase in trade and other receivables	(17,967)	(14,245)
(Decrease)/Increase in trade and other payables	(1,765)	475
	<b>(4,478)</b>	<b>(3,034)</b>



## 25. FINANCIAL INSTRUMENTS

### Capital risk management and liquidity risk

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

### Significant accounting policies

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

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 2010 and 31 December 2009.

	Carrying amount		Fair value	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Group</b>				
<b>Financial assets</b>				
Cash and cash equivalents	111,679	113,859	111,679	113,859
Other financial assets at fair value	–	18	–	18
Trade and other receivables	17,279	1,698	17,279	1,698
<b>Total</b>	<b>128,958</b>	<b>115,575</b>	<b>128,958</b>	<b>115,575</b>
<b>Financial liabilities</b>				
Trade and other payables	34,019	22,525	34,019	22,525
<b>Total</b>	<b>34,019</b>	<b>22,525</b>	<b>34,019</b>	<b>22,525</b>
	Carrying amount		Fair value	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
<b>Company</b>				
<b>Financial assets</b>				
Cash and cash equivalents	100,936	106,265	100,936	106,265
Trade and other receivables	47,099	28,817	47,099	28,817
<b>Total</b>	<b>148,035</b>	<b>135,082</b>	<b>148,035</b>	<b>135,082</b>
<b>Financial liabilities</b>				
Trade and other payables	194,189	194,203	194,189	194,203
<b>Total</b>	<b>194,189</b>	<b>194,203</b>	<b>194,189</b>	<b>194,203</b>

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 25. FINANCIAL INSTRUMENTS – continued

#### Financial risk management objectives

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

#### Interest rate risk management

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

#### Interest rate sensitivity analysis

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

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

	Group Increase		Company Increase	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Cash and cash equivalents	1,117	1,139	1,009	1,063
	<b>1,117</b>	1,139	<b>1,009</b>	1,063

#### Foreign currency translation risk

The Group's and Company'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 pounds sterling. The majority of balances are held in US dollars with transfers to pounds sterling and other local currencies as required to meet local needs. 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 or Company. The Group and Company reviews the credit risk of the entities that it sells its products to or that it enters into contractual arrangements with and will obtain guarantees and commercial letters of credit as may be considered necessary where risks are significant to the Group or Company. The Group's and Company's business is diversified in terms of both region and the number of counter-parties and the Group and Company does not have significant exposure to any single counter-party or Group and Company of counter-parties with similar characteristics.

## 25. FINANCIAL INSTRUMENTS – *continued*

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. At the year-end the Group held approximately 83% (2009: 63%) of its cash in US dollars. At the year-end the Group held the majority of its balances with AA- Standard & Poors rated institutions. The Group continues to monitor its treasury management to ensure an appropriate balance of the safety of funds and maximisation of yield.

None of the other trade and other receivables had been impaired. Trade and other receivables are non-interest bearing. The Group does not hold any collateral as security and the Group does not hold any significant provision in the impairment account for trade and other receivables as they relate to customers with no default history.

### 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 2010 is nil (2009: nil).

Group	Less than six months \$000	Six months to one year \$000	One to six years \$000	Total \$000	Interest \$000	Principal \$000
<b>2010</b>						
Trade payables	14,788	–	–	14,788	–	–
2009						
Trade payables	6,759	–	–	6,759	–	–
Company	Less than six months \$000	Six months to one year \$000	One to six years \$000	Total \$000	Interest \$000	Principal \$000
<b>2010</b>						
Trade payables	81	–	–	81	–	–
2009						
Trade payables	1,499	–	–	1,499	–	–

### Upside sharing agreement

#### *Level 3 fair value measurement at 31 December 2010*

The Company holds a three year 'upside sharing agreement', under which the Company is entitled to a 40% share of the annual excess net production proceeds, net of certain costs, if Atinum E+P's average realised oil price exceeds \$90 bbl and/or the realised gas price exceeds \$9 mcf in 2010–2012.

The Company has modelled the value of each of the embedded derivatives (for oil and gas production) using a DCF model at a wide range of oil and gas prices. Each commodity price (at a given point in the future) is calculated using this statistical distribution. The DCF model takes account of production profiles, appropriate discount factors and costs, hedges and other contractual terms.

The probabilities are calculated using a normal distribution whose mean represents the most likely price at the future point and whose standard deviation is related to the volatility of the commodity price. An examination

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 25. FINANCIAL INSTRUMENTS – *continued*

of historical prices for a given time period is analysed to determine the standard deviation and therefore the volatility.

A futures curve is used to establish the market's latest expectation of the commodity price in the future and therefore a mean for the distribution curve. Commodity prices are affected by a large number of variables and for this reason it has been considered appropriate to calculate the probability using a normal distribution.

The upside sharing agreement fair value valuation is based on inputs where there is no observable market data to accurately assess the outcome of the agreement.

At 31 December 2010 the value of the upside sharing agreement was determined to be immaterial and therefore no amount has been recognised (31 December 2009: \$nil).

### 26. 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 \$1,936,000 (2009: \$500,000). The Company recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of \$184,000 (2009 reversal of prior year charge: \$114,000).

#### Share options (2002–2007)

Movements during the year on share options were as follows:

	2010 Number of share options	2010 Weighted average exercise price (pence)	2009 Number of share options	2009 Weighted average exercise price (pence)
Outstanding at the beginning of period	1,248,125	397	1,466,625	432
Forfeited during the period	(122,500)	816	(218,500)	736
Exercised during the period	–	–	–	–
Outstanding at the end of the year	1,125,625	337	1,248,125	397
Exercisable at the end of the year	1,125,625	337	1,248,125	397

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:	2010 Weighted average exercise price (pence)	2010 Number	2009 Number
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	100,000	153,750
2006	951	131,250	200,000
2007	620	12,500	12,500

**26. SHARE-BASED PAYMENTS – continued**

No share options were exercised during 2010 (2009: Nil). The options outstanding at the end of the year have a weighted average contractual life of 2.51 years (2009: 4.06 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 (2009: nil). Some of the options lapse if the employee leaves the Company.

No further awards were made under this share option scheme post the introduction of the 2007 LTIPs.

**2007 Long Term Incentive Plan ('2007 LTIP')**

Following the introduction, and approval by shareholders of the All Staff Long Term Incentive Plan ('All Staff LTIP') in 2009, no further awards or grants have been made under the 2007 LTIP, subsisting awards and grants will remain in place and the scheme will be allowed to time lapse.

Movement during the year on share options were as follows:

	<b>2010 Number of share options</b>	2009 Number of share options
Outstanding at the beginning of period	<b>1,263,282</b>	1,987,025
Granted during the period	–	158,590
Exercised during the period	<b>(53,881)</b>	(52,104)
Lapsed during the period	<b>(299,161)</b>	(830,229)
Outstanding at the end of the year	<b>910,240</b>	1,263,282
Exercisable at the end of the year	<b>174,558</b>	–

The nominal cost options outstanding at the end of the year have a weighted average remaining contractual life of 0.89 years (2009: 1.45 years). The cost of these shares is spread over the vesting period of 3 years (2009: 3 years).

The actual number of shares that will be finally awarded out of the maximum number stated above under the 2007 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 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:

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 26. SHARE-BASED PAYMENTS – *continued*

#### 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 2007 LTIP options exercised during the year were for good leavers whose awards were pro-rated under the scheme rules and were subject to certain performance criteria.

The Company used the inputs noted below to measure the fair values of the old and new nominal cost options. These fair values were calculated using modified binomial option pricing models. Expected volatility was estimated by calculating the historical volatility of the Company's share price over the three years preceding the grant of the 2007 LTIP options.

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')

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.

During the year the Remuneration Committee amended the performance period for the All Staff LTIPs awarded during the period 1 October 2009 to 30 September 2010. The original performance period was one year, which was amended to three years (the amended period from 1 October 2009 to 30 September 2012). The performance conditions for options granted under the All Staff LTIP will remain unchanged. The incremental fair value of the modification was calculated as 44.78 pence.

The Remuneration Committee and Board made the change based on several considerations; to bring the length of the performance period in-line with other similar long term incentive plans, and as the performance conditions to be satisfied before the options vest are measured as relative performance compared to the performance of the FTSE 350 index ('the Index') and not as absolute share price performance, this amendment does not re-base the performance parameters of the original.

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

	2010		2009	
	Number of Share options	Exercise price (pence)	Number of Share options	Exercise price (pence)
Outstanding at the beginning of the year	<b>3,143,088</b>	<b>40</b>	–	–
Granted during the period	<b>2,367,989</b>	<b>40</b>	3,143,088	40
Forfeited during the period	<b>(228,300)</b>	–	–	–
Outstanding at the end of the year	<b>5,282,777</b>	<b>40</b>	3,143,088	40
Exercisable at the end of the year	–	–	–	–

## 26. 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. 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 4.19 years (2009: 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 31.24 pence (2009: 64.73 pence).

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

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

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

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:

	2010	2009
Share price (pence)	<b>68</b>	157
Exercise price (pence)	<b>40</b>	40
Expected volatility at time of grant	<b>85.21%</b>	54.91%
Expected life (years)	<b>3</b>	3
Risk free rate (%)	<b>0.75%</b>	0.75%
Expected dividends	<b>Nil</b>	Nil

Expected volatility for grants in the year was estimated by calculating the historical volatility of the Company's share price over the period 23 December 2009 to 30 September 2010 (2009: three years preceding the share placing at 29 September 2008). The Company has overlaid a normal distribution for the FTSE350 condition to assess a range of possible outcomes.

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

## NOTES TO THE FINANCIAL STATEMENTS – *continued*

### 26. SHARE-BASED PAYMENTS – *continued*

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

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

	2010		2009	
	Number of Share options	Exercise price (pence)	Number of Share options	Exercise price (pence)
Outstanding at the beginning of the year	<b>375,000</b>	<b>40</b>	–	–
Granted during the period	–	–	375,000	40
Lapsed during the period	<b>(72,916)</b>	–	–	–
Outstanding at the end of the year	<b>302,084</b>	<b>40</b>	375,000	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.

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 4.00 years (2009: 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 n/a (2009: 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 employment is terminated on death, or as a good leaver.

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.

### 27. RELATED PARTY TRANSACTIONS

#### Transactions with Directors

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

	2010 \$000	2009 \$000
Short-term employee benefits	<b>1,695</b>	3,332
Compensation for loss of office	<b>287</b>	52
Defined contribution pension	<b>160</b>	245
Share-based payments	<b>1,238</b>	424
	<b>3,380</b>	4,053

Further information on Directors' remuneration is detailed in the Remuneration Report, on pages 23 to 27.



# DEFINITIONS AND GLOSSARY OF TERMS

Year ended 31 December 2010

\$	US dollars
2006 Act	The Companies Act 2006, as amended
2007 LTIP	the 2007 Long Term Incentive Plan
1P	Proven reserves or in-place quantities depending on the context
2D	two dimensional
2P	the sum of Proven and Probable reserves or in-place quantities depending on the context
3D	three dimensional
3P	the sum of Proven, Probable and Possible reserves or in-place quantities depending on the context
AIM	Alternative Investment Market of the London Stock Exchange
All Staff LTIP	the All Staff Long-Term Incentive Plan adopted in 2009
AGM	annual general meeting
API gravity	an American Petroleum Institute scale for crude oil density
Articles	the Articles of Association of the Company
bbl	barrel, equivalent to 42 US gallons of fluid
bbl/d	barrel per day
bopd	barrel of oil per day
boe	barrel of oil equivalent, a measure of the gas component converted into its equivalence in barrels of oil
boepd	barrel of oil equivalent per day
bcf	billion cubic feet of gas
Board	the Board of Directors of the Company
C	celsius
Capex	capital expenditure
CGR	condensate gas ratio
Code or City Code	The City Code on Takeovers and Mergers
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
COS	chance of success
CPF	central production facility
Darcy	unit of permeability
Deg	degrees
Directors	the Directors of the Company

## DEFINITIONS AND GLOSSARY OF TERMS – *continued*

Year ended 31 December 2010

DST	drill stem test, a method of flow testing a well
E&E	exploration and evaluation assets
EBITDA	earnings before interest, taxation, depreciation, depletion and amortisation, impairment, share-based payments and pre-licence expenditure
EMV	expected monetary value
EPF	early production facility
ESP	electric submersible pump
EUR	economic ultimate recovery
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
FDP	field development plan
FPSO	Floating, Production, Storage and Offloading vessel
FSA	the Financial Services Authority of the United Kingdom
G&G	geological and geophysical
GBP	pounds sterling
GIIP	gas initially in place
GOC	gas oil contact
GOR	gas oil ratio
GWC	gas water contact
Group	the Company and its subsidiary undertakings
H <sub>2</sub> S	hydrogen sulphide
HMRC	Her Majesty's Revenue and Customs
HSES	Health, Safety, Environment and Security
hydrocarbons	organic compounds of carbon and hydrogen
km	kilometre(s)
km <sup>2</sup>	square kilometre(s)
KRG	Kurdistan Regional Government of Iraq
lead	indication of a possible exploration prospect
London Stock Exchange or LSE	London Stock Exchange Plc
m	metre(s)
mmbbl	million barrels
mmstb	million barrels of oil at stock tank conditions
mmboe	million barrels of oil equivalent
mmcf	million cubic feet of gas

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
mss	metres sub-sea
mTVDss	metres true vertical depth sub-sea
NED LTIP	non-executive Director Long Term Incentive Plan adopted in 2009
NPV	net present value of a series of cash-flows
Opex	operating expenditure
Ordinary Shares	Sterling ordinary shares of 40 pence each
OWC	oil water contact
P90, P50, P10	90%, 50% and 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively
Panel or Takeover Panel	The Panel on Takeovers and Mergers
Petroleum	oil, gas, condensate and natural gas liquids
Petronas	PC Mauritania I PTY LTD
PP&E	Property, Plant & Equipment
PRMS	Petroleum resource Management System as issued in March 2007 by the Society of Petroleum Engineers et al
Prospect	a potential sub-surface accumulation of hydrocarbons which has been identified but not drilled
Prospective Resources	those quantities of petroleum which are estimated, as at a given date, to be potentially recoverable from undiscovered accumulations
psi(a)	pounds per square inch (absolute)
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
RF	recovery factor
RI	royalty interest
RISC	RISC (UK) Limited of Golden Cross House, 8 Duncannon Street, London WC2N 4JF

## DEFINITIONS AND GLOSSARY OF TERMS – *continued*

Year ended 31 December 2010

Scf	Standard cubic feet of gas (measured at 60 degree Fahrenheit and 14.7 psia)
Seismic	data, obtained using a sound source and receiver, that is processed to provide a representation of a vertical cross-section through the subsurface layers
SESP	Sterling Energy share price
Shares	40p Ordinary Shares
Shareholders	Ordinary shareholders of 40p each in the Company
SMH	Societe Mauritanienne Des Hydrocarbures
spud	to commence drilling a well
sq km	square kilometre
sq mi	square mile
stb	stock tank barrel (measured at 60 degrees Fahrenheit and 14.7 psia)
STOIIP	Stock tank oil initially in place
Subsidiary	a subsidiary undertaking as defined in the 2006 Act
Water-cut	that percentage of total fluid production that is water
Working Interest or WI	a Company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms
Tcf	trillion cubic feet of gas
TEA	technical evaluation agreement
TD	total depth
TVD	true vertical depth
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
United States or US	the United States of America

# PROFESSIONAL ADVISERS

## **Nominated Advisors**

Evolution Securities  
100 Wood Street  
London  
EC2V 7AN

## **Corporate Bankers**

Barclays Commercial Bank  
1 Churchill Place  
London  
E14 5HP

HSBC  
165 Fleet Street  
London  
EC4A 2DY

## **Legal**

Ashurst  
Broadwalk Street  
5 Appold Street  
London  
EC2A 2HA

## **Auditors**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

## **Registered Office**

5 Chancery Lane  
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 28 April 2011, at 11.00 a.m. to consider and, if thought fit to pass, the following resolutions. Resolutions 10 and 11 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 2010, 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 2010. **(Resolution 2)**
3. To appoint BDO LLP as auditors of the Company. **(Resolution 3)**
4. To authorise the Directors to set the remuneration of the auditors. **(Resolution 4)**
5. In accordance with article 106 of the Company's Articles of Association, to re-elect Jonathan Cooper, who retires by rotation, as a Director of the Company. **(Resolution 5)**
6. In accordance with article 106 of the Company's Articles of Association, to re-elect Andrew Grosse, who retires by rotation, as a Director of the Company. **(Resolution 6)**
7. In accordance with article 110 of the Company's Articles of Association, to elect Angus MacAskill as a Director of the Company (appointed since the last annual general meeting). **(Resolution 7)**
8. In accordance with article 110 of the Company's Articles of Association, to elect Malcolm Pattinson as a Director of the Company (appointed since the last annual general meeting). **(Resolution 8)**
9. 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 £29,248,467 (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 £58,496,935 (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 2012), (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 9)**

#### **SPECIAL RESOLUTIONS**

10. That subject to the passing of Resolution 9, 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 9(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 9(a) above, and otherwise than pursuant to paragraph (i) of this resolution, up to an aggregate nominal amount of £4,387,270,

and shall expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 30 June 2012), 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 10)**

11. That:

- (a) the grant of an option over 125,000 shares to Malcolm Pattinson under the Sterling Energy Plc non-executive Directors Long-Term Incentive Plan (the "MP Option") be and is hereby approved;

## ANNUAL GENERAL MEETING – *continued*

- (b) the Directors be generally and unconditionally authorised for the purpose of section 551 of the Act (in addition to any existing authority) to exercise all powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares pursuant to or in connection with the MP Option up to an aggregate nominal amount (within the meaning of section 551 (3) and (6) of the Act) of £50,000; and
- (c) the Directors be given the power pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in the Act) (in addition to any existing authority) pursuant to the authority referred to in paragraph (b) above as if section 561 of the Act did not apply to any such allotment provided that any such power shall be limited to the allotment of equity securities pursuant to or in connection with the MP Option up to an aggregate nominal amount of £50,000,

these authorities to expire on 31 March 2016 (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 authorisations conferred hereby had not expired). **(Resolution 11)**

*By Order Of The Board*  
Jonathan Cooper  
COMPANY SECRETARY  
25 March 2011

*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 9**

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 9 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 £29,248,467 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 £58,496,935.

These amounts represent approximately one third and approximately two thirds respectively of the total issued ordinary share capital of the Company at 25 March 2011, 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 2012, whichever is the earlier. Your Directors have no present intention of issuing shares pursuant to this authority.

## **Resolution 10**

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 10 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 £4,387,270 (being five per cent of the Company's issued ordinary share capital at 25 March 2011). If given, this authority will expire at the next Annual General Meeting of the Company or on 30 June 2012, 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.

## **Resolution 11**

The Sterling Energy Plc non-executive Directors Long-Term Incentive Plan (the "NED LTIP") was approved by shareholders at the Extraordinary General Meeting held on 4 December 2009, at which time your Directors were authorised to allot shares pursuant to options to be granted under the NED LTIP up to an aggregate nominal amount of £150,000. It is proposed Malcolm Pattinson be granted an option over 125,000 shares (the "MP Option") on his appointment as non-executive Director of the Company. There being insufficient headroom within the existing authority for issue of shares to satisfy the MP Option, it is proposed that your Directors be authorised to allot shares pursuant to the MP Option up to an aggregate nominal amount of £50,000, such authority to expire on 31 March 2016. Accordingly, Resolution 11 will be proposed as a special resolution to grant such authority.

## **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,

## EXPLANATORY NOTES TO THE RESOLUTIONS – *continued*

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](http://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](http://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:

- (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 26 April 2011 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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