STERLING ENERGY PLC

Report and Financial Statements 2013

Sterling Energy Plc ("Sterling" or the "Company") is an upstream oil and gas company listed on the AIM market of the London Stock Exchange. Sterling is an experienced operator of international licences with a focus on projects in Africa. Sterling has high potential exploration projects in Cameroon, Somaliland and Madagascar, and an interest in production in Mauritania.

Sterling Energy Plc

Report and Financial Statements

Year ended 31 December 2013

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Chairman's Statement

The most exciting event since the 2012 Annual Report is the spud of Bamboo-1, Sterling's first exploration well on the Ntem Concession, offshore Cameroon, targeting a primary objective that may contain some 450 million barrels of oil equivalent. During 2013 Sterling and Murphy Oil, our joint venture partner, finalised the well's location and prepared for the drilling operation. Reprocessing of the 3D seismic dataset for Ntem indicated that significant horizons, with the potential to be hydrocarbon filled, were located in the Ntem block away from the area subject to the overlapping border claims of Cameroon and Equatorial Guinea.

In January 2014 Sterling, Murphy Oil and Société Nationale des Hydrocarbures ("SNH"), the national oil company of Cameroon, agreed to lift force majeure to allow exploration activities to recommence and the Ocean Confidence rig commenced the drilling of Bamboo-1 on 9 February 2014. The well is expected to take up to 70 days to be completed and results will be announced as they become known.

We have acquired a 25% interest in the Odewayne PSA in Somaliland from Jacka Resources and Petrosoma; our share of costs for acquiring 1,500km of 2D seismic and drilling one exploration well are carried by Genel Energy. The Odewayne block covers some 22,000km^2 of unexplored land on which surface oil seeps indicate an active petroleum system. We look forward to advancing the exploration of this new opportunity during 2014.

In Madagascar we received presidential consent for the agreement with OMNIS, the state oil company, to re-phase the outstanding work commitments under the Ampasindava and Ambilobe licence agreements following the suspension of exploration activities after the change of government in March 2009; both licences now run to September 2015. During the year as progress was made towards the elections that were completed in December, the political outlook and security situation in Madagascar both improved.

Exxon resumed operations in late 2013 and acquired some 1,300km of 2D seismic data on the Ampasindava block to enhance the imaging of the Sifaka prospect and possibly mature some other leads into drill-ready prospects, however drilling on Ampasindava is not expected until 2015/16. We also farmed out 50% of the Ambilobe licence to Pura Vida in exchange for $15.0 million of new 3D seismic which Sterling, as operator, expects to acquire in the second half of 2014.

We are cognisant that while Sterling has interests in some very significant projects, we must endeavour to secure new opportunities to broaden our exploration portfolio. We are pleased with new venture progress this year but continue to look both within and beyond our existing geographies for further opportunities, which we believe will deliver real growth and value for our shareholders.

FINANCIAL

The Company had cash resources of $120.8 million at the end of 2013, and remains debt free. Our work programme for 2014 is fully funded and we have funds available to progress both our existing portfolio and new venture activity. We remain pleased that the revenue from Chinguetti field operations in Mauritania continued to provide positive cash flow during 2013 in excess of Sterling's administrative costs.

BOARD CHANGE

In August 2013 Angus MacAskill resigned as Sterling's CEO and stepped down from the Board to seek other opportunities where he could apply his extensive knowledge and experience of engineering in the development and production of oil and gas fields. He joined Sterling in November 2010 when his expertise and attention to detail ensured the very challenging drilling operation on Sangaw North-1 was completed safely. I would like to thank Angus for the tremendous contribution he made across all aspects of Sterling's business during his three year tenure and wish him all the very best for his future challenges.

$120.8 million

CASH RESOURCES

> We shall continue to seek new opportunities within and beyond our existing areas of interest and shall only pursue those ventures which we believe will ultimately deliver value for our shareholders

OUTLOOK FOR 2014 AND BEYOND

A positive outcome for Bamboo-1, offshore Cameroon will transform the Company; however if the well does not identify commercial hydrocarbons, Sterling has the funds to progress our other projects in Madagascar and Somaliland and to acquire others.

The formation of a democratically elected government will provide greater stability in Madagascar and allow more operational progress to be made on both the Ampasindava and Ambilobe blocks.

Acquisition of 2D seismic in the Odewayne block, Somaliland, will further our understanding of the potential of this vast acreage and may lead to an exploration well, possibly in 2015

We shall continue to seek new opportunities within and beyond our existing areas of interest and shall only pursue those ventures that we believe will ultimately deliver value for our shareholders. Sterling's strategy is to build shareholder value through participation in the exploration of material prospects and when appropriate the Company will introduce partners, generally through a farm-down process, to pay Sterling's share of the higher costs of exploration operations.

I would like to thank our shareholders for their continuing interest in Sterling and all our staff for their hard work during 2013.

Alastair Beardsall
Chairman
14 March 2014

2013 SUMMARY

Well planning in 2013 culminated in the spud of the Bamboo-1 well on the Ntem Concession, offshore Cameroon, in February 2014.

Farmed out 50% of the Ambilobe PSC, offshore north-west Madagascar, in exchange for $15.0 million of 3D seismic data acquisition.

Acquired 1,300km of 2D seismic on the Ampasindava block, offshore north-west Madagascar to mature Sifaka, a drill-ready prospect.

Acquired a 25% carried interest in Odewayne Block, Somaliland.

Received $11.2 million of net cash flow from Chinguetti field operations, offshore Mauritania (2012: $12.7 million).

Cash resources at 31 December 2013 of $120.8 million (2012: $120.3 million).

Company remains debt free.

Sterling Energy Plc

Strategic Report

Year ended 31 December 2013

Operations Review

Sterling's varied asset base provides exposure to exploration opportunities within under-explored African basins that have the potential to deliver material hydrocarbon reserves. These frontier and emerging basins have historically seen little activity but offer significant encouragement for the presence of working hydrocarbon systems. Through application of technology and with the benefit of an experienced exploration team, Sterling's focus is on de-risking these basins prior to exploration drilling.

CAMEROON

Cameroon is a proven oil and gas producing province with multiple discoveries made within the shallower water shelf area to the east of Sterling's Ntem concession area and with multiple deeper water discoveries to the north. Ntem is highly prospective deep water acreage in the Douala Basin, one of the least explored Atlantic basins along the West African margin.

Ntem (WI 50%)

Overview

Considerable progress has been made in recent weeks on the Ntem concession, leading to drilling of Bamboo-1, the first exploration well on the area.

This large block is well placed with respect to both Tertiary and Upper Cretaceous plays, both of which have proven successful nearby in Cameroon and in Equatorial Guinea. To the north of the block, Tertiary oil, gas and condensate discoveries made by Noble Energy commenced production in 2011, and Euroil (Bowleven) continue to appraise their discoveries which they are progressing towards development.

In November 2011 Sterling completed a farm-out agreement with Murphy Cameroon Ntem Oil Co. Ltd ("Murphy Oil"), a wholly owned subsidiary of Murphy Oil Corporation under which Murphy Oil was assigned a 50% working interest in and operatorship of the Ntem concession. Sterling retains a 50% non-operated working interest. As consideration, Murphy Oil paid to Sterling a contribution towards past costs and will pay Sterling's share of the costs for the drilling of the Bamboo-1 well.

Operations within the Ntem concession area were suspended in 2005 under the force majeure provisions of the concession owing to an overlapping maritime border claim between Cameroon and Equatorial Guinea. The border dispute remains unresolved but Murphy and Sterling have agreed, together with Société Nationale des Hydrocarbures ("SNH"), the national oil company of Cameroon, to formally lift the declaration of force majeure in order to allow exploration activities to proceed. The current exploration period re-commenced on 22 January 2014 with the minimum work obligation of one exploration well to be drilled in the remaining 15 months.

Current and Future Activity

Murphy Oil has contracted the Ocean Confidence semi-submersible rig which has been mobilised to the Bamboo-1 location in the Ntem Concession and commenced drilling operations on 9 February 2014. This location is outside the disputed area subject to the maritime border claims of Cameroon and Equatorial Guinea, and lies in approximately 1,600m of water. Bamboo-1 is the first well in the concession and is targeting a series of vertically stacked, Cretaceous aged, submarine fans, defined using the extensive 3D seismic dataset, which now covers approximately 70% of the concession area. These target levels exhibit clear fan geometries on the 3D seismic data and are fed by a series of well-defined sediment feeder systems. Sterling estimates that the primary objective may contain mean un-risked, gross prospective resources of 422 million barrels of oil and 170 billion cubic feet of gas, a total of some 450 million barrels of oil equivalent.

A summary of the Ntem asset details is provided on page 12 of the Strategic Report.

SOMALILAND

The onshore basins of Somaliland offer one of the last opportunities to target undrilled Mesozoic rift basins in Africa. The Odewayne Block is well located to explore this play and is a new addition to Sterling's portfolio. Geophysical data and the results of geological fieldwork indicate that the Odewayne basin underlying the Sterling acreage has similar characteristics to producing basins in Yemen.

Odewayne (WI 25%)

Overview

Sterling acquired an interest in the Odewayne Block, located onshore Somaliland, in 2013. This very large unexplored acreage comprises an area of 22,840km^2. Regional gravity and magnetic data indicate the presence of a prospective basin centred on the block but exploration to date has been very limited with no existing seismic coverage and no wells drilled on block. The Odewayne Production Sharing Agreement ("PSA") was awarded in 2005, and is in the Third Period (expiring November 2014) with an outstanding minimum work obligation of 500km of 2D seismic. The minimum work obligation during the Fourth Period of the PSA (expiring May 2016) is for 1,000km of 2D seismic and one exploration well.

During 2013 an aero-magnetic and gravity survey confirmed the geometry of the broad basin underlying the Odewayne block which is believed to be of Jurassic to Cretaceous age. Fieldwork in the block has highlighted the presence of numerous oil seeps at the surface giving encouragement that a working hydrocarbon system is present in this undrilled basin.

Sterling has completed the purchase of a 25% working interest in the Odewayne block through separate farm-out agreements with Petrosoma Limited ("Petrosoma") for 10% equity and with Jacka Resources Somaliland Limited ("Jacka") for 15% equity post year end. Under the farm-out agreements with Petrosoma and Jacka, Sterling has paid $2.0 million and $3.0 million respectively with future conditional payments of $8.0 million and $12.0 million (aggregated) respectively payable on the basis of various operational milestones being met.

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

The holders of the PSA are:

• Genel Energy Somaliland Limited (Operator)	50%
• Sterling Energy (East Africa) Limited	25%[1]
• Jacka Resources Somaliland Limited	15%
• Petrosoma Limited	10%

[1] Effective 27 January 2014

Future Activity

Results from extensive fieldwork will continue to be analysed to enable a greater understanding of the exploration play elements. Whilst seismic operations have temporarily been suspended due to the security environment, the joint venture group are in discussions with the Somaliland Government in order to facilitate a resumption of activities and the joint venture is seeking to deliver the minimum work obligation prior to the expiry of the Third Period in November 2014.

A summary of the Odewayne asset details is provided on page 13 of the Strategic Report.

Operations Review (cont.)

MADAGASCAR

Sterling's Ambilobe and Ampasindava blocks are located in the Ambilobe and Majunga deep water basins, respectively, offshore north-west Madagascar. They are both undrilled but offer large scale exploration potential.

These blocks have also seen significant progress during 2013. Exploration activities had been delayed due to the political instability in the country following a change in government in March 2009 which had not been recognised by the African Union or by the United Nations. In September 2011 the political parties in Madagascar agreed to a process, prepared by the Southern African Development Community, which involved the establishment of a transitional government with the objective of holding democratic elections. Two rounds of presidential elections were duly held in October and December 2013 and were declared by international observers to have been free and fair.

Hery Rajaonarimampianina was inaugurated as the new president of Madagascar in January 2014 and at the time of writing, discussions were continuing on the formation of his new government.

During 2013, the Management Committees for both Blocks, which are chaired by OMNIS, the state regulator, agreed to prolong the current exploration periods of both the Ambilobe and Ampasindava PSCs with each contract having the same remaining duration and obligations in the current exploration periods as existed in March 2009. These agreements were formally ratified by the Government of Madagascar in September 2013 and the current exploration periods of both PSCs now run to September 2015.

Ampasindava (WI 30%)

Overview

The 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 gross un-risked best estimate prospective recoverable resources of 1.2 billion barrels (RISC Competent Persons Report, March 2008). With the return of Madagascar to political stability, ExxonMobil Exploration and Production (Northern Madagascar) Limited ("ExxonMobil") (WI 70% and Operator) and Sterling have resumed exploration activities including well planning and a 1,314km 2D seismic acquisition programme was completed on the Ampasindava Block in December 2013. The data will provide improved sub-surface imaging of the Sifaka prospect and potentially mature additional prospects within the Ampasindava Block to drill-ready status. Processing of the new data is in progress.

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 is conducting a farm-out process to introduce an additional partner and reduce its current working interest in order to cover these costs. It is currently unlikely that an exploration well will commence drilling before 2015.

Sterling estimates that ExxonMobil's remaining carry at the beginning of 2014 is $30.3 million towards the gross cost of exploration activities.

Future Activity

Following acquisition of additional 2D seismic data in 2013 the focus in 2014 will be on processing the new data in conjunction with reprocessing of the existing database, followed by a phase of interpretation. Well planning will continue in order to target drilling in 2015 or 2016.

A summary of the Ampasindava asset details is provided on page 14 of the Strategic Report.

Ambilobe (WI 50% & Operator)

Overview

The Ambilobe PSC is in the second phase of the exploration period and all work commitments have been fulfilled. A number of Cretaceous and Tertiary leads have been identified, located in both shallow and deep waters, which will require additional seismic data to develop into potential drillable prospects. To that end, Sterling has commenced planning a 3D seismic survey covering approximately 1,250km² which is scheduled to be acquired later in 2014. As there are no outstanding commitments this activity is entirely discretionary.

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

Future Activity

Acquisition of new 3D seismic data will be the focus of activity in the Ambilobe block in 2014. With input from new partner Pura Vida, an area of the undrilled Ambilobe basin has been identified as the target for the 3D seismic survey.

A summary of the Ambilobe asset details is provided on page 15 of the Strategic Report.

MAURITANIA

Chinguetti (Economic Interest via Funding and Royalty Agreements)

Sterling has economic interests in the Chinguetti field through a funding agreement with Société Mauritanienne Des Hydrocarbures ("SMH"), Mauritania's national oil company, and a royalty agreement with Premier Oil Plc. The royalty agreement also covers any commercial development of existing or future discoveries within the PSC-A, PSC-B and PSC C-10 contract areas.

Overview

Gross production during 2013 averaged 6,156 bopd (2012: 6,256 bopd) and the average production net to Sterling, from the Company's economic interests during 2013, was 527 bopd (2012: 523 bopd). Production in the first half of the year was reduced by a scheduled shutdown of 6.5 days for various maintenance activities and the replacement of an anchor mooring chain. A planned sub-sea intervention campaign due in September 2013 was postponed to January 2014 to consolidate maintenance and intervention programmes and minimise production down-time. This was completed, as planned, within 10 days.

Sterling estimates that at the end of 2013, Chinguetti held a remaining 7.8 million barrels of gross proved and probable reserves (2P) that could be accessed via the existing wells. Sterling's net entitlement to 2P reserves is 559k barrels (2012: 475k barrels). The increase in the 2P reserves recognises an updated production profile and a subsequent revision to the anticipated economic field life from May 2017 to December 2017. This has resulted in an impairment reversal of $4.4 million in 2013 (see Financial Review on page 19 of the Strategic Report).

No in-fill drilling or work-over activity took place on the Chinguetti field during 2013.

Future Activity

In the event of any commercial development of existing or future discoveries within the PSC-A, PSC-B and PSC C-10 contract areas, Sterling would be entitled to revenue under its royalty interest agreements with Premier Oil Plc, but would not have any cost obligations.

In November 2012, the Banda gas field, located in PSC-A and operated by Tullow Oil Plc, was declared commercial and it is planned that the field will supply gas to a new local power station, subject to a final investment decision being taken by the Banda joint venture.

Tullow Oil Plc plans to drill an exploration well in the PSC C-10 contract area in the first half of 2014.

A summary of Chinguetti interests and a reserves summary are provided on pages 16 and 17 of the Strategic Report.

KURDISTAN

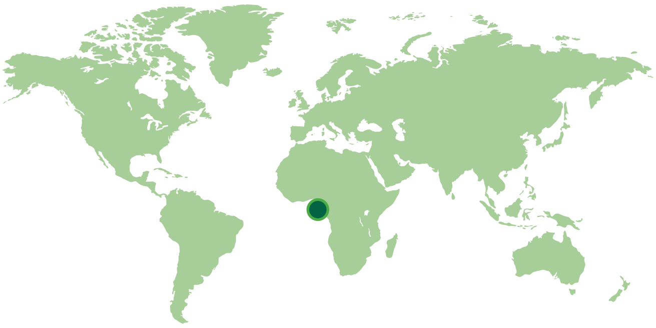
Sangaw North PSC (Relinquished)

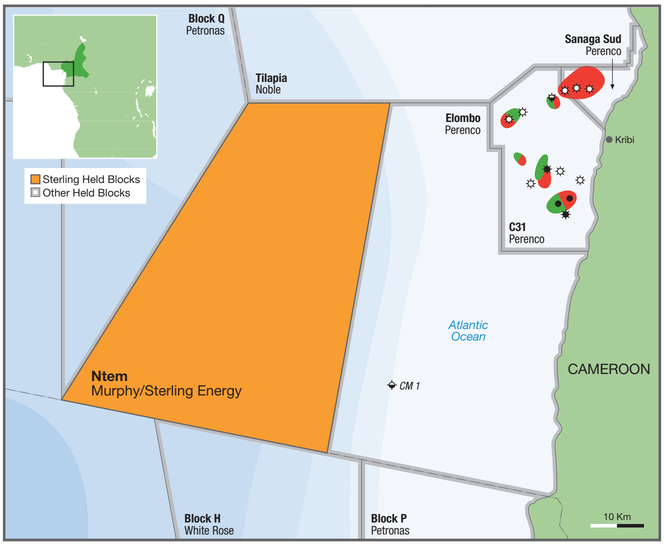
The Sangaw North block lies in the foothills region of the Zagros fold belt, approximately 140km south east of Erbil, the capital of the Kurdistan region of Iraq.

During 2012, Sterling completed its exploration of the block, having signed the Sangaw North PSC in November 2007, and as has been reported previously, the Company withdrew from the PSC in early 2013. The work commitments under the PSC were fully satisfied at the date of the relinquishment.

Philip Frank
Exploration Director
14 March 2014

Cameroon





Ntem (WI 50%)

OVERVIEW

The Ntem concession is a deep water 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^2 of 3D seismic data were acquired. Additional seismic and gravity data were also purchased.

In November 2011, Murphy Cameroon Ntem Oil Co. Ltd, a wholly owned subsidiary of Murphy Oil Corporation, farmed into the block becoming a 50% working interest partner in, and operator of the Ntem Concession. Sterling retains a 50% non-operated working interest.

CONTRACT SUMMARY

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

Participants

Murphy Cameroon Ntem Oil Co. Ltd (Operator)	50%
Sterling Cameroon Limited	50%

Current work period (First renewal)

15 months to run after the lifting of force majeure on 22 January 2014

Minimum work commitment

Drill one exploration well

Second renewal

Two years duration

Second renewal work commitment

Drill two exploration wells

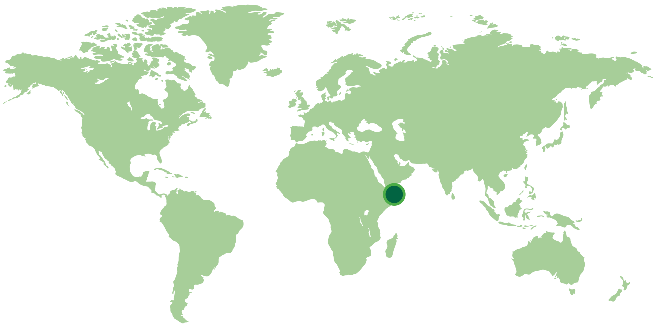
a) Production Bonuses	**Average Production Rate**	**Bonus**
	50,000 bopd	$1.0 million
	100,000 bopd	$5.0 million
b) Proportional Royalty	**Annual Production Rate**	**State Entitlement**
	0-50,000 bopd	4.0%
	50,000-100,000 bopd	6.0%
	>100,000 bopd	10.0%
c) Corporation Tax	40% (on net profits)	

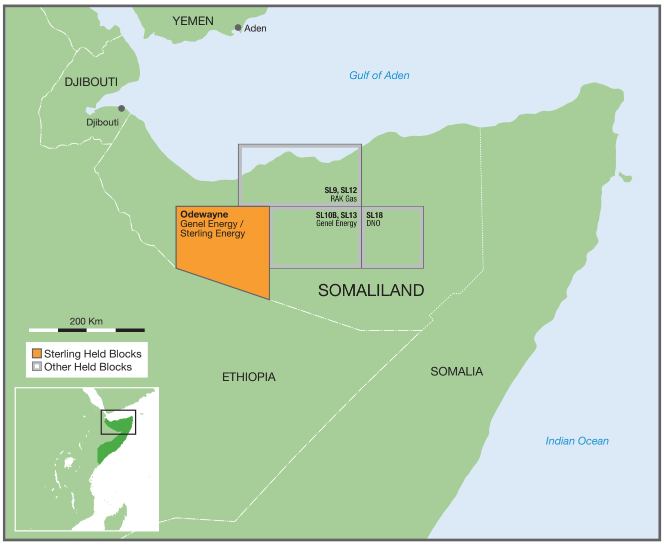
d) Additional Petroleum Duty ("APD") is calculated as a percentage of the profit subject to corporation tax and is paid in addition to the corporation tax. R factor is defined as the ratio of 'Accrued Net Income' and 'Accrued Investments':
R< 1.5, APD=0%
1.5<R<2.5, APD=10.0%
R>2.5, APD=20.0%

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

f) Production concession duration twenty five years, renewable for ten years

Somaliland





Odewayne (WI 25%)

OVERVIEW

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

Sterling acquired its 25% interest through separate farm-in agreements with Petrosoma and Jacka, under which all costs associated with the Phases 3 and 4 work programmes are carried by Genel Energy.

CONTRACT SUMMARY

Contract type	PSA
Contract signed	6 October 2005
Contract effective date	6 October 2005
Contract area	22,840km²

Participants

Genel Energy Somaliland Limited (Operator)	50%
Sterling Energy (East Africa) Limited	25%
Jacka Resources Somaliland Limited	15%
Petrosoma Limited	10%

Exploration term

Phase 3:
To 4 November 2014

Phase 3 work commitment:
500km 2D seismic acquisition

Phase 4:
To 2 May 2016

Phase 4 work commitment:
1,000km 2D seismic acquisition and one exploration well

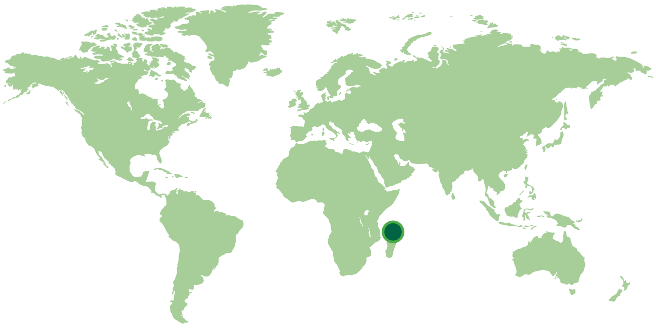
Phase 5 (optional):
To 2 May 2017

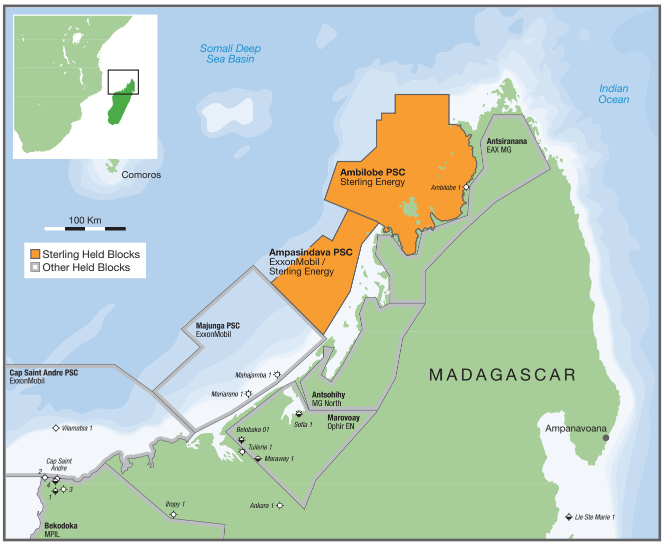
Phase 6 (optional):
To 2 May 2018

Production term

Twenty five years

Madagascar





Ampasindava (WI 30%)

OVERVIEW

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

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

In late 2007 the Sifaka prospect was selected as the first prospect for drilling. In November 2008 the joint venture partners elected to enter Phase 3 of the exploration period which has a one well commitment. The Sifaka Prospect is located in the inboard portion of the Ampasindava block, in water depths of 500m to 1,800m. Sifaka is mapped as a very large, simple 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 recoverable resources for the Sifaka prospect as follows:

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

CONTRACT SUMMARY

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

Participants

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

Exploration term

Eight year period with possible two year extension (suspended between February 2009 and November 2012)

Phase 3:
Phase 3 extension to September 2015 has been ratified

Phase 3 work commitment:
Drill one exploration well

Phase 4 (optional):
One year duration

Phase 4 work commitment:
Drill one exploration well

Production term

Twenty five year period with possible extensions

Prolongation of Phase 3 of the licence has been agreed with OMNIS and ratified by the Government of Madagascar. Phase 3 now runs to September 2015. Sterling estimates that ExxonMobil's remaining carry at the beginning of 2014 is approximately $30 million towards the gross cost of drilling.

Ambilobe (WI 50%)

OVERVIEW

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

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

In July 2005 Sterling farmed out a 70% interest to ExxonMobil. 550km of new 2D seismic data were purchased and more than 5,500km of 2D data were reprocessed. In May 2008, Phase 2 of the exploration period was extended by 1 year. In early 2009 ExxonMobil withdrew from the PSC and its interest reverted to Sterling.

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

Prolongation of Phase 2 of the licence has been agreed with OMNIS and ratified by the Government of Madagascar. Phase 2 now runs to September 2015 and there are no outstanding commitments.

CONTRACT SUMMARY

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

Participants

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

Exploration term

Eight year period with possible two year extension (suspended between February 2009 and November 2012)

Phase 2:
Phase 2 extension to September 2015 has been ratified

Phase 2 work commitment:
Completed

Phase 3 (optional):
One year duration

Phase 3 work commitment:
Drill one exploration well

Production term

Twenty five year period with possible extensions

Reserves Summary

Year ended 31 December 2013

	2013 Oil (000 boe)	2013 Gas (mcf)	2013 Reserves (000 boe)	2012 Oil (000 boe)	2012 Gas (mcf)	2012 Reserves (000 boe)
Volumes of Proven plus Probable Reserves						
At 1 January	475	-	475	664	-	664
Revision – Chinguetti (1-3)	276	-	276	-	-	-
Production	(192)	-	(192)	(189)	-	(189)
At 31 December	559	-	559	475	-	475

[1] The reserves stated are for Sterling's net interests in the Chinguetti field only and are based on Sterling's own assessment of reserves, as at 31 December 2013. 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 definitions as set out on page 94.

[2] Sterling has not booked reserves relating to other Mauritanian discoveries, on the basis that there are no approved development plans for those discoveries.

[3] In accordance with the guidelines of the AIM Market of the London Stock Exchange, Dr Philip Frank, Ph.D. Geology (1977), Exploration 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

Year ended 31 December 2013

Location	Size (km²)	Licence Name	Sterling Working Interest	Sterling Net Revenue Interest	Operated/ Non-operated
Mauritania: Offshore	110	PSC A	n/a	Sliding scale royalty from 3% WI [1]	Non-operated
Mauritania: Offshore	403	PSC B	n/a	Sliding scale royalty from 6% WI [1]	Non-operated
Mauritania: Offshore	10,725	PSC C-10	n/a	Sliding scale royalty from 4% (average) WI [1]	Non-operated
Mauritania: Chinguetti	29	Funding Agreement with SMH and Royalty Agreement with Premier Oil	n/a	Economic interest for approximately 8% of Chinguetti project	Non-operated
Cameroon: Southern Douala Basin	2,319	Ntem [2]	50%		Non-operated
Madagascar: Offshore NW	17,650	Ambilobe [3]	50%		Operator
Madagascar: Offshore NW	7,379	Ampasindava [3]	30% [4]		Non-operated
Republic of Somaliland: Onshore	22,840	Odewayne Block	25% [5]		Non-operated

[1] Sterling's royalty interests derive from Premier Oil's working interests of 3% in PSC A, 6% in PSC B and 4% (average) in PSC C-10. Sterling's royalty is up to 6% of Premier Oil's working interest.

[2] Force majeure has been lifted and the licence expires 22 April 2015.

[3] Prolongation of the licences has been agreed with OMNIS, the State oil company of Madagascar and Government ratification has been received (pages 14 and 15).

[4] Carried for defined $ amount.

[5] Includes 15% interest acquired on 27 January 2014.

Philip Frank
Exploration Director
14 March 2014

Financial Review

Year ended 31 December 2013

Selected Financial Data

		2013	2012
Chinguetti production [1]	bopd	**527**	523
Year end 2P reserves [1]	000 boe	**559**	475
Revenue	$million	**18.4**	22.5
EBITDA [1]	$million	**9.1**	11.1
Profit/(loss) after tax	$million	**8.3**	(12.9)
Net cash investment in oil and gas assets	$million	**5.9**	4.4
Year end cash (including partner funds)	$million	**120.8**	120.3
Average realised oil price	$/bbl	**101.1**	102.6
Total cash operating costs (produced)	$/bbl	**36.9**	50.8
Year end share price	Pence	**43**	39
Share price change [1]	%	**12**	(3)

[1] Key performance indicators

Highlights

- Group net profit of $8.3 million in 2013 (2012: loss $12.9 million).
- Impairment reversal of Chinguetti licence $4.4 million following flatter production decline rate and associated field life extension.
- Cash balance at year end of $120.8 million (2012: $120.3 million).
- Average 2013 Chinguetti production 527 bopd (2012: 523 bopd).
- Debt free throughout 2013.

Revenue and Cost of Sales

2013 production averaged 527 bopd, including royalty barrels, an increase of 1% from the 523 bopd averaged in 2012, despite a production shutdown for 6.5 days to replace a broken mooring chain.

Gross volumes lifted and sold during the year were down by 17% to 2.2 million barrels (2012: 2.6 million barrels). This reduction in lifting volume is only as a result of timing differences on the Operator's 2013 lifting programme which varies from year-to-year.

The lifting cost per barrel has decreased in 2013 by $1.1 to $53.8 (2012: $54.9). This was principally due to a reduction in direct operating costs during the year following the requirement in 2012 for additional remedial expenditure and the impact of associated short-term interruptions to production.

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

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

	2013	2012
Liftings (bbls) [1]	**181,691**	219,177
Revenue ($million)	**18.4**	22.5
Revenue/bbl ($)	**101.1**	102.6
Lifting cost ($million)	**(9.8)**	(12.0)
Lifting cost/bbl ($)	**(53.8)**	(54.9)

[1] Net Sterling production during the year totalled 192,370 (2012: 191,583)

Loss for Year

The 2013 profit totalled $8.3 million (2012: loss $12.9 million).

	$ (million)
Loss for year 2012	(12.9)
Impairment of Sangaw North (2012)	18.4
Other impairment reversals (2012)	(0.3)
Decrease in revenue	(4.1)
Decrease in operating costs	2.3
Increase in G&A	(0.4)
Release of accrual on final dissolution of in-country branch	1.0
Impairment reversal of Chinguetti	4.4
Decrease in pre-licence expenditure	0.1
Decrease in finance income and expense	(0.1)
Profit for year 2013	8.3

During 2013, the Group reversed impairments totalling $4.4 million on the Chinguetti asset following improvements in the expected field life.

The Group also reversed accruals totalling $1.0 million with respect to discontinuing operations following the final dissolution of local branches. All costs had been fully impaired in prior periods and had included these accruals which were considered payable at the time of impairment.

Group direct operating costs decreased by $2.3 million due to operating cost reductions in Chinguetti (see above).

Group administrative overhead increased during the year to $3.2 million (2012: $2.8 million). Included within this charge is $1.2 million (2012: $1.0 million) with respect to share-based payment charges.

A portion of the Group's staff costs and associated overheads are recharged to joint venture partners ($107k), expensed as pre-licence expenditure ($2.1 million), or capitalised ($2.0 million) where they are directly attributable to capital projects. In 2013 this portion of Group staff costs totalled $4.1 million (2012: $4.3 million).

Financial Review (cont.)

Year ended 31 December 2013

A summary of these movements are provided below:

	2013 $ (million)	2012 $ (million)
Group administrative overhead (page 55)	**(3.2)**	(2.8)
Costs capitalised	**(2.0)**	(1.9)
Costs recharged to JV partners	**(0.1)**	(0.5)
Pre-licence expenditure	**(2.1)**	(1.9)
	(4.2)	(4.3)
Share based payment expense	**1.2**	1.0
Other non-cash expenditure	**0.1**	-
Group cash G&A expense	**(6.1)**	(6.1)

EBITDA and Net Loss

Group EBITDA (as defined within the Definitions and Glossary of Terms on page 93) totalled $9.1 million (2012: $11.1 million).

Net profit after tax totalled $8.3 million (2012: loss $12.9 million). The basic profit per share was $0.04 per share (2012: loss $0.06 per share).

Interest received and finance expenses were a net expense of $251k (2012: $165k) which includes exchange losses of $66k (2012: gain $533k) on GBP cash deposits held at 31 December 2013 reported in US Dollars, a non-cash finance expense of $434k (2012: expenses $1.0 million) relate to the unwinding of the Chinguetti decommissioning provision (see note 8 on page 72), interest received totalled $268k (2012: $350k) and other finance expenses totalling $19k (2012: $38k).

No dividend is proposed to be paid for the year ended 31 December 2013 (2012: $nil).

Cash Flow

Net Group cash inflow generated from operating activities was $6.3 million (2012: $7.8 million) a full reconciliation of which is provided in note 24 on page 82.

Net cash investments in oil and gas assets totalled $5.9 million (2012: $4.4 million) and are summarised below:

	2013 $ (million)	2012 $ (million)
Somaliland [1]	**5.1**	-
Madagascar [2]	**0.1**	1.0
Cameroon	**0.7**	0.5
Kurdistan	**-**	3.1
Gabon	**-**	(0.2)
	5.9	4.4

[1] Includes $3.0 million paid to Jacka Resources Somaliland Limited included within other receivables

[2] Net of $1.25 million received on Ambilobe farm-out

Statement of Financial Position

At the year end, cash and cash equivalents totalled $120.8 million (2012: $120.3 million) of which unrestricted funds of $2.1 million (2012: $1.7 million) were held on behalf of partners, leaving a cash balance of $118.7 million (2012: $118.7 million) available for Sterling's own use at 31 December 2013.

At the end of 2013, net assets/total equity stood at $114.1 million (2012: $104.6 million), and non-current assets totalled $21.6 million (2012: $16.7 million). Net current assets increased to $114.1 million (2012: $109.2 million) due in part to a Chinguetti cargo lifted in late December 2013, cash for which was received in January 2014.

The Group's Chinguetti decommissioning provision increased during the year by $434k to $21.6 million (2012: $21.1 million) due to the extension of the field life (see note 21 on page 80).

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.

Business Risk

PRINCIPAL BUSINESS RISKS

The Directors have identified the following current principal risks in relation to the Company's future performance. The relative importance of risks faced by the Company can, and is likely to change with progress in the Company's strategy and developments in the external business environment.

STRATEGIC

Strategy Risk

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

Concentration Risk

The Company's portfolio of exploration assets remains relatively concentrated despite its acquisition of interests in Somaliland during the year. The Board has identified further broadening the exploration portfolio, using the existing financial resources of the Company, as an important element of the Company's strategy.

Competition Risk

The addition of exploration licences to the Company's portfolio is subject to increasing competition from other companies. Many of the Company's larger competitors have significantly greater financial and technical resources and are able to devote more to the development of their business. The Company mitigates this risk by choosing where and when to deploy its business development resources.

OPERATIONAL

Exploration Risk

Exploration activities within the Company's licences may not result in a commercial discovery. The historic industry average exploration drilling success rate is approximately one success for every five wells. There is no certainty of success from the existing portfolio.

Sterling mitigates the exploration risk through the experience and expertise of the Company's specialists, the application of appropriate technology, and the selection of prospective exploration assets. The Company has an objective to acquire additional exploration assets, which will diversify exploration risk.

Operator Risk

Sterling is not the operator of the Company's licences where exploration drilling is anticipated as the next operational activity. The Company is dependent on other operators for the performance of activities and will be largely unable to direct, control or influence the activities and costs of the operators.

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

Sterling carefully considers the technical and financial capability of companies becoming operator of licences during a farm-out process. Murphy Oil is the operator of the Ntem licence in Cameroon, ExxonMobil is the operator of the Ampasindava licence in Madagascar and Genel Energy is the operator of the Odewayne licence in Somaliland.

EXTERNAL

Country Risk

The Company's assets are located in non-OECD countries. Governments, regulations, and the security environment may change with a consequential effect on the Company's assets. The Company's assets in Cameroon, Somaliland and Madagascar are currently affected by country-specific situations.

In Cameroon, the Company holds a 50% working interest in the highly prospective Ntem block. The Governments of Cameroon and Equatorial Guinea are negotiating their joint maritime border, part of which runs concurrent with two of the Ntem block boundaries. The Company believes the final location of the maritime border will not impinge upon the Ntem area, however there is no certainty that, when agreement over the maritime border is reached, the Ntem acreage will remain as it is defined under the current licence agreement with the Cameroon Government.

In Madagascar the Company holds 50% and 30% in the Ambilobe and Ampasindava licences respectively. In 2013 agreement was reached with OMNIS, the state regulator, to prolong the current exploration period of both licences, with no changes to the work commitments. These agreements were signed and ratified by the President of the Transitional Government in July 2013 with formal gazettal of the agreements made in November 2013. In January 2014 Hery Rajaonarimampianina was inaugurated as the new democratically elected president of Madagascar in the first free and fair elections since 2009.

In Somaliland the Company holds a 25% interest in the Odewayne licence. Somaliland is situated in the Horn of Africa and was, until 1960, a protectorate of the United Kingdom. The local government in Somaliland declared independence from the Republic of Somalia in May 1991 and has, since then, developed the institutions and structures of democratic government. Although not officially recognised as an independent country, Somaliland maintains political contacts with its neighbours Ethiopia and Djibouti, and a number of international countries, including the United Kingdom.

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

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

OTHER BUSINESS RISKS

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

Category	Risk
Strategic and Economic	• Inappropriate or poorly conceived strategy and plans • Failure to deliver on strategy and plans • Business environment changes • Competition and barriers to entry • Operations in territories which are susceptible to political, fiscal and social instability • Limited diversification • Shareholder concentration
Operational	• HSSE incident or non-compliance under local rules and/or laws • Failure to add value through exploration • Poor field performance • Licences, permits and/or approvals may be difficult to sustain • Reliance on other operators • Delays in conducting work programmes

Business Risk (cont.)

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
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 • Financial control of operated and non-operated assets • Fraud and corruption

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 may be critical to Sterling in achieving its strategic objectives and protecting its assets, personnel and reputation. The Company has developed a business management system, including a risk management process that identifies key business risks and measures to mitigate these risks and then implements such measures considered appropriate. Other significant elements of the business management system include regular Board review of the business, defined process for preparation and approval of the annual work programme and budget, monthly management reporting, financial operating procedures, and HSSE and anti-bribery management systems.

Sterling reviews its business risks and management systems on a regular basis and, through this process, the Directors have identified the principal risks. The Company manages some risks by maintaining a portfolio of projects and ensuring the Company is in compliance with the terms of all its agreements, through the application of appropriate policies and procedures implemented in the business management system, and via the recruitment and retention of a team of skilled and experienced professionals.

CORPORATE RESPONSIBILITY

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. Sterling also seeks to ensure that similar standards are applied by its business partners, contractors and suppliers. All members of staff are individually accountable for their actions to ensure they apply and maintain these standards.

COMMUNITY RESPONSIBILITY

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, that where possible, projects benefit both the Company and the communities in which the project is located.

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, SECURITY AND ENVIRONMENT ("HSSE")

It is an objective of Sterling that every individual is aware of his/her responsibility towards providing for a safe and secure working environment. HSSE and social responsibility leadership are core competencies throughout Sterling's line management organisation. Sterling's HSSE risks are managed in a systematic way by utilising procedures and appropriate training of staff, with the aim to reduce these risks to as low as is reasonably practical. 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 HSSE and social responsibility values. Contractors are required to demonstrate and deliver a credible HSSE and social responsibility programme. In order to achieve continual improvement, Sterling is committed to reviewing its HSSE 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.

Andrew Smith
Financial Controller
14 March 2014

Alastair Beardsall
Chairman
14 March 2014

Sterling Energy Plc

Corporate Governance

Year ended 31 December 2013

Board of Directors

Alastair Beardsall, executive Chairman, aged 60

Alastair joined Sterling in September 2009. He has been involved in the oil industry for 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 at £532 million.

Philip Frank, Exploration Director, aged 61

Philip joined Sterling in October 2011 as Exploration Director. Following a PhD gained at Liverpool University, he started his oil industry career in 1977 with an 11 year spell in BP, initially as a North Sea rig geologist and finally as the group-wide Assistant Chief Geologist. Since then he has held senior management positions in a range of UK-based independent exploration and production companies including Clyde, Monument and LASMO, and has gained extensive world-wide exploration experience with an emphasis on new venture generation. Philip was closely involved with Emerald Energy from 2003 through to its acquisition in 2009. Initially in a consulting role and finally as Exploration Manager, he provided the exploration direction for the company's successes both in Colombia and in Syria.

Nicholas Clayton, non-executive Director, aged 50

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. Nicholas serves as a non-executive Director of Circle Oil Plc, where he is chairman of the Audit Committee.

Keith Henry, non-executive Director, aged 69

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 Mediterranean Oil and Gas 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 70

Malcolm was appointed a non-executive Director of Sterling in November 2010. Malcolm is Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees. Malcolm is a geoscientist with 40 years of experience and joined Sterling in November 2010. 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 was formerly a non-executive Director of Aurelian Oil and Gas Plc.

APPLICATION OF UK CORPORATE GOVERNANCE CODE PRINCIPLES

Throughout the year ended 31 December 2013 the Board has sought to comply with a number of the provisions of the UK Corporate Governance Code ("the Code") in so far as it considers them to be appropriate to a company of the size and nature of Sterling. The Directors make no statement of compliance with the Code overall and do not explain in detail any aspect of the Code with which they do not comply. The Company continues to keep its overall system of internal control under review.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board Composition, Operation and Independence

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

The Board is responsible to the shareholders for the proper management of the Company. A Statement of Directors' Responsibilities in respect of the financial statements is set out on page 50.

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

Keith Henry is the Senior Independent Director. The Senior Independent Director is available to Shareholders if they have concerns which, through the normal channels of contact with the Chairman or CEO, 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
Number of meetings in year	8	4	1	1
Alastair Beardsall	8	-	-	-
Philip Frank	8	-	-	-
Angus MacAskill (resigned 16 August 2013)	5	-	-	-
Keith Henry	8	4	1	1
Nicholas Clayton	8	4	1	1
Malcolm Pattinson	8	4	1	1

Board of Directors (cont.)

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. Ongoing training is available as necessary and includes updates from the Company Secretary on changes to the AIM rules, the Code, requirements under the Companies Act and other regulatory matters. Directors may consult with the Company Secretary at any time on matters related to their role on the Board. All Directors have access to independent professional advice at the Company's expense.

Evaluation of the Board's Performance

Performance evaluation takes place for individual Directors, the Board and its Committees and includes assessing the effectiveness of the Board as a whole. The evaluation of the performance of Directors is carried out using peer appraisal questionnaires which combine business and personal performance and includes discussions with the Senior Independent Director 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 Nominations Committee; the Company Secretary is advised of its completion. The performance of the Chairman is reviewed annually in a meeting of the non-executive Directors, led by the Senior Independent Director. This review takes into account the views of executive Directors.

Retirement and Re-election

The Company's Articles of association require that any Director who has been a Director at the preceding two Annual General Meetings and who was not 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.

Audit Committee Report

An important part of the role of the Audit Committee is its responsibility for reviewing the effectiveness of the Group's financial reporting, internal control policies, and procedures for the identification, assessment and reporting of risk. The latter two areas are integral to the Group's core management processes and the Committee devotes significant time to their review. Further information on the risk management and internal control systems is provided within the Strategic Report on pages 22 to 24.

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

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

The Audit Committee has also championed efforts to 'declutter' the Report and Financial Statements by stripping out duplication and sequencing information in as logical a manner as possible without compromising compliance with UK regulatory and accounting requirements.

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

Additionally, the Committee also considered management's assessment of going concern with respect to the Group's cash position and its commitments for the next 12 months and were satisfied that the Group continues to be able to fund its liabilities from existing cash reserves which totalled $120.8 million at 31 December 2013.

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness and the requirements for an internal audit function in the context of the Group's overall risk management system. The Committee is satisfied that the Group does not currently require an internal audit function, however, it will continue to periodically review the situation. A limited internal audit of controls and processes was undertaken by the Chairman of the Audit Committee in December 2013.

The Committee also considered 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 audit committee met four times during the year to consider these matters.

The external audit function plays an important part in assessing the effectiveness of financial reporting and internal controls and, in turn, the effectiveness and quality of audit is of key importance. Our Auditors, BDO LLP have been in place since 2010 and, in line with the audit profession's own ethical guidance, the current audit engagement partner is due to rotate off the Company's account in the year ending 31 December 2015 having served for a period of five years. The Committee reviews the Auditors' independence and monitors the nature and level of non-audit fees payable to them on an annual basis. The Committee believes that certain work of a non-audit nature is best undertaken by the external Auditors, and believes that it is not appropriate to limit the level of such work by reference to a set percentage of the audit fee, as this does not take into account important judgments that need to be made concerning the nature of work undertaken to help safeguard the Auditors' independence. Details of fees payable to the Auditors are set out in note 5 on page 71.

Audit Committee Report (cont.)

The Committee has reviewed the recent changes to the UK Corporate Governance Code including the requirement for FTSE 350 companies to put the external audit contract out to tender at least every ten years. Having considered the FRC's guidance on aligning the timing of such re-tenders with the audit engagement partner rotation cycle, the Committee's current intentions are that it will initiate a re-tendering process in 2020. This policy will be kept under review and the Committee will use its regular reviews of Auditor effectiveness to assess whether an earlier date for such a re-tender would be desirable. Such regular reviews are used to assess the effectiveness of the external audit process and the Auditors' performance, with the Committee undertaking an internal assessment of the audit effectiveness and performance which is mapped against audit appointment criteria. The Committee has recommended to the Board that it recommend that shareholders support the re-appointment of BDO LLP at the 2014 AGM.

Nicholas Clayton
Chairman of the Audit Committee
14 March 2014

MEMBERS

This Committee comprises:

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

SUMMARY OF RESPONSIBILITIES

- Reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- monitoring the integrity of the Group's financial statements;
- monitoring the effectiveness of the internal control environment;
- making recommendations to the Board on the appointment of the Auditors;
- agreeing the scope of the Auditors' annual audit programme and reviewing the output;
- keeping the relationship with the Auditors under review;
- assessing the effectiveness of the audit process; and
- developing and implementing policy on the engagement of the Auditors to supply non-audit services.

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, other Directors and senior management.

Nominations Committee

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

Malcolm Pattinson will retire by rotation and offer himself for re-election at the AGM. His biographical details, provided on page 28, demonstrate the range of experience and skill he brings to Sterling. The Nominations Committee and the Board considers that his performance continues to be effective and that he has the necessary commitment to fulfil his respective role.

Remuneration Committee Report

The Remuneration Committee ("Committee") convened several times during the year, both meeting and via conference calls, and has been actively engaged on all matters of corporate remuneration. Over the past year, the Committee has considered the following matters:

- the 2013 All Staff LTIP award;
- adoption of the HMRC Approved Sub-Plan of the All Staff LTIP;
- the 2013 HMRC Approved Sub-Plan award;
- the 2013 Directors' pay and bonus review;
- the settlement offered to Angus MacAskill following his resignation on 16 August 2013; and
- the revision of Alastair Beardsall's remuneration package and All Staff LTIP award.

During 2013 Sterling made considerable progress in delivering on our existing assets, as well as pursuing new venture opportunities. This was reflected by an improvement in Sterling's share price, which ended the year up 12%, from 37.5p to 42.5p. This upward trend has continued in 2014, following the announcement that drilling has commenced on Bamboo-1 on the Ntem Block in Cameroon.

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

In both Cameroon and Madagascar, projects that had experienced very limited operational progress for many years, we have seen significant activity.

In Cameroon, Sterling alongside our partners Murphy Oil and Société Nationale des Hydrocarbures ("SNH"), agreed to lift the force majeure and the Ocean Confidence rig commenced the drilling of the Bamboo-1 exploration well on the Ntem licence in February 2014. This was achieved as a direct result of the extensive work that Sterling and Murphy Oil had undertaken during 2013 in preparation for the spud of the Bamboo-1 well.

In Madagascar, amendments to the Ambilobe and Ampasindava licences have received Presidential consent, recognising a period of suspension of all field work that began in 2009. Both licences will now run to September 2015. The 50% farm-out of the Ambilobe licence to Pura Vida will see the new joint venture acquire $15.0 million of 3D seismic over the block in 2014. This will enhance our sub-surface imaging ahead of the next exploration phase of the licence which, once entered into, will require the drilling of an exploration well. The Ampasindava licence has also seen increased activity towards the drilling of an exploration well in 2015/16.

During 2013, a 25% working interest in the Odewayne licence, located onshore Somaliland, was added to the Group's portfolio of projects. Sterling will pay a total of $25.0 million for the 25% interest; the payments have been phased to minimise the operational and political risk to Sterling by setting them against the achievement of certain operational milestones. The acquisition of this interest was achieved via two separate farm-in agreements with Petrosoma Limited, and Jacka Resources Somaliland Limited, and represents a material new opportunity for our shareholders in an emerging and potentially exciting territory.

New venture identification, appraisal, and subsequent delivery, continues to be challenging in a competitive market where there are a limited number of attractive opportunities to selectively pursue. Although the farm-in to the Odewayne licence was the only new acquisition implemented in 2013, the Committee were satisfied with the number of opportunities reviewed by management who continue to work hard to short-list and appraise ventures with a view to only pursuing those where they see material upside for shareholders.

The Committee, when reviewing base salaries, consider matters of retention, motivation, the economic climate, and the challenges facing the business; they also consider appropriate industry benchmarks. The annual base salary levels for executive Directors were as follows:

	2013 salary	2012 salary	% increase
Alastair Beardsall	£180,000	£80,000	125%
Philip Frank	£231,800	£225,000	3%
Angus MacAskill	£271,800	£263,800	3%

In considering these increases the Committee took into account the following factors:

- review of remuneration in peer companies;
- general level of UK inflation (CPI/RPI); and
- retention/motivation.

The increment to the base salary for Alastair Beardsall reflects the significant increase in his time commitment to Sterling's business. As Sterling's Chairman, Alastair Beardsall has executive responsibilities, but remains a part-time employee.

The non-executive fees are determined by the Board with no Director voting on his own remuneration. For 2013 the fees were £33,000 (2012: £33,000).

The Committee reviewed Directors' bonuses and awarded the following amounts during the year:

	2013 bonus	2012 bonus	% increase
Alastair Beardsall	£31,500	-	>100%
Philip Frank	£40,570	-	>100%
Angus MacAskill	-	-	-

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

- the total annual bonus is capped at a maximum of 100% of the base salary;
- up to 50% may be awarded for achieving certain corporate objectives, for 2013 these objectives included HSSE performance, new ventures and farming out certain assets; and
- up to 50% may be awarded for *exceptional* personal performance; *exceptional* is performance above and beyond that expected under the individual's job description.

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

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

	2013 LTIP Award	2012 LTIP Award	% increase
Alastair Beardsall	1,657,500	-	>100%
Philip Frank	627,000	843,750	(26%)
Angus MacAskill	-	989,250	(100%)

Alastair Beardsall is considered by the Panel on Takeovers and Mergers ("Panel") to be a concert party with Waterford Finance and Investment Limited. Consequently, any LTIP award would require a Rule 9 Waiver granted by the Panel and approved by the shareholders at a general meeting and Alastair Beardsall has therefore declined to accept any

Remuneration Committee Report (cont.)

LTIP awards since 2009 to avoid this necessity. However, in recognition of Alastair Beardsall's significant executive role during the past three years, the Committee wished to better align his incentive package with the interests of shareholders and, accordingly, considered an award of 1,657,500 options was appropriate. The award represents the aggregate of the awards that would have been made to him for 2010, 2011, 2012 and 2013 had he accepted the awards offered previously for these years.

Under the Remuneration Policy, the Committee recommended the grant to Philip Frank of 627,000 options under the All Staff LTIP which represents an amount capped at 100% of annual salary.

Under the vesting criteria of the All Staff LTIP, options granted will only vest if the Sterling Energy Share Price meets the criteria set out in note 26 on page 88. Under these criteria, if the Sterling Energy Share Price underperforms the FTSE 350 Index, by more than 10% then no options will vest. For 100% of the options to vest the Sterling Energy Share Price must outperform the FTSE 350 Index by more than 50%.

During the year, the Committee approved the adoption of the HMRC Sub-Plan of the All Staff LTIP scheme. This scheme is an HMRC approved Company Share Option Plan ("CSOP") scheme that allows both the Company and the employee to benefit from some tax savings offered on the exercise of qualifying options. The specific details of the scheme can be found in note 26 on page 89. Where appropriate, Directors, senior management and other employees have been issued options under the HMRC Sub-Plan in preference to the non-approved All Staff LTIP; the sum of the awards to all individuals under the HMRC Sub-Plan and All Staff LTIP is equal to the number that would have been issued under the All Staff LTIP if the HMRC Sub-Plan had not been approved and implemented.

On 16 August 2013, Angus MacAskill left the Company. Angus had been Sterling's CEO since 9 November 2010, having being appointed during the drilling of the Sangaw North-1 exploration well in Kurdistan. Since joining, he had guided the Company through some very challenging drilling and other operated activities in Kurdistan, introduced Murphy Oil as a funding and operating partner into Ntem and strengthened Sterling's ability to pursue new ventures. With this transformation completed, Angus decided it was an appropriate time for him to stand down as CEO of the Company. His notice period was three months and this was paid in lieu of notice. In recognition of the contributions made during his time at the Company, his waiving a bonus in 2012 and other factors, the Committee decided that it was appropriate to make a further discretionary payment for loss of office of £74,745 (the equivalent of a further three months' salary). The Committee also agreed to make a contingent compensation payment to Angus MacAskill of a further three months base salary, payable on a month by month basis totalling £74,745, should he still not have found alternative employment within six months of leaving Sterling and that his share option awards under the All Staff LTIP should continue to vest as if he were in continued employment with the Company.

The Company made considerable progress during 2013 which will hopefully act as the springboard for future success in 2014 and beyond. In recognition of this, the Committee believes that the recommendations it has made to the Board on executive and staff remuneration have been fair, balanced and reflective of the corporate objectives that were met during the year.

Keith Henry
Chairman, Remuneration Committee
14 March 2014

MEMBERS

This Committee comprises:

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

SUMMARY OF RESPONSIBILITIES

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

OPERATION OF THE COMMITTEE

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

REMUNERATION STRATEGY

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

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

REMUNERATION POLICY

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

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.

Remuneration Committee Report (cont.)

The details of individual components of the executive remuneration package and service contracts are:

Elements of package	Purpose and link to strategy	How element is reviewed
Base salary and fees	To recognise market value of the role, reflecting the individual's skills, experience and responsibilities to ensure the business can attract and retain talent.	Reviewed annually. The Committee uses comparator data collected from published accounts and industry surveys of peer companies. No executive remuneration consultants were used during the year.
Performance related bonuses	To incentivise and reward, on an annual basis, the performance of individuals, and multi-disciplinary teams within the Company on both financial and non-financial metrics.	Objectives are set, prior to the year under review, to align short-term goals with the longer term sustainable future of the Company. At the end of each year the Committee considers if objectives have been achieved in addition to individual performance and contribution to the Group. The maximum level of performance bonus for executive Directors is capped at 100% of annual salary; non-executive Directors do not participate in the bonus scheme.
All Staff LTIP scheme NED LTIP scheme	To incentivise and reward delivery of sustained long-term TSR performance aligned to the interests of shareholders.	The All Staff and NED LTIP scheme options are equity settled and have a vesting period of three years. If options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the employee or Director leaves the Group before the options vest or are exercised, however, the Committee may exercise discretionary powers in certain circumstances. All Staff LTIPs are subject to the performance conditions set out in note 26 on page 88. NED LTIPs have no performance conditions attached to them. The maximum value to which options may be granted in any one year is capped, the cap is based upon the individual's role and responsibilities, for the executive Directors the cap is 100% of annual base salary.
Pension provision	To provide competitive retirement benefits which reward long-term performance and loyalty through long service.	The Group operates a number of defined contribution pension schemes pursuant to which it contributes 10% of pensionable salary per eligible member. Scheme membership and contribution is linked to the member's base salary (see above).
Other benefits	To provide competitive cost-effective benefits through leveraging the Company's size and scale.	The Group subscribes to a number of benefits for employees and Directors which include life assurance, income protection, subsidised fitness centre membership and private medical insurance. As with the pension scheme provision these benefits are linked to base salary.

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

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

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

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

All Staff and NED LTIPs

Directors' interests in LTIP's are accounted for under IFRS 2 (Share-based payments), accounting charges in the period are detailed in note 27 on page 91.

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

	1 January 2013	Lapsed	Granted	Exercised	31 December 2013	Exercise price	Earliest exercise date [1]	Latest exercise date [1]
Alastair Beardsall	-	-	1,657,500	-	1,657,500	40p	01.11.16	31.10.18
Philip Frank	1,941,350	-	557,500	-	2,498.850	40p	01.10.14	31.10.18
Philip Frank	-	-	69,500	-	69,500	43p	10.12.16	09.12.18
Angus MacAskill	2,599,050	(1,000,000)	-	-	1,599,050	40p	01.10.14	30.09.17
	4,540,400	(1,000,000)	2,284,500	-	5,824,900			

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

No gains were made on the exercise of options during the year (2012: nil).

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

	1 January 2013 [2]	Lapsed	Granted	Exercised	31 December 2013	Exercise price	Earliest exercise date [1]	Latest exercise date [1]
Nicholas Clayton	228,150	-	-	-	228,150	40p	01.10.12	30.09.17
Keith Henry	228,150	-	-	-	228,150	40p	01.10.12	30.09.17
Malcolm Pattinson	186,483	-	-	-	186,483	40p	01.10.13	30.09.17
	642,783	-	-	-	642,783			

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

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

The rules of the LTIP schemes and a full list of performance conditions and vesting criteria are summarised in note 26 on page 88.

Service contracts

Directors' service contracts are reviewed annually at the end of each calendar year with any changes taking effect from 1 January of the following year. The 2013 salary review was implemented on 1 January 2014 and is incorporated within the numbers below:

Director	Commencement of appointment	Date of current contract	Base annual salary	Notice period
Alastair Beardsall	8 September 2009	1 January 2011	£193,400	6 months
Philip Frank	3 October 2011	3 October 2011	£249,000	6 months

Remuneration Committee Report (cont.)

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

Director	Commencement of appointment	Date of current contract	Base fees per annum
Nicholas Clayton	1 October 2009	1 October 2009	£35,000
Keith Henry	8 September 2009	8 September 2009	£35,000
Malcolm Pattinson	15 November 2010	15 November 2010	£35,000

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 Directors' interests in shares of the Company are detailed on page 48.

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 $22k in 2013 (2012: $27k).

Aggregate Remuneration

The aggregate remuneration paid to Directors is summarised below (audited):

	Fees and basic salary	Payment on loss of office	Bonus	Defined contribution pension	Benefits in kind	Total 2013	Total 2012
	£	£	£	£	£	£	£
Executive Directors:							
Alastair Beardsall	198,000 [1]	-	31,500	-	4,398	233,898	91,954
Philip Frank	231,800	-	40,570	23,180	8,683	304,233	254,949
Angus MacAskill (resigned 16 Aug 2013)	258,458	74,745	-	17,109	3,647	353,959	296,169
Non-executive Directors:							
Nicholas Clayton	33,000	-	-	-	-	33,000	33,000
Keith Henry	33,000	-	-	-	-	33,000	33,000
Malcolm Pattinson	33,000	-	-	-	-	33,000	33,000
Aggregate remuneration 2013 (£)	787,258	74,745	72,070	40,289	16,728	991,090	-
Aggregate remuneration 2012 (£)	667,800	-	-	56,880	17,392	-	742,072
Aggregate remuneration 2013 (US$)	1,231,584	116,931	112,746	63,028	26,169	1,550,458	-
Aggregate remuneration 2012 (US$)	1,058,489	-	-	90,157	27,566	-	1,176,212

[1] Includes pension contributions paid as cash.

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

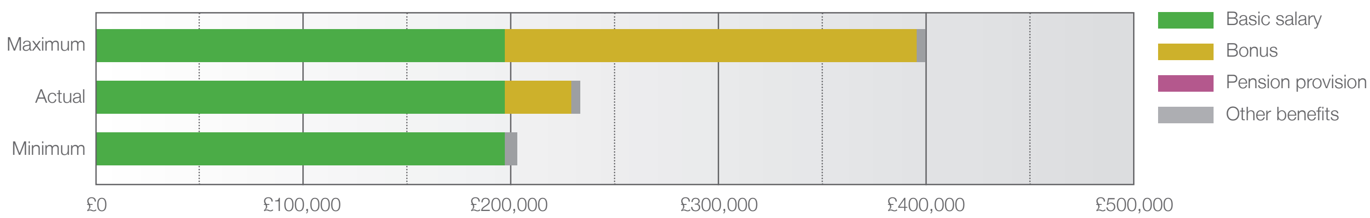
Year	CEO	CEO single figure of total remuneration (£'000)	% change	Annual bonus pay-out against maximum opportunity (%)	Long-term incentive vesting rates against maximum opportunity (%)
2013	Angus MacAskill [1]	353,959	19.5%	-	-
2012	Angus MacAskill	296,169	(18.9%)	-	-
2011	Angus MacAskill	365,004	(0.4%)	23%	-
2010	Graeme Thomson/Angus MacAskill	366,377	(51.2%)	-	-
2009	Graeme Thomson	751,003	91.9%	-	-

[1] Includes £74,745 paid as compensation for loss of office.

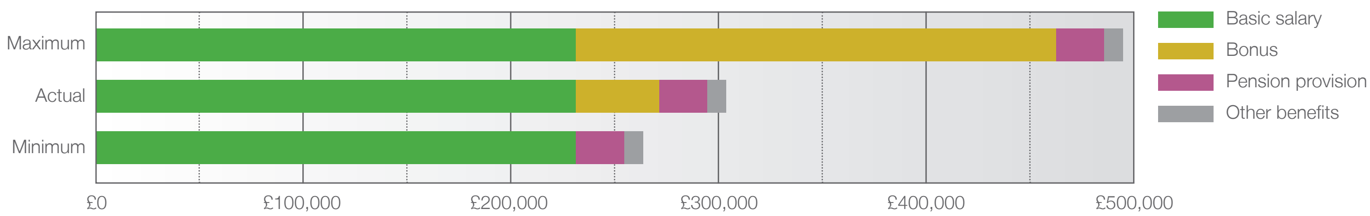
In August 2013, Angus MacAskill resigned as CEO of the Company. Since that time, Alastair Beardsall has acted as interim CEO in addition to being executive Chairman.

The graphs below show the value of executive Director packages for 2013 together with minimum and maximum remuneration attainable:

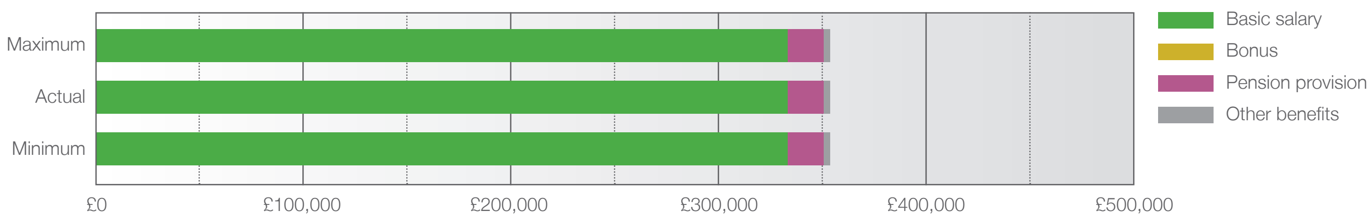
Alastair Beardsall (executive Chairman and interim CEO)



Philip Frank (Exploration Director)



Angus MacAskill (resigned 16 August 2013)



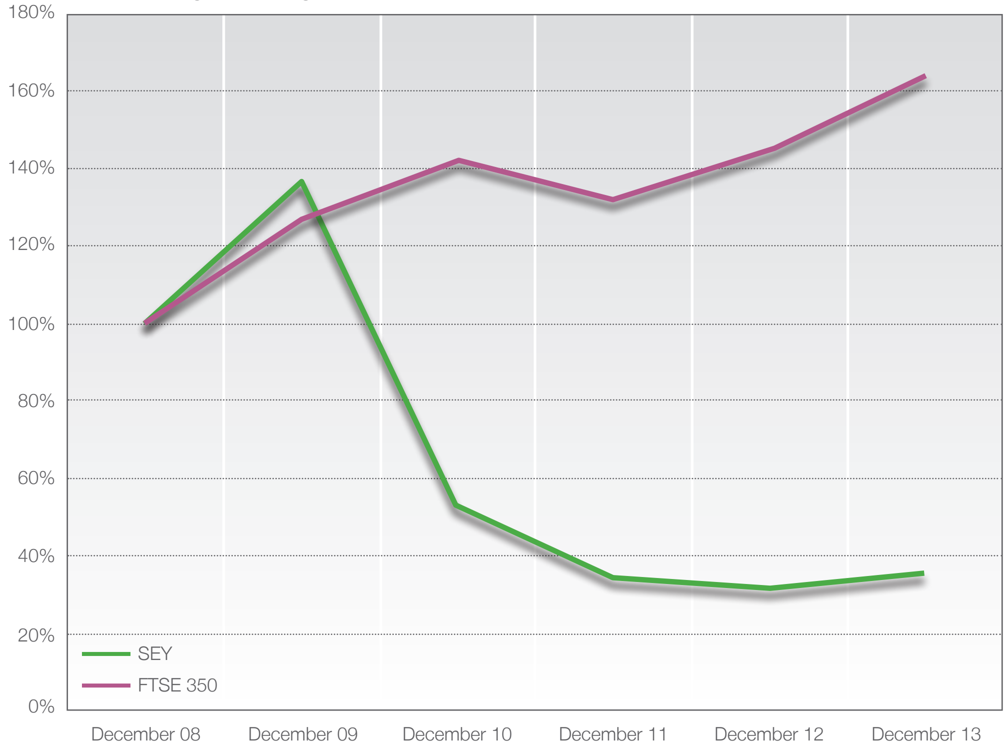
Remuneration Committee Report (cont.)

Performance Graph

The graph below shows a comparison between the TSR for Sterling shares for the five-year period to 31 December 2013 and the TSR for the companies comprising the FTSE 350 Index over the same period. This index has been selected to provide a relevant comparator to Sterling. The TSR measure is based on the weighted average share price for December.

Total Shareholder Return

Based on weighted average share price for December



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

Communications with Shareholders

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

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Press releases are issued throughout the year and the Company maintains a website (www.sterlingenergyplc.com) on which press releases, corporate presentations and the Report and Financial Statements are available to view. Additionally this Report and Financial Statement 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 appraised 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 25 April 2014 can be found in the notice of the meeting, on the Company's website.

Internal Controls

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

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

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

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

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 clearance or otherwise of such conflicts by the Board. In deciding on a conflict or a potential conflict the Directors must have regard to their general duties under the Companies Act 2006.

Extractive Industries Transparency Initiative ("EITI")

In accordance with the Transparency Criteria as set-out by the EITI, Sterling has made the following payments to Government bodies during the year ended 31 December 2013:

	2013 $000	2012 $000
Madagascar: Ambilobe	**191**	191
Madagascar: Ampasindava [1]	**150**	108
Kurdistan	**-**	5
Cameroon [2]	**52**	26
Mauritania [3]	**104**	599
Somaliland [4]	**105**	-
	602	929

[1] Payments made by ExxonMobil.

[2] Payments made by Murphy Oil Corporation.

[3] Included within payments made to SMH (Mauritania's national oil company) under the terms of the Chinguetti Funding Agreement, relating to Chinguetti field operating costs and PSC obligations, totalling $7.2 million in 2013 (2012: $9.3 million). Payments made in 2013 include environmental commission charges totalling $100k.

[4] Payments made by Genel Energy.

Directors' Report

The Directors present the Report and Financial Statements on the affairs of Sterling and its subsidiaries, together with the financial statements and Auditors' Report for the year ended 31 December 2013.

PRINCIPLE ACTIVITY AND BUSINESS REVIEW

The principal activity of the Group and Company throughout the year remained the exploration for and production of oil and gas in Africa. The significant developments during 2013 and the other activities of the Group, as well as the future strategy and prospects for the Group, are reviewed in detail in the Chairman's Statement and the Strategic Report section of this report.

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

The Group uses a number of key performance indicators ("KPI's") to assess the business performance against strategy. These are net debt ($), reserves (million boe), EBITDA ($), production (bopd) and share price growth. Analysis of the KPI's can be found in the Financial Review on page 18.

RESULTS AND DIVIDENDS

The Group profit for the financial year was $8.3 million (2012: loss of $12.9 million). This leaves an accumulated Group retained deficit of $413.6 million (2012: deficit $423.1 million) to be carried forward. The Directors do not recommend the payment of a dividend (2012: $nil).

GOING CONCERN

The Group business activities, together with the factors likely to affect its future development, performance and position are set out in the Operations Review on pages 8 to 15. The financial position of the Group and Company, its cash flows and liquidity position are described in the Financial Review on pages 18 to 21. In addition, note 25 to the financial statements include the Group's objectives, policies and processes for managing its capital financial risk: details of its financial instruments and its exposures to credit risk and liquidity risk.

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

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

CAPITAL STRUCTURE

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

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

Directors' Report (cont.)

DIRECTORS

The Directors who served during the year were as follows:

Mr Alastair Beardsall
Dr Philip Frank
Mr Angus MacAskill (resigned 16 August 2013)
Mr Keith Henry
Mr Nicholas Clayton
Mr Malcolm Pattinson

Biographical details of serving Directors can be found in the Board of Directors section of this report on page 28.

DIRECTORS AND ELECTION ROTATION

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

In accordance with article 106 of the Company's Articles of Association Malcolm Pattinson retires by rotation and offers himself 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	14 March 2014	31 December 2013	31 December 2012
Alastair Beardsall [1]	1,062,500	1,062,500	1,062,500
Philip Frank [1]	132,204	132,204	132,204
Angus MacAskill (resigned 16 August 2013) [1]	N/a	N/a	302,000
Keith Henry [2]	500,000	500,000	500,000
Nicholas Clayton [2]	132,500	132,500	132,500
Malcolm Pattinson [2]	62,810	62,810	62,810

[1] Executive Director.

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

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

SUBSTANTIAL SHAREHOLDINGS

Except for the holdings of ordinary shares listed below, the Company has not been notified by or become aware of any persons holding 3% or more of the 220,053,520 issued ordinary shares of 40 pence each of the Company at 14 March 2014:

	Number	%
Waterford Finance	65,814,217	29.91
Soyuzneftegas Capital Limited	33,500,755	15.22
YF Finance Limited	16,452,600	7.48
Denis O'Brien	16,190,433	7.36
Sprott US Holdings Inc.	11,756,500	5.34

BUSINESS RISK

A summary of the principle and general business risks can be found within the Strategic Report on pages 22 to 24.

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

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- the Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

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

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

Alastair Beardsall
Director
14 March 2014

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group 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 judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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 thus for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION

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

DIRECTORS' RESPONSIBILITY STATEMENT

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

For and on behalf of the Board

Alastair Beardsall
Director
14 March 2014

Sterling Energy Plc

Group Accounts

Year ended 31 December 2013

Independent Auditors' Report

Year ended 31 December 2013

We have audited the financial statements of Sterling Energy Plc for the year ended 31 December 2013 which comprise the consolidated and Company statement of financial position, the consolidated statement of comprehensive income, the consolidated and Company statement of cash flows, the consolidated and Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and
- the part of the Directors' Remuneration Committee 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have 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
14 March 2014

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 2013

	Note	**31 December 2013 $000**	31 December 2012 $000
Revenue	4	**18,370**	22,496
Cost of sales	6	**(9,766)**	(12,028)
Gross profit		**8,604**	10,468
Other administrative expenses		**(3,177)**	(2,795)
Reversal of impairment of oil and gas assets		**4,359**	347
Pre-licence costs		**(2,226)**	(2,353)
Total administrative expenses		**(1,044)**	(4,801)
Profit from operations	5	**7,560**	5,667
Finance income	8	**892**	350
Finance expense	8	**(1,143)**	(515)
Profit before tax		**7,309**	5,502
Tax	9	**-**	-
Profit for the year from continuing operations		**7,309**	5,502
Profit/(loss) for the year from discontinued operations	10	**1,025**	(18,422)
Profit/(loss) for the year attributable to the owners of the parent		**8,334**	(12,920)
Other comprehensive expense			
Currency translation adjustments		**(39)**	(6)
Total other comprehensive expense for the year		**(39)**	(6)
Total comprehensive income/(expense) for the year attributable to the owners of the parent		**8,295**	(12,926)
Basic profit/(loss) per share (USc)			
From continuing operations	12	**3.32**	2.51
From continuing and discontinued operations	12	**3.79**	(5.88)
Diluted profit/(loss) per share (USc)			
From continuing operations	12	**3.32**	2.51
From continuing and discontinued operations	12	**3.78**	(5.88)

Consolidated Statement of Financial Position

Year ended 31 December 2013

	Note	**31 December 2013 $000**	31 December 2012 $000
Non-current assets			
Intangible royalty assets	13	**2,794**	2,424
Intangible exploration and evaluation assets	14	**13,187**	10,245
Property, plant and equipment	15	**5,644**	4,059
		21,625	16,728
Current assets			
Inventories		**2,746**	2,993
Trade and other receivables	17	**5,935**	1,210
Cash and cash equivalents		**120,755**	120,348
		129,436	124,551
Total assets		**151,061**	141,279
Equity			
Share capital	18	**149,014**	149,014
Share premium		**378,863**	378,863
Currency translation reserve		**(249)**	(210)
Retained deficit		**(413,550)**	(423,050)
Total equity		**114,078**	104,617
Non-current liabilities			
Long-term provisions	21	**21,651**	21,274
		21,651	21,274
Current liabilities			
Trade and other payables	22	**15,332**	15,388
		15,332	15,388
Total liabilities		**36,983**	36,662
Total equity and liabilities		**151,061**	141,279

The financial statements of Sterling Energy Plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 14 March 2014.

Signed on behalf of the Board of Directors

Alastair Beardsall
Director
14 March 2014

Philip Frank
Director
14 March 2014

Consolidated Statement of Changes in Equity

Year ended 31 December 2013

	Share capital	Share premium	Currency translation reserve	Retained deficit [1]	Total
	$000	$000	$000	$000	$000
At 1 January 2012	148,589	378,859	(204)	(411,103)	116,141
Loss for the year	-	-	-	(12,920)	(12,920)
Currency translation adjustments	-	-	(6)	-	(6)
Total comprehensive expense for the year attributable to the owners of the parent	-	-	(6)	(12,920)	(12,926)
Issued share capital/premium	425	4	-	-	429
Share option charge for the year	-	-	-	973	973
At 31 December 2012	149,014	378,863	(210)	(423,050)	104,617
Profit for the year	-	-	-	8,334	8,334
Currency translation adjustments	-	-	(39)	-	(39)
Total comprehensive income for the year attributable to the owners of the parent	-	-	(39)	8,334	8,295
Share option charge for the year	-	-	-	1,166	1,166
At 31 December 2013	**149,014**	**378,863**	**(249)**	**(413,550)**	**114,078**

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

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Note	**2013 $000**	2012 $000
Operating activities			
Cash generated from operations	24	**6,269**	7,800
Net cash flow from operating activities		**6,269**	7,800
Investing activities			
Interest received		**268**	350
Purchase of property, plant and equipment		**(85)**	(100)
Exploration and evaluation costs [1]		**(5,942)**	(4,446)
Net cash used in investing activities		**(5,759)**	(4,196)
Financing activities			
Net proceeds from issue of ordinary shares		**-**	429
Net cash flow generated from financing activities		**-**	429
Net increase in cash and cash equivalents		**510**	4,033
Cash and cash equivalents at beginning of year		**120,348**	115,826
Effect of foreign exchange rate changes		**(103)**	489
Cash and cash equivalents at end of year		**120,755**	120,348

[1] Included within exploration and evaluation expenditure of $5.9 million is $1.25 million (2012: $nil) of back costs.

Company Statement of Financial Position

Year ended 31 December 2013

	Note	31 December 2013 $000	31 December 2012 $000
Non-current assets			
Property, plant and equipment	15	**5,546**	3,977
Investments	16	**107,834**	106,668
		113,380	110,645
Current assets			
Inventories		**2,746**	2,993
Trade and other receivables	17	**25,342**	14,349
Cash and cash equivalents		**118,498**	118,565
		146,586	135,907
Total assets		**259,966**	246,552
Equity			
Share capital	18	**149,014**	149,014
Share premium		**378,863**	378,863
Retained deficit		**(364,232)**	(375,735)
Total equity		**163,645**	152,142
Non-current liabilities			
Long-term provisions	21a	**21,588**	21,154
		21,588	21,154
Current liabilities			
Trade and other payables	22	**74,733**	73,256
		74,733	73,256
Total liabilities		**96,321**	94,410
Total equity and liabilities		**259,966**	246,552

The financial statements of Sterling Energy Plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 14 March 2014.

Signed on behalf of the Board of Directors

Alastair Beardsall
Director
14 March 2014

Philip Frank
Director
14 March 2014

Company Statement of Changes in Equity

Year ended 31 December 2013

	Share capital	Share premium	Retained deficit [1]	Total
	$000	$000	$000	$000
At 1 January 2012	148,589	378,859	(368,070)	159,378
Total comprehensive expense for the year	-	-	(8,638)	(8,638)
Issued share capital/premium	425	4	-	429
Share option charge for the year	-	-	973	973
At 31 December 2012	149,014	378,863	(375,735)	152,142
Total comprehensive income for the year	-	-	10,337	10,337
Share option charge for the year	-	-	1,166	1,166
At 31 December 2013	**149,014**	**378,863**	**(364,232)**	**163,645**

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

Company Statement of Cash Flows

Year ended 31 December 2013

	Note	**2013 $000**	2012 $000
Operating activities			
Cash generated from operations	24	**(197)**	2,401
Net cash flow used in operating activities		**(197)**	2,401
Investing activities			
Interest received		**268**	350
Net cash generated from investing activities		**268**	350
Financing activities			
Net proceeds from issue of ordinary shares		**-**	429
Net cash flow generated from financing activities		**-**	429
Net increase in cash and cash equivalents		**71**	3,180
Cash and cash equivalents at beginning of year		**118,565**	114,831
Effect of foreign exchange rate changes		**(138)**	554
Cash and cash equivalents at end of year		**118,498**	118,565

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 85 Fleet Street, London, EC4Y 1AE. The Company and the Group are engaged in the exploration for, 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 the financial year beginning 1 January 2013. 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 1 – Presentation of Items of Other Comprehensive Income (Amendments)	1 July 2012	No impact
IFRS 1 – Severe hyperinflation and removal of fixed dates (Amendments)	1 January 2013	No impact
IFRS 1 – Government Loans (Amendments)	1 January 2013	No impact
IFRS 7 – Offsetting Financial Assets and Financial Liabilities (Amendments)	1 January 2013	No impact
IFRS 13 – Fair Value Measurement	1 January 2013	No impact
IAS 12 – Recovery of Underlying Assets (Amendments)	1 January 2013	No impact
IAS 19 – Employee Benefits	1 January 2013	No impact
IFRIC 20 – Stripping Costs	1 January 2013	No impact
Annual Improvements to IFRSs (2009-2011 Cycle)	1 January 2013	No impact

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
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 10, 11 and 12	Consolidated Financial Statements. Joint Arrangements and Disclosure of Interests in Other Entities (Amendments)	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IAS 27	Separate Financial Statements	1 January 2014
IAS 28	Investments in Associates and Joint Ventures	1 January 2014

IFRS 10, 12 and IAS 27	Investment Entities (Amendments)	1 January 2014
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendments)	1 January 2014
IAS 36	Recoverable Amounts (Amendments)	1 January 2014
IAS 39	Novation of Derivatives (Amendments)	1 January 2014
IFRIC 21[1]	Levies	1 January 2014
IAS 19[1]	Defined Benefit Plans (Amendments)	1 July 2014
Annual Improvements to IFRSs[1]	(2010-2012 Cycle)	1 July 2014
Annual Improvements to IFRSs[1]	(2011-2013 Cycle)	1 July 2014

[1] Not yet endorsed by the EU

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

c) Going Concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in 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 from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

e) Jointly Controlled Operations
Jointly controlled operations are arrangements in which the Group holds an interest on a long term basis and are jointly controlled by the Group and one or more ventures under a contractual arrangement. The Group's exploration 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.

f) 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.

g) 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 in which they are incurred.

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 cost pool by cost pool 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.

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. 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 cost 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.

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

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

Refer to note 5 on page 71 for detailed disclosure of the results of impairments and impairment reviews performed.

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,

which constitutes a single cash generating unit. 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.

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

Computer and office equipment depreciation – 33% straight line.

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

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

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

j) Intangible Royalty Interests
The carrying value of each individual royalty interest is initially stated at cost, and amortised on the unit of production basis relative to the underlying asset and assessed individually for impairment when there is an indication that an impairment event may have occurred.

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

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

l) Taxation

Current Tax:

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.

m) Investments (Company)

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

n) Operating Leases

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

o) Financial Instruments

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

Trade Receivables:

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

Cash and Cash Equivalents:

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

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

Trade Payables:
Trade payables are stated at their amortised cost.

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

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

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

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

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

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

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

t) Segment Reporting

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

The operating results of each of the geographical segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance. Africa has exploration and production activities, the Middle East has exploration activities (discontinued) 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Commercial Reserves

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

Impairment of Assets

Management is required to assess oil and gas assets for indicators of impairment and have considered the economic value of both the Chinguetti Funding and Royalty Agreements and specifically whether further historic impairments should be reversed. 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. 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 periodically reviewed 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.

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.

3. OPERATING SEGMENTS

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

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

The following tables present revenue, profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2013, and for the year ended 31 December 2012.

	Africa		**Middle East (Discontinued)**		**Total**	
	2013 $000	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000
Statement of comprehensive income						
Revenue [1]	**18,370**	22,496	**-**	-	**18,370**	22,496
Cost of sales	**(9,766)**	(12,028)	**-**	-	**(9,766)**	(12,028)
Gross profit	**8,604**	10,468	**-**	-	**8,604**	10,468
Impairment reversal	**4,359**	347	**-**	-	**4,359**	347
Impairment provision	**-**	-	**-**	(18,422)	**-**	(18,422)
Accruals release	**-**	-	**1,025**	-	**1,025**	-
Pre-licence costs	**(2,226)**	(2,353)	**-**	-	**(2,226)**	(2,353)
Segment result	**10,737**	8,462	**1,025**	(18,422)	**11,762**	(9,960)
Unallocated corporate expenses					**(3,177)**	(2,795)
Profit/(loss) from operations					**8,585**	(12,755)
Finance income					**892**	350
Finance expense					**(1,143)**	(515)
Profit/(loss) before tax					**8,334**	(12,920)
Tax					**-**	-
Profit/(loss) attributable to owners of the parent					**8,334**	(12,920)
Profit from continuing operations					**7,309**	5,502
Profit/(loss) from discontinued operations					**1,025**	(18,422)
					8,334	(12,920)

	Corporate		Africa		Middle East (Discontinued)		Total	
	2013 $000	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000	**2013 $000**	2012 $000
Other segment information								
Capital additions:								
Property, plant and equipment	**85**	100	**-**	-	**-**	-	**85**	100
Exploration and evaluation	**-**	-	**2,942**	1,313	**-**	4,575 [2]	**2,942**	5,888
Depreciation and amortisation	**(69)**	(59)	**(2,420)**	(2,422)	**-**	-	**(2,489)**	(2,481)
Impairment reversal	**-**	-	**4,359**	347	**-**	-	**4,359**	347
Impairment provision	**-**	-	**-**	-	**-**	(18,422)	**-**	(18,422)
Segment assets and liabilities								
Non-current assets [3]	**97**	83	**21,528**	16,645	**-**	-	**21,625**	16,728
Segment assets [4]	**119,146**	119,409	**9,210**	3,409	**1,080**	1,733	**129,436**	124,551
Segment liabilities [5]	**(1,298)**	(711)	**(35,179)**	(33,906)	**(506)**	(2,045)	**(36,983)**	**(36,662)**

[1] Revenue from continuing operations includes amounts of $17.1 million (100% external) from one single customer (2012: $21.2 million).

[2] Included within $4.6 million are accruals totalling $1.4 million and net cash additions of $3.1 million.

[3] Segment non-current assets include $7.3 million in Cameroon (2012: $6.5 million), $nil in Kurdistan (2012: $nil), $8.3 million in Mauritania (2012: $6.4 million), $3.9 million in Madagascar (2012: $3.8 million) and $2.1 million in Somaliland (2012: $nil).

[4] Carrying amounts of segment assets exclude investments in subsidiaries.

[5] Carrying amounts of segment liabilities exclude intra-group financing.

4. REVENUE

		Total
	2013 $000	2012 $000
Revenue from the sale of oil and gas	**17,076**	21,163
Royalty income	**1,294**	1,333
Total operating revenue	**18,370**	22,496

5. PROFIT FROM OPERATIONS

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

			Total
	Note	**2013 $000**	2012 $000
Staff costs	7	**4,049**	3,616
Share-based payments	7	**1,166**	973
Impairment reversal	13,14,15	**(4,359)**	(347)
Depreciation of other non-current assets	15	**69**	59
An analysis of auditor's remuneration is as follows:			
Fees payable to the Group's auditors for the audit of the Group's annual accounts		**48**	48
Audit of the Company's subsidiaries pursuant to legislation		**53**	55
Audit related assurance services		**-**	11
Total audit fees		**101**	114

During the year the Group released accruals totalling $1.0 million relating to discontinued operations, this has been included with administrative expenses.

During the year the Company reversed impairments totalling $4.4 million in accordance with IAS 36 "Impairment of Assets" following a review by the operator of forecast field life estimations on the Chinguetti field in Mauritania. This review resulted in an extension of the economic field life reflecting improved production decline rates. Of the $4.4 million, $3.2 million relates to reversals of prior period impairment losses on the Chinguetti Funding Agreement and $1.2 million to reversals of prior period impairment losses on the Chinguetti Intangible Royalty Asset.

Impairment reversals have been determined by comparing the current value in use to carrying values. In determining the value in use, field reserves were increased by 276k barrels of oil (Reserves Summary page 16) and has subsequently extended the field life. In calculating the impairment reversal, management used a range of assumptions, including a long-term oil price of $80 per barrel and a 10% pre-tax discount rate.

6. COST OF SALES

	2013 $000	2012 $000
Amortisation of intangible royalty asset	**782**	797
Depletion of property, plant and equipment – oil and gas	**1,638**	1,625
Operating costs	**7,100**	9,727
Over/(under) lift of product entitlement	**246**	(121)
	9,766	12,028

7. EMPLOYEE INFORMATION

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

	2013	2012
Africa and Middle East	6	14
Corporate support staff	11	11
	17	25

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

	2013 $000	2012 $000
Wages and salaries	3,407	3,034
Social security costs	414	347
Other pension costs	228	235
Share-based payments	1,166	973
	5,215	4,589

Key management personnel include Directors who have been paid $1.6 million (2012: $1.2 million), see Remuneration Committee Report (pages 34 to 42) for additional detail.

A portion of the Group's staff costs and associated overheads are recharged to the joint venture partners, expensed as pre-licence expenditure or capitalised where they are directly attributable to ongoing capital projects. In 2013 this portion amounted to $4.1 million (2012: $4.3 million).

8. FINANCE INCOME AND FINANCE EXPENSE

	2013 $000	2012 $000
Finance income:		
Interest revenue on short-term deposits	268	350
Revisions to discount on decommissioning provision in year	624	-
	892	350
Finance expense:		
Bank charges	11	12
Unwinding of discount on decommissioning provision	1,058	1,010
Unwinding of discount on production royalty bonus provision	8	26
Exchange differences	66	(533)
	1,143	515

9. TAXATION

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

	Total	
	2013 $000	2012 $000
Profit/(loss) before tax	**8,334**	(12,920)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 23.25% (2012: 24.5%)	**1,938**	(3,165)
Effects of:		
Expenses not deductible for tax purposes	**27**	5,134
Capital allowances in excess of depreciation	**(1,891)**	(1,717)
Adjustment for tax losses	**(74)**	(252)
Tax charge for the year	**-**	-

10. DISCONTINUED OPERATIONS

On 29 January 2013, Sterling formally announced withdrawal from the Sangaw North licence in Kurdistan. The decision to relinquish was made in December 2012 and all amounts, totaling $18.4 million, were fully impaired at this date.

At the date of the final dissolution, Sterling had fully satisfied the work commitment required by the Sangaw North PSC and all other commitments in country.

During 2013 the Group released accruals totalling $1.0 million.

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

	2013 $000	2012 $000
Profit/(loss) for the year from discontinued operations (page 55)	**1,025**	(18,422)
Cash flows from investing activities (note 3 page 70)	**-**	(3,133)
Net (decrease)/increase in cash and cash equivalents	**(553)**	719
Basic profit/(loss) per share from discontinued operations (USc) (note 12 page 74)	**0.47**	(8.39)
Diluted profit/(loss) per share from discontinued operations (USc) (note 12 page 74)	**0.46**	(8.39)

11. PROFIT ATTRIBUTABLE TO THE COMPANY

The loss for the financial year within the Company accounts of Sterling Energy Plc was $10.3 million (2012: profit of $8.6 million). 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. EARNINGS PER SHARE

	Basic		Diluted	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Profit for the year (continuing operations)	**7,309**	5,502	**7,309**	5,502
Profit/(loss) for the year (discontinuing operations)	**1,025**	(18,442)	**1,025**	(18,442)
Weighted average number of ordinary shares in issue during the year	**220,053,520**	219,530,061	**220,053,520**	219,530,061
Dilutive effect of share options outstanding	**-**	-	**367,069**	-
Fully diluted average number of ordinary shares during the year	**220,053,520**	219,530,061	**220,420,589**	219,530,061
EPS (continuing operations)	**3.32**	2.51	**3.32**	2.51
EPS (discontinuing operations)	**0.47**	(8.39)	**0.46**	(8.39)

In the current year, the number of potentially dilutive ordinary shares in respect of All staff and NED LTIPs outstanding as at the year end is 13,707,483 (2012: 11,409,488) (see note 26 on pages 86 to 90).

13. INTANGIBLE ROYALTY ASSETS

	Group $000
Net book value at 31 December 2011 and 1 January 2012	3,221
Amortisation charge for the year	(797)
Net book value at 31 December 2012	2,424
Impairment reversal	1,152
Amortisation charge for the year	(782)
Net book value at 31 December 2013	**2,794**

Group net book value at 31 December 2013 comprises the value of rights to future royalties in respect of the Group's agreements covering licences PSC A, PSC B and PSC C-10 in Mauritania. 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.

Impairment assessments and any subsequent charges 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.

In 2013 impairment losses recognised in prior periods totalling $1.2 million have been reversed on the Chinguetti asset. Details of impairment losses can be found in note 1 on pages 64 and 65 and note 5 on page 71.

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

	Note	**Group** $000
Net book value at 31 December 2011 and 1 January 2012		22,455
Additions during the year		5,888
Impairment charge for the year	10	(18,422)
Impairment reversal for the year		324
Net book value at 31 December 2012		10,245
Additions during the year		4,192
Reimbursement of back costs on farm-out of Ambilobe licence		(1,250)
Net book value at 31 December 2013		**13,187**

On 28 October 2013, Sterling announced its farm-in to the Odewayne Block, onshore Somaliland. Under the terms of the farm-in Sterling will pay a total of $10.0 million to Petrosoma Limited, a Somaliland company, for a 10% interest in the licence. $8.0 million of the consideration is contingent upon the completion of certain operational milestones which had not been achieved at 31 December 2013 and is disclosed as a contingent liability in note 29.

On 27 January 2014, Sterling announced the completion of the acquisition of a further 15% interest in the Odewayne Block from Jacka Resources Somaliland Limited, an Australian Company. Sterling will pay a total of $15.0 million for the 15% interest. At 31 December 2013 Sterling had paid a total of $3.0 million which is included within other receivables. The remaining $12.0 million dollars is contingent upon the completion of certain operational milestones which had not been achieved at 31 December 2013.

The amount for intangible exploration and evaluation assets represents investments in respect of exploration licences (see note 1g). 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.

15. PROPERTY, PLANT AND EQUIPMENT

Group	Oil and Gas assets $000	Computer and office equipment $000	Total $000
Cost			
At 31 December 2011 and 1 January 2012	185,825	2,964	188,789
Additions during the year	-	100	100
Adjustments during the year	(23)	-	(23)
At 31 December 2012	185,802	3,064	188,866
Additions during the year	-	85	85
Disposals in the year	-	(3,006)	(3,006)
At 31 December 2013	**185,802**	**143**	**185,945**
Accumulated depreciation and impairment			
At 31 December 2011 and 1 January 2012	(180,223)	(2,923)	(183,146)
Charge for the year	(1,625)	(59)	(1,684)
Impairment reversal for the year	23	-	23
At 31 December 2012	(181,825)	(2,982)	(184,807)
Charge for the year	(1,638)	(69)	(1,707)
Impairment reversal for the year	3,207	-	3,207
Disposals in the year	-	3,006	3,006
At 31 December 2013	**(180,256)**	**(45)**	**(180,301)**
Net book value at 31 December 2013	**5,546**	**98**	**5,644**
Net book value at 31 December 2012	3,977	82	4,059
Net book value at 31 December 2011	5,602	41	5,643

Company	Oil and Gas assets $000	Computer and office equipment $000	Total $000
Cost			
At 31 December 2011 and 1 January 2012	185,825	150	185,975
Disposals in the year	(23)	-	(23)
At 31 December 2012	185,802	150	185,952
Disposals in the year	-	(150)	(150)
At 31 December 2013	**185,802**	**-**	**185,802**
Accumulated depreciation and impairment			
At 31 December 2011 and 1 January 2012	(180,223)	(150)	(180,373)
Charge for the year	(1,625)	-	(1,625)
Impairment reversal for the year	23	-	23
At 31 December 2012	(181,825)	(150)	(181,975)
Charge for the year	(1,638)	-	(1,638)
Impairment reversal for the year	3,207	-	3,207
Disposals in the year	-	150	150
At 31 December 2013	**(180,256)**	**-**	**(180,256)**
Net book value at 31 December 2013	**5,546**	**-**	**5,546**
Net book value at 31 December 2012	3,977	-	3,977
Net book value at 31 December 2011	5,602	-	5,602

During the year impairment reversals recognised in prior periods totalling $3.2 million have been reversed on the Chinguetti asset (2012: $23k). Details of impairment reversals can be found in note 1 on pages 64 and 65 and note 5 on pages 71.

16. INVESTMENT IN SUBSIDIARIES

	Company
	$000
Cost	
At 31 December 2011 and 1 January 2012	105,740
Additions during the year	928
At 31 December 2012	106,668
Additions during the year	1,166
At 31 December 2013	**107,834**

The 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 2013	Proportion of voting rights held 2012	Nature of business
Sterling Energy (UK) Limited [1]	United Kingdom	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy (International) Limited [2]	United Kingdom	Ordinary	100%	100%	Exploration for oil and gas
Sterling Northwest Africa Holdings Limited [1]	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy Holdings Limited [3]	Jersey, CI	Ordinary	100%	100%	Investment holding company
Sterling Cameroon Limited [3]	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy (East Africa) Limited [3]	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas

[1] Held directly by the Company, Sterling Energy Plc

[2] Held directly by Sterling Energy (UK) Limited

[3] Held directly or indirectly through Sterling Northwest Africa Holdings Limited

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Trade receivables	**2,453**	433	**2,113**	31
Amounts owed by subsidiary undertakings	**-**	-	**23,149**	14,228
Other receivables	**3,082**	117	**12**	19
Amounts due from joint venture partners	**-**	70	**-**	-
Prepayments and accrued income	**400**	590	**68**	71
	5,935	1,210	**25,342**	14,349

Included within other receivables is $3.0 million paid to Jacka Resources Somaliland Limited.

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

18. SHARE CAPITAL

	2013 $000	2012 $000
Authorised, called up, allotted and fully paid		
220,053,520 (2012: 220,053,520) ordinary shares of 40p	**149,014**	149,014

19. RESERVES

Reserves within equity are as follows:

Share Capital
Amounts subscribed for share capital at nominal value.

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

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

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

At the reporting date the Group had an unrecognised deferred tax asset of $15.3 million (2012: $19.0 million) relating primarily to unused tax losses and unutilised capital allowances. No deferred tax asset has been recognised due to the uncertainty of future profit streams against which these losses could be utilised. At the reporting date the Company had an unrecognised deferred tax asset of $13.0 million (2012: $17.3 million) relating primarily to unused losses and unutilised capital allowances.

21. LONG-TERM PROVISIONS

	2013 $000	2012 $000
Group		
Decommissioning provision (a)	**21,588**	21,154
2003 Production Royalty Bonus Scheme (b)	**63**	120
	21,651	21,274

	2013 $000	2012 $000
a) Decommissioning Provisions		
Group/Company		
At 1 January	**21,154**	20,144
Revisions at year end	**(624)**	-
Unwinding of discount	**1,058**	1,010
	21,588	21,154

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

The Company amount of $21.6 million (2012: $21.2 million) represents the amount provided within the Company for future decommissioning expenditure.

During the year the economic field life was extended following a review by the operator of decline rate performance. The extension of field life has resulted in an adjustment to the provision during the year of $624k. Full details of impairment losses and reversals can be found in note 5 on page 71.

	2013 $000	2012 $000
b) 2003 Production Royalty Bonus Scheme		
Group		
At 1 January	**120**	153
Unwinding of discount	**8**	26
Transferred to current liabilities	**(68)**	(67)
Foreign exchange movements	**3**	8
	63	120

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	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Trade payables	**448**	377	**35**	71
Amounts owed to subsidiary undertakings	**-**	-	**62,014**	60,440
Amounts advanced from joint venture partners	**1,539**	92	**-**	-
Accruals	**13,345**	14,919	**12,684**	12,745
	15,332	15,388	**74,733**	73,256

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

23. OPERATING LEASES AND CAPITAL COMMITMENTS

	Group		Company	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Minimum lease payments under operating leases recognised as an expense in the year	**3,454**	4,443	**2,783**	3,378

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

	Group		Company	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Within one year	**5,765**	6,384	**5,314**	5,694
In the second to fifth year inclusive	**7,015**	13,302	**6,600**	11,914
	12,780	19,686	**11,914**	17,608

Operating lease payments represent the Group's share of rentals for a Floating Production, Storage and Offtake ("FPSO") vessel in Mauritania and rentals payable for its office properties. The current FPSO lease is due to expire in April 2016, at which point the joint venture partners have an option to extend the contract for a further period of time. Included within the $12.8 million is $5.3 million and $6.6 million payable on the FPSO within one year and two to five respectively.

24. CASH FLOWS FROM OPERATING ACTIVITIES

Group	2013 $000	2012 $000
Operating activities:		
Profit before tax from continuing operations	**7,309**	5,502
Profit/(loss) before tax from discontinued operations	**1,025**	(18,422)
Finance income and gains	**(892)**	(350)
Finance expense and losses	**1,066**	503
Depletion and amortisation	**2,488**	2,481
Impairment reversal	**(4,359)**	(347)
Impairment expense	**-**	18,422
Share-based payment charge	**1,166**	973
Operating cash flow prior to working capital movements	**7,803**	8,762
Decrease/(increase) in inventories	**247**	(121)
Increase in trade and other receivables	**(1,725)**	(287)
Decrease in trade and other payables	**(56)**	(554)
	6,269	7,800
Cash generated from continuing operations	**6,822**	7,852
Cash outflow from discontinued operations	**(553)**	(52)
	6,269	7,800

Company	2013 $000	2012 $000
Operating activities:		
Profit/(loss) before tax	**10,337**	(8,638)
Finance income and gains	**(892)**	(350)
Finance expense and losses	**1,196**	479
Depletion and amortisation	**1,638**	1,625
Impairment reversal	**(3,207)**	(23)
Net movement in investment	**(1,166)**	(928)
Share-based payment charge	**1,166**	973
Operating cash flow prior to working capital movements	**9,072**	(6,862)
Decrease/(increase) in inventories	**247**	(121)
Increase/(decrease) in trade and other receivables	**(10,993)**	7,046
Increase in trade and other payables	**1,322**	19,911
Decrease/(increase) in provisions	**155**	(17,573)
	(197)	2,401

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.

Due to the short-term nature of these assets and liabilities such values approximate their fair values at 31 December 2013 and 31 December 2012.

	Carrying amount/Fair value	
Group	**2013 $000**	2012 $000
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	**120,755**	120,348
Trade and other receivables	**5,535**	620
Total	**126,290**	120,968
Financial liabilities at amortised cost		
Trade and other payables	**15,332**	15,388
Total	**15,332**	15,388

	Carrying amount/Fair value	
Company	**2013 $000**	2012 $000
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	**118,498**	118,565
Trade and other receivables	**25,274**	14,278
Total	**143,772**	132,843
Financial liabilities at amortised cost		
Trade and other payables	**74,733**	73,256
Total	**74,733**	73,256

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 thus, the Group and Company is only exposed to interest rate risk on its short-term cash deposits.

Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates 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**	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Cash and cash equivalents	**1,208**	1,203	**1,185**	1,186

Foreign Currency 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.

The Group and Company's foreign currency translation risk is as follows:

Financial Assets

	Group		**Company**	
Cash and cash equivalents	**2013 $000**	2012 $000	**2013 $000**	2012 $000
Cash and cash equivalents held in US$	**116,419**	110,791	**114,323**	109,148
Cash and cash equivalents held in GBP	**4,336**	9,557	**4,175**	9,417
	120,755	120,348	**118,498**	118,565

Trade and other receivables	Group 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Trade and other receivables held in US$	**5,446**	381	**25,258**	19
Trade and other receivables held in GBP	**89**	239	**16**	14,259
	5,535	620	**25,274**	14,278

Financial liabilities

Trade and other payables	Group 2013 $000	Group 2012 $000	Company 2013 $000	Company 2012 $000
Trade and other payables held in US$	**14,163**	14,857	**68,821**	67,627
Trade and other payables held in GBP	**1,169**	531	**5,912**	5,629
	15,332	15,388	**74,733**	73,256

Credit Risk Management

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

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. At the year end the Group held approximately 96% (2012: 92%) of its cash in US dollars. At the year end the Group held the majority of its balances with AA- and A+ Standard & Poors rated institutions. The Group continues to monitor its treasury management to ensure an appropriate balance of the safety of funds and maximisation of yield.

During the year the Company reversed previously impaired loans to Sterling Energy (International) Limited totalling $155k (2012: $17.6 million) following the relinquishment of its Sangaw North licence in Kurdistan. Trade and other receivables are non-interest bearing. The Group does not hold any collateral as security and the Group does not hold any significant provision in the impairment account for trade and other receivables as they relate to customers with no default history.

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 2013 is nil% (2012: nil%).

	Less than six months	Six months to one year	One to six years	Total	Interest	Principal
	$000	$000	$000	$000	$000	$000
Group						
Trade payables (2013)	1,901	-	-	1,901	-	-
Trade payables (2012)	469	-	-	469	-	-
Company						
Trade payables (2013)	28	-	-	28	-	-
Trade payables (2012)	71	-	-	71	-	-

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 $1.2 million (2012: $973k). The Company recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of $50k (2012: $184k).

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

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

Share options (2002- 2007)

Following the introduction of the Long Term Incentive Plan in 2007 ("2007 LTIP"), no further grants have been made under the share option scheme, subsisting grants remained in place and the scheme fully lapsed during the year.

Movements during the year on share options were as follows:

	2013 Number of share options	**2013 Weighted average exercise price (pence)**	2012 Number of share options	2012 Weighted average exercise price (pence)
Outstanding at the beginning of period	**236,875**	**348**	799,375	266
Forfeited during the period	**(236,875)**	**348**	(562,500)	231
Exercised during the period	**-**	**-**	-	-
Outstanding at the end of the year	**-**	**-**	236,875	348
Exercisable at the end of the year	**-**	**-**	236,875	348

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

Year of grant:	**2013 Weighted average exercise price (pence)**	**2013 Number**	2012 Number
2003	**280**	**-**	193,750
2004	**500**	**-**	14,375
2005	**690**	**-**	2,500
2006	**830**	**-**	13,750
2007	**620**	**-**	12,500

No share options were exercised during 2013 (2012: nil). During the year all outstanding share options were surrendered in exchange for an additional 5% grant to the option holder's 2013 All Staff LTIP award.

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 remained in place and the scheme fully lapsed in 2012.

Movement during the year on share options were as follows:

	2013 Number of share options	**2013 Exercise price (pence)**	2012 Number of share options	2012 Exercise price (pence)
Outstanding at the beginning of period	**-**	**-**	417,328	40
Exercised during the period	**-**	**-**	-	-
Lapsed during the period	**-**	**-**	(417,328)	40
Outstanding at the end of the year	**-**	**-**	-	-
Exercisable at the end of the year	**-**	**-**	-	-

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

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

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

	2013 Number of share options	**2013 Exercise price (pence)**	2012 Number of share options	2012 Exercise price (pence)
Outstanding at the beginning of the year	**10,529,830**	**40**	7,354,868	40
Granted during the period	**3,755,800**	**40**	6,270,600	40
Exercised during the period	**-**	**-**	(562,500)	40
Lapsed during the period	**(2,170,830)**	**40**	(2,533,138)	40
Outstanding at the end of the year	**12,114,800**	**40**	10,529,830	40
Exercisable at the end of the year	**-**	**-**	-	-

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

The options outstanding at the year end have a contractual life of 3.80 years (2012: 4.14 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 16.5 pence (2012: 20.4 pence).

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

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

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

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

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

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:

	2013	2012
Share price (pence)	**38**	43
Exercise price (pence)	**40**	40
Expected volatility at time of grant	**69.53%**	69.53%
Expected life (years)	**3**	3
Risk free rate (%)	**0.46%**	0.24%
Expected dividends	**Nil**	Nil

Expected volatility for grants in the year was estimated by calculating the historical volatility of the Company's share price over the period 1 November 2010 to 31 October 2013 (2012: over the period 23 December 2009 to 30 September 2012). The Company has overlaid a normal distribution for the FTSE350 condition to assess a range of possible outcomes.

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

All Staff LTIP Sub-Plan

During the year the Company introduced a HMRC approved sub-plan to the All Staff Long Term Incentive Plan ("HMRC Sub-Plan").

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

	2013 Number of share options	**2013 Exercise price (pence)**	2012 Number of share options	2012 Exercise price (pence)
Outstanding at the beginning of the year	**-**	**-**	-	-
Granted during the period	**949,900**	**43**	-	-
Exercised during the period	**-**	**-**	-	-
Lapsed during the period	**-**	**-**	-	-
Outstanding at the end of the year	**949,900**	**43**	-	-
Exercisable at the end of the year	**-**	**-**	-	-

The options outstanding at the year end have a contractual life of 4.94 years. The cost of the options is spread over the vesting period of three years. The fair value of the options granted during the year was 19.3 pence.

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

	2013	2012
Share price (pence)	**43**	-
Exercise price (pence)	**43**	-
Expected volatility at time of grant	**69.53%**	-
Expected life (years)	**3**	-
Risk free rate (%)	**0.46%**	-
Expected dividends	**Nil**	-

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

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

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

	2013 Number of share options	**2013 Exercise price (pence)**	2012 Number of share options	2012 Exercise price (pence)
Outstanding at the beginning of the year	**642,783**	**40**	427,084	40
Granted during the period	**-**	**40**	309,450	40
Lapsed during the period	**-**	**40**	(93,751)	40
Outstanding at the end of the year	**642,783**	**40**	642,783	40
Exercisable at the end of the year	**333,333**	**-**	-	-

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 2.32 years (2012: 3.39 years). The cost of the options is spread over the vesting period of three years.

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

27. RELATED PARTY TRANSACTIONS

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

	Group		Company	
	2013 $000	2012 $000	**2013 $000**	2012 $000
Short-term employee benefits	**1,371**	1,087	**155**	158
Payments on loss of office	**117**	-	**-**	-
Defined contribution pension	**63**	90	**-**	-
Share-based payments	**758**	884	**50**	184
	2,309	2,061	**205**	342

Further information on Directors' remuneration is detailed in the Remuneration Committee Report, on pages 34 to 42.

The Company has no other disclosable related party transactions.

28. SUBSEQUENT EVENTS

On 27 January 2014, Sterling announced the completion of the acquisition of a further 15% interest in the Odewayne Block in Somaliland from Jacka Resources Somaliland Limited, an Australian Company. Sterling will pay a total of $15.0 million for the 15% interest.

On 10 February 2014 Sterling announced that the operator of the Ntem Block in Cameroon, Murphy Oil, confirmed that drilling operations have commenced on the Bamboo-1 well using the Ocean Confidence, a fifth generation semi-submersible drilling rig.

29. CONTINGENT LIABILITIES

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

Following the farm-in to the Odewayne licence in Somaliland, the Group has a contingent consideration of $20.0 million to Petrosoma Limited ($8.0 million) and Jacka Resources Somaliland Limited ($12.0 million). Details of the farm-in and the consideration are summarised in note 14 on page 75.

Definitions and Glossary of Terms

$	US dollars
2006 Act	The Companies Act 2006, as amended
2007 LTIP	The 2007 Long Term Incentive Plan
1P	Proven reserves or in-place quantities depending on the context
2D	Two dimensional
2P	The sum of Proven and Probable reserves or in-place quantities depending on the context
3D	Three dimensional
3P	The sum of Proven, Probable and Possible reserves or in-place quantities depending on the context
AIM	Alternative Investment Market of the London Stock Exchange
All Staff LTIP	The All Staff Long-Term Incentive Plan adopted in 2009
AGM	Annual General Meeting
API gravity	An American Petroleum Institute scale for crude oil density
Articles	The Articles of Association of the Company
bbl	Barrel, equivalent to 42 US gallons of fluid
bbl/d	Barrel per day
bopd	Barrel of oil per day
boe	Barrel of oil equivalent, a measure of the gas component converted into its equivalence in barrels of oil
boepd	Barrel of oil equivalent per day
bcf	Billion cubic feet of gas
Board	The Board of Directors of the Company
C	Celsius
Capex	Capital expenditure
CGR	Condensate gas ratio
Combined Code or Code	The Combined Code on Corporate Governance. Now superseded by the UK Corporate Governance Code (see below)
Companies Act	The Companies Act (as amended 2006)
Company or Sterling	Sterling Energy Plc
Contingent Resources	Those quantities of petroleum estimated, as at a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies, Contingent Resources are a class of discovered recoverable resources
COS	Chance of success
CSOP	Company Share Option Plan (HMRC approved share option scheme)
Darcy	Unit of permeability
Deg	Degrees
Directors	The Directors of the Company
DST	Drill stem test, a method of flow testing a well
E&E	Exploration and evaluation assets

EBITDA	Earnings before interest, taxation, depreciation, depletion and amortisation, impairment, share-based payments and pre-licence expenditure
EITI	Extractive Industries Transparency Initiative
EMV	Expected monetary value
EUR	Economic ultimate recovery
Farm-in and farm-out	A transaction under which one party (farm-out party) transfers part of its interest to a contract to another party (farm-in party) in exchange for a consideration which may comprise the obligation to pay for some of the farm-out party costs relating to the contract and a cash sum for past costs incurred by the farm-out party
FDP	Field development plan
FPSO	Floating, Production, Storage and Offloading vessel
FCA	The Financial Conduct Authority of the United Kingdom
G&G	Geological and geophysical
GBP	Pounds Sterling
Genel Energy	Genel Energy Somaliland Limited
GIIP	Gas initially in place
GOC	Gas oil contact
GOR	Gas oil ratio
GWC	Gas water contact
Group	The Company and its subsidiary undertakings
HMRC	Her Majesty's Revenue and Customs
HMRC Approved Sub-Plan or HMRC Sub-Plan	The HMRC approved sub-plan of the All Staff LTIP
HSSE	Health, Safety, Security and Environment
Hydrocarbons	Organic compounds of carbon and hydrogen
JV	Joint venture
km	Kilometre(s)
km^2	Square kilometre(s)
Lead	Indication of a possible exploration prospect
London Stock Exchange or LSE	London Stock Exchange Plc
m	Metre(s)
mmbbl	Million barrels
mmstb	Million barrels of oil at stock tank conditions
mmboe	Million barrels of oil equivalent
mmcf	Million cubic feet of gas
mmcfge/d	Million cubic feet of gas equivalent per day
mmscf/d	Million cubic feet at standard pressure and temperature per day
mss	Metres sub-sea
mTVDss	Metres true vertical depth sub-sea
Murphy Oil	Murphy Cameroon Ntem Oil Co. Ltd, a wholly owned subsidiary of Murphy Oil Corporation

Definitions and Glossary of Terms (cont.)

NED LTIP	Non-executive Director Long Term Incentive Plan adopted in 2009
NPV	Net present value of a series of cash-flows
OECD	Organisation for Economic Cooperation and Development
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 1 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 or Prospective Recoverable 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
PSA	Production sharing agreement
Pura Vida	Pura Vida Mauritius
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must satisfy four criteria; they must be discovered, recoverable, commercial and remaining based on the development projects applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by development and production status
Reservoir	A porous and permeable rock capable of containing fluids
RF	Recovery factor
RI	Royalty interest
RISC	RISC (UK) Limited of 53 Chandos Place, Covent Garden, London WC2N 4HS
Scf	Standard cubic feet of gas (measured at 60 degree Fahrenheit and 14.7 psia)
Seismic	Data, obtained using a sound source and receiver, that is processed to provide a representation of a vertical cross-section through the subsurface layers
SESP	Sterling Energy share price
Shares	40p Ordinary Shares

Shareholders	Ordinary shareholders of 40p each in the Company
SMH	Société Mauritanienne Des Hydrocarbures
sq km	Square kilometre
sq mi	Square mile
stb	Stock tank barrel (measured at 60 degrees Fahrenheit and 14.7 psia)
STOIIP	Stock tank oil initially in place
Subsidiary	A subsidiary undertaking as defined in the 2006 Act
Tcf	Trillion cubic feet of gas
TEA	Technical evaluation agreement
TD	Total depth
TSR	Total Shareholder Return (End Share Price – Opening Share Price/ Opening Share Price) plus (Sum of Dividends Per Share/Opening Share Price)
TVD	True vertical depth
United Kingdom or UK	The United Kingdom of Great Britain and Northern Ireland
UK Corporate Governance Code	Formerly the Combined Code, sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with shareholders
United States or US	The United States of America
Water-cut	That percentage of total fluid production that is water
Working Interest or WI	A Company’s equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms

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