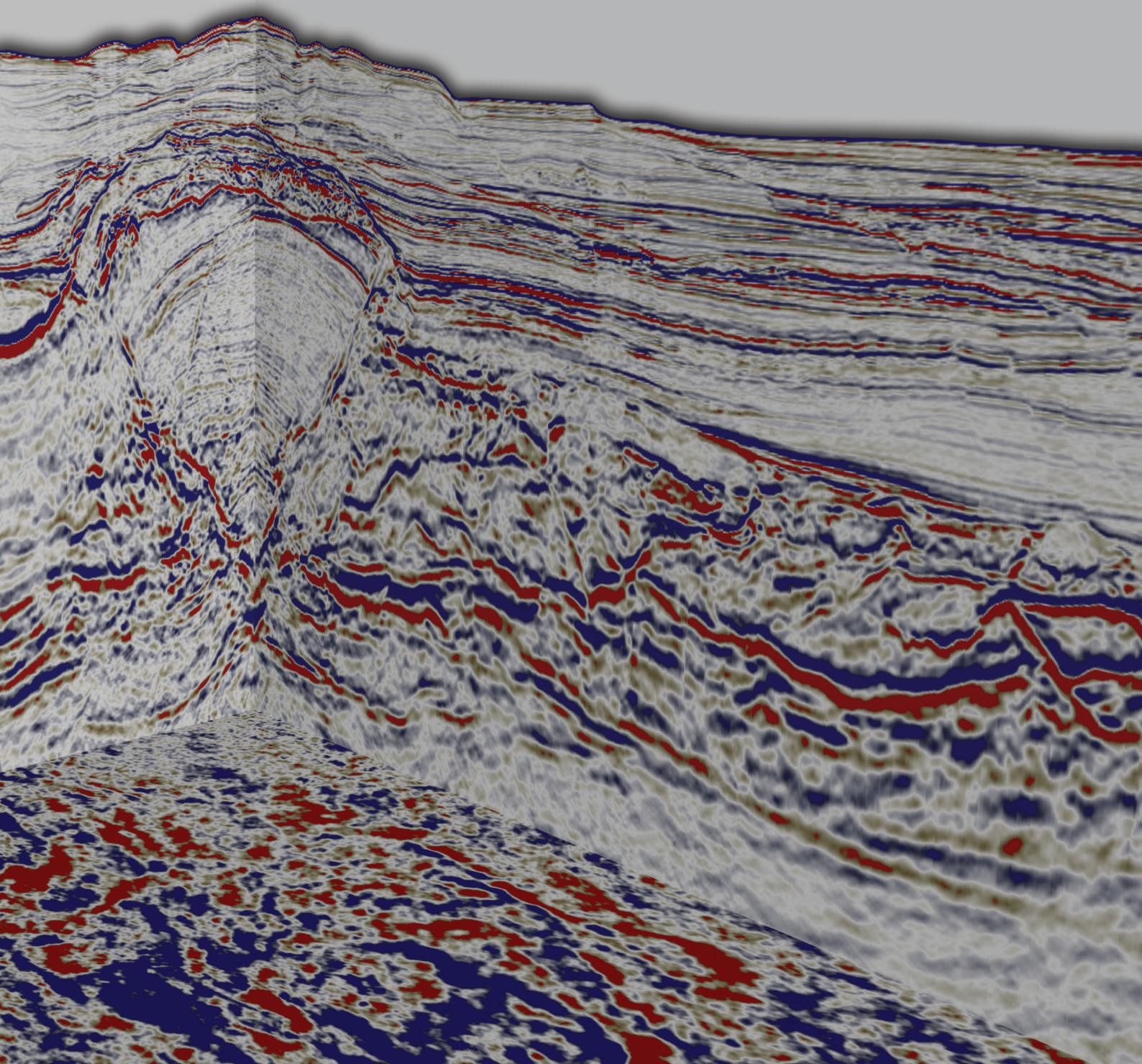
STERLING ENERGY PLC

Report and Financial Statements

2015



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

Sterling Energy plc

Report and Financial Statements

Year ended 31 December 2015

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Chairman's Statement

At the beginning of 2015 few would have predicted a sustained decline in the global oil price and an E&P sector severely affected with developments being delayed, exploration deferred and licences being handed back to host governments. As 2015 progressed the speculation of a near term rebound in the oil price diminished to be replaced with the forecast of a 'lower for longer downturn'. Many outside of our sector have benefitted from the lower cost of energy; however, inside the upstream oil and gas sector we have seen a real slow down in activity and a re-alignment of ambitions.

In my statement last year I made reference to smaller E&P companies moving away from their previous business model of acquiring material acreage positions and then farm-out, on a promoted basis, to a larger player who would be expected to fund more expensive exploration activities. We had already adapted our Group strategy and become more cautious about our ability to farm-out what are sometimes, very large financial commitments. During 2015, we further refined our strategy when it became evident that the capital markets were not supporting even the appraisal and development activity associated with exploration success; we concluded we should prioritise smaller, value driven opportunities that we could progress with our own finances to the point where the early production could be used to financially justify project debt.

Despite the market downturn, we have made some progress within our existing portfolio of exploration assets, however the progress has been slow and cautious.

In February 2015, we acquired a 40.5% interest in production sharing contract ('PSC') C-3, a shallow water project offshore Mauritania. Tullow Mauritania Limited ('Tullow Oil'), the operator, had just completed the acquisition of a 1,600km 2D seismic programme. We have completed the integration of the new seismic data with the existing sub-surface data-set and failed to mature any leads to drill-ready prospects. In January 2016 we elected to withdraw from the PSC rather than fund our share of a 3D program and exploration well we considered as high risk.

We acquired a further interest offshore Mauritania during 2015, a 13.5% interest in PSC C-10, again with Tullow Oil as the operator. The C-10 block has good legacy 3D seismic coverage and the joint venture ('JV') is actively working towards identifying a drill ready prospect as a step towards fulfilling the outstanding work commitment of one exploration well.

Also in Mauritania, we retain our financial interest in the Chinguetti oil field in Mauritania. At the prevailing oil price, production from Chinguetti is loss making and the relevant stakeholders are collectively working towards cessation of production through a compliant, safe and cost effective decommissioning and abandonment plan.

In Madagascar we completed the acquisition of 1,175km^2 of 3D seismic on the Ambilobe block and are now interpreting the new data in preparation for making a 'drill or drop' decision due in July 2016; the obligation in the next exploration phase includes the drilling of a well.

$98.7 million

CASH RESOURCES

> "We shall continue to act cautiously with regard to our own investments in new ventures with a bias towards projects that can be appraised and developed via our existing resources."

Also in Madagascar, Sterling, and ExxonMobil, our joint venture partner in the Ampasindava PSC, completed a review of the Sifaka prospect and concluded that the technical and commercial risks too great to justify the drilling of an exploration well; in May 2015 the joint venture partners elected to withdraw from the Ampasindava PSC.

In the Odewayne PSC, onshore Somaliland, where Genel Energy Somaliland Limited ('Genel Energy'), the operator, carries us for the costs of a seismic programme and one exploration well, the planning for the seismic continues to progress whilst the Government of Somaliland; establishes a trained and equipped Oil Protection Unit ('OPU').

In Cameroon, we continue to hold our 100% interest in the Ntem block. We maintain our claim of force majeure, declared in May 2014 as a result of the border dispute between Cameroon and Equatorial Guinea. We continue to seek the best way to progress the exploration activity in the Ntem block.

FINANCIAL

The Group had cash resources of $98.7 million at the end of 2015, including $1.1 million of partner funds, and we remain free of debt. Our work programme for 2016 is fully funded and we have resources available to progress both our existing portfolio and add new venture activity.

BOARD AND MANAGEMENT CHANGES

On 23 March 2015 the Company announced the appointment of Eskil Jersing as Chief Executive Officer ('CEO') and a Director of the Company. Eskil's career to date spans 30 years of exploration, new ventures and business development roles in many of the world's key petroleum basins. Upon Eskil's appointment, I relinquished the role of Interim CEO.

On 13 March 2015 Dr Philip Frank stepped down from the Board and left the Company. Matthew Bowyer was appointed as Sterling's Exploration Manager.

OUTLOOK FOR 2016 AND BEYOND

There appear to be no tangible indications of how the continued volatility in the global oil price may positively impact the capital market that traditionally invested in the oil and gas sector. We shall continue to act cautiously with regard to our own investments in new ventures with a bias towards projects that can be appraised and developed via our existing resources. We will then have the option to accelerate and/or expand these cash flow generative ventures via third party project finance.

In addition to our strategy for growth, the Group has, via a combination of our own funds and carried interests, the resources to see our existing projects advance during 2016.

I would like to thank all our stakeholders for their continuing support for our strategy and all of our management and staff for their diligent efforts during 2015.

Alastair Beardsall
Chairman
10 March 2016

Chief Executive's Review

> Through the last year, Sterling has continued to mature, actively manage and grow our portfolio in a disciplined manner, to succeed in and adapt to, a sustained lower oil price landscape.

MARKET LANDSCAPE

Over the last year, we have witnessed the continuation of a severe supply driven crude oil price downturn. This has led to a broad acceptance of a "lower for longer" price doctrine by the industry as a whole. Market volatility has continued into 2016, with oil and gas prices at multi-year lows, rising geopolitical tensions, mounting defaults, supply overhang, debt restructuring efforts and steep reductions in corporate work program and budgets. Importantly, however, the opportunity landscape has also opened up for buyers, with regards entry and significantly reduced seismic acquisition and drilling costs.

RENEWED STRATEGY

Through the last year, Sterling has continued to mature, actively manage and grow our portfolio in a disciplined manner, to succeed in and adapt to, a sustained lower oil price landscape.

Smaller exploration focused players such as Sterling, can no longer rely on leveraged cover to execute and monetise assets in the early part of the value cycle. Equally, our Chinguetti oil field Funding and Royalty Agreement revenue no longer provides cover for general and administrative ('G&A') costs at current oil prices, and the joint venture works towards end of field life decisions.

In response, our capital resources will be allocated to limit or defer our liability exposure and focus on repositioning our portfolio to secure above average returns in the near to mid-term. Our aspiration over the next few years will be to gain exposure to a core asset, and execute on a portfolio with low cost, long-life and investment flexibility.

ASSET ACTIVITY

We have worked diligently at both maturing and refreshing our existing portfolio in a disciplined manner. Our forward business model remains focused on the exploration and appraisal phase of the E&P lifecycle, with a bias towards capital efficient opportunities in fiscally advantageous jurisdictions with lower lifecycle risk, breakeven commodity prices and offering nearer term options for commerciality.

In Mauritania, we increased our exposure to an emerging and underexplored petroleum province, with recent world class oil and gas discoveries by Kosmos (Mauritania) and Cairn (Senegal) through ground floor entries into the C-3 and C-10 offshore blocks, both operated by Tullow Oil. These decisions were predicated on the inboard C-3 block providing upside dependent running room for the immature, but technically attractive shelfal Cretaceous and Jurassic plays recognised in C-10. However, subsequent to detailed in-house evaluation of the 2014 2D seismic data over C-3, we concluded that the new data had not sufficiently de-risked the block to enter into Phase 2 of the PSC, due to begin June 2016. We therefore took the prudent and disciplined stance to exit the C-3 block, effective end of February 2016, subject to Government approval; with no additional cost exposure to the Group.

We continue to work diligently with the operator Tullow Oil and with Société Mauritanienne Des Hydrocarbures et de Patrimoine Minier ('SMHPM'), to technically quantify and rank the existing C-10 prospect portfolio, with a view to drilling an exploration well on the top ranked prospect, prior to end November 2017. We maintain the view that the world class gas discoveries made by Kosmos on the Mauritania – Senegal border further emphasise the infancy and potential upside of the analogous hydrocarbon plays in C-10, with both low cost entry exposure and flexible exit options.

The Group has a Funding and Royalty Agreement based economic interest in the offshore Chinguetti oil field in Mauritania, amounting to ca. 9% of production. At prevailing oil prices, revenues from Chinguetti are insufficient to cover field operating costs and hence no longer cover the Company's administrative overhead costs. The JV participants (led by the operator, Petronas) and relevant stakeholders are collectively working towards cessation of production through a safe, compliant and cost effective decommissioning and abandonment plan.

In Somaliland, we are hopeful that a regional 2D seismic acquisition program in H2 2016 will help de-risk this frontier exploration block. The results of a 2015 surface seep study re-confirmed the outstanding potential offered by this basin scale acreage position, by validating all elements of a working petroleum system. Sterling is fully carried by the operator Genel Energy for all exploration costs during the current third and subsequent fourth exploration period, covering the 2D seismic survey and first well commitment. Planning and tendering for the 2D survey continues to progress whilst the Government of the Republic of Somaliland establishes a trained and equipped OPU that can provide the level of security required by in-country operators to ensure all future seismic and drilling operations can be conducted safely.

Subsequent to a detailed subsurface re-assessment of the prospectivity of the Ampasindava block, offshore Madagascar, by the JV and after discussions with the Office des Mines Nationales et des Industries Stratégiques ('OMNIS'), ExxonMobil and Sterling relinquished the block in May 2015. We are highly appreciative of the productive and collaborative nature of our relationship with ExxonMobil and OMNIS throughout the JV project life and relinquishment process. The Group does not expect to have any liabilities associated with the relinquishment.

During May 2015, Sterling successfully operated a 1,175km^2 discretionary 3D seismic survey on time, on budget and without incident over the Ambilobe block, offshore Madagascar. The final processed dataset will be available in early March 2016. The costs of this 3D seismic survey have been carried by Sterling's JV partner Pura Vida Mauritius ('Pura Vida'). The JV is working to secure an extension to the current second exploration phase, (due to expire in July 2016) with a view to farming out the block post 3D evaluation from Q2 2016.

We are very pleased with the progress of a corporate social responsibility ('CSR') program that the Ambilobe JV is executing over three separate initiatives, namely: the Nosy Be and Ambanja fish market rehabilitation and Beramanja school projects. We must not forget our 'licence to operate' and be cognisant of the differences we can make to local communities through such projects.

In Cameroon, we continue to believe that, in accordance with the terms of the Ntem Concession, the declaration of force majeure on 6 May 2014 remains valid, pending

Chief Executive's Review (cont.)

formal resolution of the overlapping maritime border claims with Equatorial Guinea.

We will work with the Ministry of Industry, Mines and Technological Development of Cameroon to determine a forward plan for the Ntem block, given the declaration of force majeure. In the interim, we maintain our "reserve our rights" position on the Ntem block and continue to seek a collaborative, fair and equitable outcome.

OUTLOOK

Overall, the Sterling portfolio still has the potential to deliver material exploration outcomes in Mauritania, Madagascar, Somaliland, and Cameroon. We continue to mature our top ranked assets to drill-ready status, or commercialise our positions as appropriate.

On the growth front, we have completed screening exercises on a significant number of opportunities through 2015. However, beyond the Mauritania C-3 and C-10 block entries, a number of technically attractive projects suffered through unacceptable commercial or above-ground risks and were not taken forward to acquisition stage.

We have strongly refocused our efforts to proactively evaluate shorter cycle executable opportunities that fit our revised strategy, to benefit from a sector recovery.

Sterling is fully funded for our current asset level commitments, through a strong balance sheet with cash resources of $98.7 million as at 31 December 2015.

We are well placed to mature our portfolio, using our existing resources and continue to maintain a disciplined approach to growth, only acquiring and executing accretive projects the Company believes will ultimately deliver value for shareholders.

Eskil Jersing
Chief Executive Officer
10 March 2016

2015 SUMMARY

- Production, net to the Company (including royalty barrels) from the Chinguetti field, averaged 310 barrels of oil per day ('bopd') (2014: 432 bopd).
- Adjusted Earnings before Interest, Tax, Depreciation, Amortisation and Exploration Expense ('EBITDAX') loss for the Group of $6.3 million (2014: $5.1 million earnings).
- Board and Management appointment of Eskil Jersing as CEO in March 2015.
- Transfer of Murphy's 50% interest in the Ntem block to Sterling (now 100% and operator), offshore Cameroon, completed in April 2015.
- Ampasindava block, Madagascar, exit (30% interest) in May 2015.
- Completed 1,175km^2 3D seismic acquisition safely, on time and budget over the Ambilobe block, offshore Madagascar, in June 2015, final processed data expected in-house Q1 2016.
- Acquisition from Tullow Oil of a 40.5% interest in PSC C-3 exploration block, offshore Mauritania, completed in July 2015. Exited block in February 2016.
- Acquisition from Tullow Oil of a 13.5% interest in PSC C-10 exploration block, offshore Mauritania, completed in November 2015.
- Working with Chinguetti oil field stakeholders on a safe, cost effective and technically robust decommissioning and abandonment plan.
- Cash resources at 31 December 2015 of $98.7 million (2014: $108.1 million), including joint venture partner funds of $1.1 million.
- The Group remains debt free, with sufficient cash resources to fund all outstanding firm commitments.

Strategic Report

Year ended 31 December 2015

Operations Review

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

MAURITANIA

Chinguetti (ca. 9% economic interest through Funding and Royalty Agreements). The Group has economic interests in the Chinguetti oil field through a Funding Agreement with SMHPM, Mauritania's national oil company, and a Royalty Agreement with Premier Oil ('Premier'), through the Group's wholly owned subsidiary Sterling North West Africa Holdings Limited.

Chinguetti oil field (ca. 9% economic interest)

Overview

Gross production for the Chinguetti field during 2015 averaged 5,083 bopd (2014: 5,512 bopd). Average production net to the Group, from the Group's economic interests during 2015, was 310 bopd (2014: 432 bopd). Production was in steady decline throughout the year, reflecting the maturity of the field, but benefited from a limited requirement for sub-sea or top side interventions. No infill drilling or workover activity took place during 2015.

The Group estimates that at the end of 2015, net entitlement 2P reserves stood at 173k barrels of oil equivalent (2014: 292k barrels of oil equivalent).

In February 2015, Premier exited from each of PSC A, PSC B (excluding Chinguetti) and PSC C-10 in Mauritania. The Group would have benefited, through the Royalty Agreement with Premier, from any future development on any of the three aforementioned PSC's. However given Premier's withdrawal, the Group does not expect any future benefits to materialise. Premier's exit from these PSC's does not affect the royalties currently received by the Group over Premier's interest in production from the Chinguetti field.

Outlook

The Chinguetti joint venture (Petronas, Tullow Oil, SMHPM, Premier, Kufpec) are evaluating how best to manage the Chinguetti field in a low oil price environment and with end of field life challenges. Formative discussions continue to be held with the Government of Mauritania and relevant stakeholders on how best to manage current operations and agree on a plan for a safe, cost effective and technically robust, decommissioning and abandonment phase.

A summary of Chinguetti interests and Group resource summary are provided on pages 17 and 23 of the Strategic Report.

In 2015, the Group bolstered its Mauritanian footprint via low cost ground floor entries into two exploration blocks, C-3 and C-10. The rationale underlying the C-3 and C-10 entries was that both blocks provided flexibility on work programme commitment decisions, as well as offering exposure to material exploration upside in a re-emerging petroleum province on the West African margin. The entry into block C-3 was predicated on it being protection acreage in the event of a commercial discovery on block C-10, however subsequent work on C-3 following receipt of new 2D seismic data in 2015 ultimately did not support further capital expenditure on a proposed 3D survey. As a result a swift disciplined, data-driven exit decision was made to limit further capital exposure.

C-10 (WI 13.5%) Exploration block

Overview

Block C-10 covers an area of approximately 8,025km² and lies in water depths of 50 to 2,400m within the Nouakchott sub-basin, offshore Mauritania, surrounding the Chinguetti field. The C-10 block PSC is held by the Company's wholly owned subsidiary Sterling Energy Mauritania Limited ('SEML') (13.5% working interest), Tullow Oil (76.5% working interest and operator) and SMHPM (10% working interest). SMHPM is carried by SEML and Tullow Oil, pro-rata to their working interests, during the exploration phases. The PSC is in the second phase of the exploration period, which is due to expire on 30 November 2017 and has a minimum work obligation of one exploration well.

The block is fully covered by legacy 3D seismic coverage and lies within a proven petroleum basin offering exposure to multiple play-types from under-explored Jurassic and lower Cretaceous shelfal carbonates to Cretaceous and Tertiary clastic plays. Within the block confines a successful exploration campaign in 2000-2003 targeting the Miocene play, yielded four oil and gas discoveries, including the Chinguetti oil field.

Since 2014, Kosmos Energy, in deep water block C-8, immediately outboard of C-10 has discovered and appraised several world class LNG scale gas discoveries of Albian to Cenomanian age, with the Tortue West (Ahmeyim) structure alone reported to have Pmean gas resources of ca.15 Tcf. Further south in Senegal, the Albian clastic shelf margin play has also been successful with commercial oil and gas discovered at the SNE field, currently being appraised with best estimate 2C contingent resources of 385 million barrels of oil per Cairn Energy's press release in March 2016.

In the C-10 block, Tullow Oil and the JV have matured a drill ready, Lower Cretaceous Neocomian age carbonate prospect, Lamina, located in water depths of approximately 100m. The joint venture anticipates that an exploration well to test this prospect in 2017 would have a gross dry hole cost in the order of $50 million ($7.5 million net to SEML), substantively lower than the originally proposed $77 million in 2015.

Outlook

Following entry into the C-10 block in mid-2015, Sterling and its JV partners have been maturing and ranking the technical description of the play, prospect and lead portfolio on the merged, reprocessed and depth-migrated 3D seismic dataset. The joint venture will work towards selecting the prospect for drilling in 2017, with Lamina the currently highest ranked option, to meet the minimum work obligations. Sterling will continue to work on de-risking and ranking the remaining prospectivity within the three key remaining plays on block, through 2016.

Should the joint venture not fulfil the minimum work obligations, the gross liability owing to the Mauritanian government would be $7.5 million ($1.1 million net to SEML). Following the completion of Phase 2 the joint venture may elect to enter into Phase 3 (with a 3 year term) with a minimum work obligation of a further two exploration wells.

A summary of the C-10 asset is provided on page 18 of the Strategic Report.

C-3 (WI 40.5%) Exploration block

Overview

Block C-3 is located in shallow water within the Nouakchott sub-basin, offshore Mauritania and covers an area of 9,825km². The PSC for block C-3 is held by SEML (40.5% working interest), Tullow Oil (49.5% working interest and operator) and SMHPM (10% working interest). SMHPM is carried by SEML and Tullow Oil, pro-rata to their working interest, during the exploration phases. The PSC is in the first phase of the exploration period, which runs to June 2016, with a minimum work commitment of acquiring 1,600km of 2D seismic data. The C-3 block was acquired as protection acreage for the adjacent C-10 block in the case of success on C-10, given that similar promising plays cover both blocks.

In late 2014, the operator acquired 1,600km of regional and infill 2D seismic data over block C-3 satisfying the minimum work obligations for the current phase. During 2015 SEML completed a detailed interpretation of the newly acquired 2D data. The resulting technical evaluation of the remaining play and lead potential was deemed by Sterling to be insufficiently de-risked by the 2D to justify entering into Phase 2 of the PSC; entailing a commitment to acquire 700km² of 3D seismic and drill one exploration well.

Outlook

In January 2016, SEML submitted a notice of withdrawal to Tullow Oil and SMHPM to reassign to Tullow Oil its 40.5% working interest share of block C-3 effective end February 2016. Completion of the withdrawal remains subject to approval by the Government of the Islamic Republic of Mauritania.

A summary of the C-3 asset is provided on page 19 of the Strategic Report.

Operations Review (cont.)

MADAGASCAR

The Group's Ambilobe block is located in the Ambilobe deep water basin, offshore north-west Madagascar. In May 2015, the Group relinquished the offshore Ampasindava block, located in the Majunga basin, north-west Madagascar.

Ambilobe (WI 50% & operator) Exploration block

Overview

The Ambilobe block covers some 17,650km² and is located in the Ambilobe basin, offshore north-west Madagascar. Water depths across the block range from shoreline to 3,000m. The Ambilobe PSC is in the second phase of the exploration period and all work commitments have been fulfilled.

Sterling Energy (UK) Limited ('SE(UK)L') completed a farm-out agreement in December 2013 with Pura Vida under which Pura Vida assumed a 50% interest in the Ambilobe PSC and paid all costs associated with a discretionary 3D seismic survey subsequently acquired in 2015. Following the farm-out, SE(UK)L retained a 50% interest in the PSC and remains as operator.

The Ambilobe block is covered by an extensive database of vintage 2D data that led to the identification of a number of Cretaceous and Tertiary aged plays and leads, located in both shallow and deep waters. In June 2015 SE(UK)L as operator of the Ambilobe PSC completed a 1,175km2 3D seismic survey to improve the technical description of the high graded lead area prior to a "drill or drop" decision mid-2016. The 3D survey acquired by CGG Services SA was completed on time and budget, without incident and fully compliant with all environmental regulatory requirements. Processing of the seismic data by ION Geophysical Company commenced in the second half of 2015, with interim products having been made available and reviewed in-house prior to year-end.

Corporate Social Responsibility

Affiliated with the Ambilobe 3D survey, the Ambilobe JV has worked closely with the local communities and authorities of the region to undertake three CSR projects, one in each of the districts of Nosy Be, Ambanja and Ambilobe. In the Ambilobe district, the Ambilobe JV will support the renovation and rebuilding of two primary school classrooms. In each of Nosy Be and Ambanja districts, the Ambilobe JV will support the construction of a new fish market. The existing facilities for the local fisherman in these areas are currently inadequate and overcrowded. Building new, dedicated markets, will improve local traffic and sanitary conditions, contribute towards a safer environment for the local population and ultimately improve the livelihoods of the local fishermen. The Ambilobe JV will work in close collaboration with the local communities, with the aim of delivering the completed projects by mid-2016.

Outlook

Continued processing of the 2015 3D seismic to Pre Stack Depth Migration stage with final deliverables expected in Q1 2016. Interpretation of interim data products is progressing and will focus on high-grading the lead inventory to help inform the decision on entry into Phase 3, which carries a one well commitment.

With Phase 2 of the Ambilobe PSC due to expire in July 2016, the joint venture will seek an extension to give sufficient time to complete the subsurface technical description and seek a farm-in partner prior to a decision whether to enter into Phase 3.

A summary of the Ambilobe asset is provided on page 20 of the Strategic Report.

Ampasindava (WI 30%) Exploration block

Overview

Following a detailed subsurface re-assessment of the prospectivity of the Ampasindava block and after discussions with OMNIS, the joint venture, ExxonMobil (70% working interest) and Sterling (30% working interest), relinquished the Ampasindava block in May 2015.

SOMALILAND

The onshore basins of Somaliland offer one of the last opportunities to target an undrilled Mesozoic basin in Africa. The Odewayne block is ideally located to explore this play covering a large area of a completely unexplored onshore rift basin. Geophysical data and geological field studies indicate that the sedimentary basin underlying the block has encouraging evidence of a working hydrocarbon system.

Odewayne (WI 40%) Exploration block

Overview

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

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

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

SE(EA)L is fully carried by Genel Energy for its share of the costs of all exploration activities during the Third Period and Fourth Period of the PSA.

Outlook

Operational activities in Somaliland have been delayed while the Government of the Republic of Somaliland establishes a trained and equipped OPU that can provide the level of security required by in-country operators to ensure all future seismic and drilling operations are conducted safely. A 2D seismic acquisition program is currently scheduled to commence in H2 2016.

A summary of the Odewayne asset is provided on page 21 of the Strategic Report.

CAMEROON

Ntem is a large deep water concession in the southern Douala Basin. The Douala Basin of Cameroon is a proven oil and gas producing province with multiple discoveries made within the shallower water shelf area to the east of the Ntem Concession and multiple deep water discoveries to the north.

Ntem (WI 100% & operator) Exploration block

Overview

The Ntem Concession lies adjacent to the southern maritime border of Cameroon. Water depths range from 400 to 2,000m across this 2,319km² block. This block is well positioned with respect to both Tertiary and Upper Cretaceous play potential, both of which have proved commercially successful in Cameroon and Equatorial Guinea.

The Ntem Concession was subject to force majeure from June 2005 to January 2014, as a result of overlapping maritime border claims (referred to as the 'Affected Area') by the Republic of Cameroon and the Republic of Equatorial Guinea. Following the lifting of force majeure, the current exploration period ('First Renewal Period') of the Ntem Concession re-commenced on 22 January 2014. At that date, the remaining term of the First Renewal Period was approximately 15 months (expiring April 2015). The minimum work obligation (one exploration well) was satisfied by the drilling of the Bamboo-1 exploration well in February 2014.

On 6 May 2014, the Ntem joint venture partners notified Société Nationale des Hydrocarbures ('SNH') the national oil company of Cameroon, of the joint venture's declaration of force majeure pending formal resolution of the overlapping maritime border claims. SNH has advised that "Cameroon does not recognise that any situation of force majeure exists in the Ntem Permit".

In April 2015, Murphy Cameroon Ntem Oil Co. Ltd ('Murphy') and Sterling Cameroon Limited ('SCL') completed the transfer of Murphy's 50% interest in, and operatorship of the Ntem Concession, to SCL.

SCL received written notice, dated 22 April 2015, from SNH that it considered the First Renewal Period of the Ntem Concession to have expired on 22 April 2015 and the Ntem Concession to have lapsed.

The Group believes that, in accordance with the terms of the Ntem Concession, the declaration of force majeure on 6 May 2014 remains valid. As such, the First Renewal Period has been suspended since 6 May 2014 and therefore has not expired.

In December 2015, SCL became aware that SNH publicised the Ntem Concession as an "open block", SCL disputes this claim and reserves its rights to the Ntem Concession.

Outlook

SCL will work with the Ministry of Industry, Mines and Technological Development of Cameroon to determine a forward plan for the Ntem Concession, given the declaration of force majeure, the 22 April 2015 notice from the Ministry and the listing of the Ntem Concession as an open block.

A summary of the Ntem asset is provided on page 22 of the Strategic Report.

Schedule of Interests

Year ended 31 December 2015

Location	Size (km²)	Licence Name	Sterling Working Interest %	Sterling Net Revenue Interest %	Operated/ Non-operated
Mauritania: Offshore	29	PSC B - Chinguetti Field	n/a	Sliding scale royalty from 6% WI [1] Economic interest for approximately 8% of Chinguetti project [2]	Non-operated
Mauritania: Offshore	9,825	PSC C-3 [3]	40.5%		Non-operated
Mauritania: Offshore	8,025	PSC C-10	13.5%		Non-operated
Cameroon: Offshore	2,319	Ntem [4]	100%		Operated
Madagascar: Offshore	17,650	Ambilobe	50%		Operated
Somaliland: Onshore	22,840	Odewayne Block [5]	40%		Non-operated

[1] The Company's royalty interest derives from Premier's working interest of 6% in PSC B. The Company's royalty is up to 6% of Premier's working interest.

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

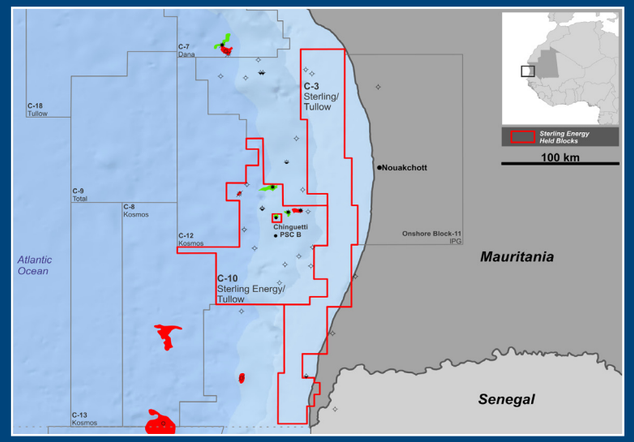
[3] On 29 January 2016, the Group notified its joint venture partners and the Government of Mauritania of its withdrawal from PSC C-3, which remains subject to Mauritanian Ministerial approval.

[4] Force majeure was lifted on 22 January 2014 in order to drill the Bamboo-1 well, as a result the current phase was extended to 22 April 2015. On 6 May 2014 force majeure was re-declared; SNH, however, has not accepted this as valid and together with the Ministry considers the Ntem Concession to have expired on 22 April 2015.

[5] Carried for the minimum work obligation of current period and next period of PSA.

Mauritania

We increased our exposure to an emerging and underexplored petroleum province, with recent world class oil and gas discoveries.



Block C-10 (WI 13.5%)

CONTRACT SUMMARY

Contract type	PSC
Contract signed	27 October 2011
Contract effective date	30 November 2011
Contract area	8,025km^2
Participants	
Tullow Mauritania Limited (Operator)	76.5%
Sterling Energy Mauritania Limited	13.5%
Société Mauritanienne Des Hydrocarbures Et De Patrimoine Minier	10%*

Exploration term
Current Phase 2: To 30 November 2017

Phase 2 work commitment:
One well

Phase 3 (optional): To 30 November 2020

Phase 3 work commitment:
Two wells

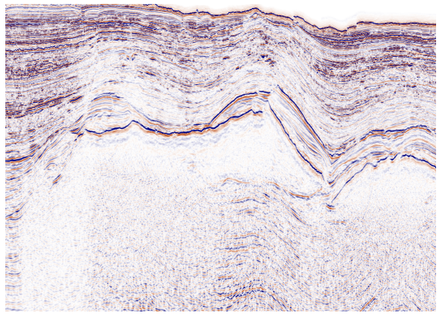
Production term
Twenty five years

State participation
The State may back in for up to a maximum of 14% participating interest (to include their 10% carried interest in the exploration phase) in any development and production area

Licence status
In November 2015, Sterling Energy Mauritania Limited completed the acquisition of a 13.5% working interest in PSC C-10.

* Carried through exploration

Block C-3 (WI 40.5%)



CONTRACT SUMMARY

Contract type	PSC
Contract signed	17 April 2013
Contract effective date	30 June 2013
Contract area	9,825km^2
Participants	
Tullow Mauritania Limited (Operator)	49.5%
Sterling Energy Mauritania Limited	40.5%*
Société Mauritanienne Des Hydrocarbures Et De Patrimoine Minier	10%**

Exploration term
Current Phase 1: To 30 June 2016

Phase 1 work commitment:
1,600km 2D seismic acquisition (completed)

Phase 2 (optional): To 30 June 2019

Phase 2 work commitment:
One well and 700km^2 of 3D seismic

Phase 3 (optional): To 30 June 2022

Phase 3 work commitment:
One well

Production term
Twenty five years

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

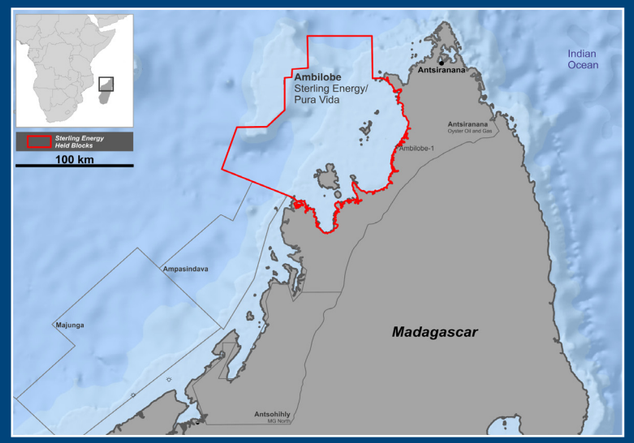
Licence status
In July 2015, Sterling Energy Mauritania Limited completed the acquisition of a 40.5% working interest in block C-3. In January 2016, Sterling Energy Mauritania Limited submitted a notice of withdrawal to Tullow Oil and SMHPM to reassign to Tullow Oil its 40.5% working interest share of block C-3.

* Subject to withdrawal notice issued by Sterling in January 2016
** Carried through exploration

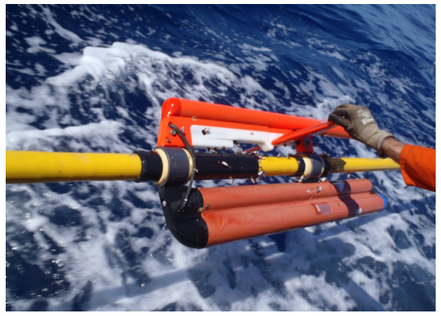
STRATEGIC REPORT

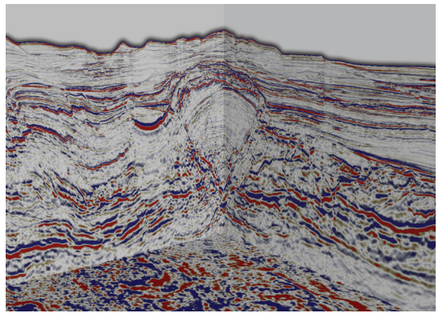
Madagascar

Sterling operated 1,175 km² 3D seismic survey over untested frontier basin.



Ambilobe (WI 50%)





CONTRACT SUMMARY

Contract type	PSC
Contract signed	15 July 2004
Contract effective date	28 November 2004
Contract area	17,650km²
Participants	
Sterling Energy (UK) Limited (Operator)	50%
Pura Vida Mauritius	50%

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

Current Phase 2:
To July 2016

Phase 2 work commitment:
Completed

Phase 3 (optional):
One year duration

Phase 3 work commitment:
Drill one exploration well

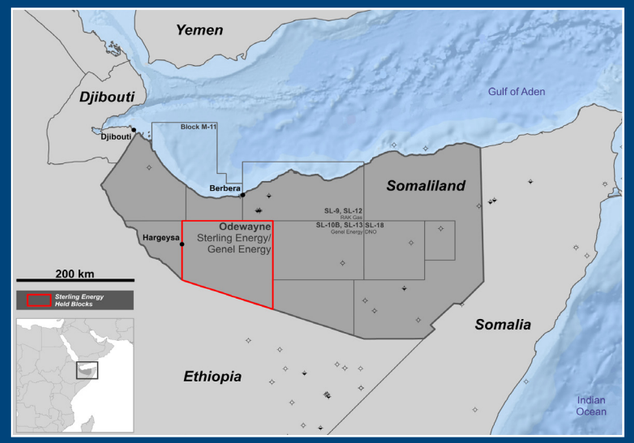
Production term
Twenty five year period with possible extensions

Licence status
The joint venture will seek an extension to the current phase to give sufficient time to complete the subsurface technical description and to seek a partner prior to the decision whether to enter into Phase 3.

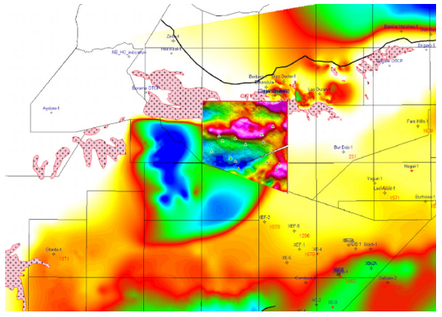
STRATEGIC REPORT

Somaliland

Sterling is fully carried by the operator Genel Energy for all exploration costs during the current third and subsequent fourth exploration period.



Odewayne (WI 40%)



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	40%
Petrosoma Limited	10%

Exploration term
Current Period 3: To 2 November 2016

Period 3 work commitment:
500km 2D seismic acquisition

Period 4 (optional): To 2 May 2018

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

Period 5 (optional): To 2 May 2019

Period 5 work commitment:
500km 2D seismic acquisition and one exploration well

Period 6 (optional): To 2 May 2020

Period 6 work commitment:
500km 2D seismic acquisition and one exploration well

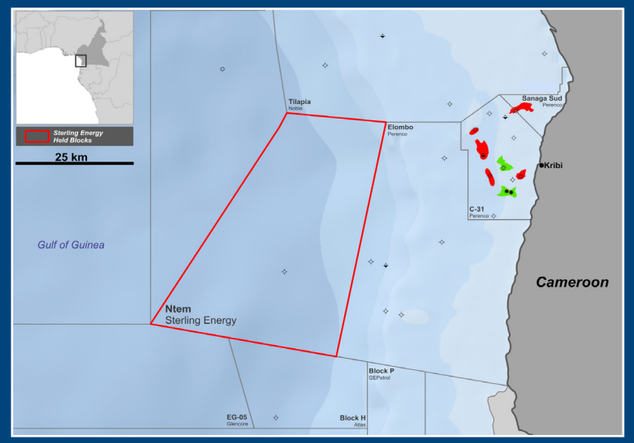
Production term
Twenty five years, renewable for ten years

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

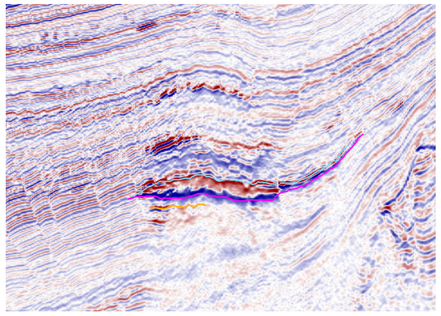
Licence status
The block is in Period 3 of the exploration period with an outstanding work commitment of 500km of 2D seismic. The Group's costs associated with the Period 3 and 4 work programmes are carried by Genel Energy.

Cameroon

We continue to seek the best way to progress the exploration activity in the Ntem block.



Ntem (WI 100%)



CONTRACT SUMMARY

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

Participants

Sterling Cameroon Limited (Operator)	100%

Exploration term

Current First Renewal Period:
On 6 May 2014 the joint venture declared force majeure pending formal resolution of the conflicting maritime border claims

Minimum work commitment:
Drill one exploration well (completed by drilling Bamboo-1)

Second Renewal Period (optional):
Two years duration

Second Renewal Period work commitment:
Drill two exploration wells

Production term

Twenty five years, renewable for ten years

State participation

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

Licence status

The Company will work with the Government of Cameroon to determine a forward plan for the Ntem Concession, given the declaration of force majeure by SCL, the Governments' non-acceptance of the declaration of force majeure and the Government's listing of the Ntem Concession as an open block.

Reserves Summary

Year ended 31 December 2015

	2015 Oil (000 boe)	2015 Gas (mcf)	2015 Reserves (000 boe)	2014 Oil (000 boe)	2014 Gas (mcf)	2014 Reserves (000 boe)
Volumes of Proven plus Probable Reserves						
At 1 January	**292**	**-**	**292**	559	-	559
Revision – Chinguetti [1-3]	**(6)**	**-**	**(6)**	(109)	-	(109)
Production	**(113)**	**-**	**(113)**	(158)	-	(158)
At 31 December	**173**	**-**	**173**	292	-	292

[1] The reserves stated are for the Company's net interests in the Chinguetti field only and are based on the Company's own assessment of reserves, as at 31 December 2015. The Group's interest in the Chinguetti field is through its Funding Agreement and Royalty Agreement; The Company does not have a direct equity participation in the Chinguetti field. The assessment was made in accordance with the definitions as set out on pages 98 - 100.

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

[3] In accordance with the guidelines of the AIM Market of the London Stock Exchange, Mr Matthew Bowyer, Exploration Manager of Sterling Energy plc, who has been involved in the oil industry for over 20 years, is the qualified person that has reviewed the technical information set out above.

Matthew Bowyer
Exploration Manager
10 March 2016

Financial Review

Year ended 31 December 2015

Selected Financial Data

		2015	2014
Chinguetti production [1]	bopd	**310**	432
Year end 2P reserves [1]	kboe	**173**	292
Revenue	$million	**5.0**	16.0
Adjusted EBITDAX [1]	$million	**(6.3)**	5.1
Loss after tax	$million	**(16.0)**	(12.3)
Net cash investment in oil & gas assets	$million	**4.8**	14.1
Year-end cash (including share of partner funds)	$million	**98.7**	108.1
Average realised oil price	$/bbl	**50.3**	94.2
Total cash operating costs (produced)	$/bbl	**75.3**	57.4
Year-end share price	Pence	**15**	20
Share price change [1]	%	**(26)**	(55)
Debt	$million	**–**	–

[1] Key performance indicators ('KPIs')

Revenue and Cost of Sales

Currently, all of the Group's production is from the Chinguetti field and totalled 266 bopd for the month of December 2015 (December 2014: 388 bopd).

2015 Chinguetti production, net to the Group, averaged 310 bopd, including royalty barrels, a decrease of 28% from the 432 bopd averaged in 2014; the reduced volumes reflect the lower oil price realised and increased production decline rates.

Gross volumes lifted and sold during the year from the Chinguetti field were down by 29% to 1.5 million barrels (2014: 2.1 million barrels).

The lifting cost per barrel has increased in 2015 by $24.2 to $94.2 (2014: $70.0). This was principally due to low levels of production consistent with a mature field production profile.

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

	2015	2014
Liftings (bbls) [1]	**99,948**	169,699
Revenue ($million)	**5.0**	16.0
Revenue/bbl ($)	**50.3**	94.2
Lifting cost ($million)	**(9.4)**	(11.9)
Lifting cost/bbl ($)	**(94.2)**	(70.0)

[1] Net Sterling production during the year totalled 113,085 (2014: 157,751)

Loss for Year

The 2015 loss totalled $16.0 million (2014: loss $12.3 million).

	$ (million)
Loss for year 2014	**(12.3)**
Decrease in revenue	(11.0)
Decrease in operating costs (excluding other obligations for 2014)	2.5
Increase in G&A	(0.3)
Impairment of Ntem (2015)	(8.2)
Impairment of Chinguetti FA and RA (2014)	6.0
Impairment of Ampasindava (2014)	1.9
Chinguetti cessation costs	2.2
Increase in other obligations (2015)	(0.3)
Other obligations (2014)	3.4
Decrease in finance net expense	0.1
Loss for year 2015	**(16.0)**

Financial Review (cont.)

Year ended 31 December 2015

Cost of sales for the Group for 2015 (excluding the onerous commitment of $3.4 million) decreased by $2.5 million mainly due to a per unit decrease in depletion & amortisation, following the full impairment of the Chinguetti asset in 2014.

During 2015, the Group fully impaired the Ntem block, in Cameroon, resulting in a charge of $8.2 million.

The Group has made a provision of $3.7 million in the 2015 accounts to recognise anticipated future net onerous commitments for 2016 under the Chinguetti Funding Agreement (2014: $3.4 million). This reflects the expectation of an ongoing gap between unit revenues and costs on the field in 2016.

Group administrative overhead increased during the year to $2.3 million (2014: $2.1 million). Included within this charge is $297k (2014: $659k) with respect to share-based payment charges.

In 2015, a portion of the Group's staff costs and associated overheads have been recharged to joint venture partners ($452k), expensed as pre-licence expenditure ($2.0 million), or capitalised ($1.1 million) where they are directly assigned to capital projects. This totals $3.6 million in the year (2014: $4.1 million).

A summary of these movements are provided below.

	2015 $ (million)	2014 $ (million)
Group administrative overhead (page 61)	**(2.3)**	(2.1)
Costs capitalised	**(1.1)**	(1.5)
Costs recharged to JV partners	**(0.5)**	(0.6)
Pre-licence expenditure	**(2.0)**	(2.0)
	(3.6)	(4.1)
Share based payment expense	**0.3**	0.7
Other non-cash expenditure	**0.1**	0.1
Group cash G&A expense	**(5.5)**	(5.4)

Adjusted EBITDAX and Net Loss

Group Adjusted EBITDAX (as defined within the Definitions and Glossary of Terms on pages 98 - 100) loss totalled $6.3 million (2014: $5.1 million earnings).

Net loss after tax totalled $16.0 million (2014: loss $12.3 million). The basic loss per share was $0.07 per share (2014: loss $0.06 per share).

Interest received and finance expenses result in a net expense of $712k (2014: $878k) which includes exchange losses of $89k (2014: $181k) on GBP cash deposits held at 31 December 2015 reported in US dollars, a non-cash finance expense of $1.0 million (2014: $1.1 million) relating to the unwinding of the Chinguetti decommissioning provision (see Note 9 on page 81 and Note 21 on page 88), interest received totalled $356k (2014: $398k) and other finance expenses totalling $13k (2014: $16k).

No dividend is proposed to be paid for the year ended 31 December 2015 (2014: $nil).

Cash Flow

Net Group cash outflow generated from operating activities was $4.9 million (2014: $1.4 million inflow); a full reconciliation of which is provided in the Consolidated Statement of Cash Flows.

Net cash investments in oil and gas assets totalled $4.8 million (2014: $14.1 million) and are summarised below:

	2015 $ (million)	2014 $ (million)
Mauritania	**4.0**	-
Somaliland	**0.1**	12.4
Madagascar	**0.6**	1.0
Cameroon	**0.1**	0.7
	4.8	14.1

Statement of Financial Position

At the year end, cash and cash equivalents totalled $98.7 million (2014: $108.1 million) of which $1.1 million (2014: $1.1 million) were held on behalf of partners, leaving a cash balance of $97.6 million (2014: $107.0 million). There are currently no restricted funds in the Group.

At the end of 2015, net assets/total equity stood at $86.8 million (2014: $102.4 million), and non-current assets totalled $25.1 million (2014: $28.5 million). Net current assets reduced to $94.1 million (2014: $96.6 million).

The Group's Chinguetti decommissioning provision increased during the year by $9.7 million to $32.4 million (2014: $22.7 million) reflecting an increase in the Group's estimate of gross decommissioning costs based on a provisional plan presented to the JV by the operator, further provided to the Group by SMHPM.

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 long-term commercial success of the Group depends on its ability to manage its existing asset portfolio and to find, acquire, develop and commercially produce oil and natural gas reserves.

The Directors regularly monitor all risks to the Company using information obtained or developed from external and internal sources, and will take actions as appropriate to mitigate these. The Group has developed a risk management system that identifies key business risks and measures to mitigate these risks. The Company proactively implements such measures considered appropriate on a case by case basis. Other significant elements of the risk management approach include regular Board review of the business, a defined process for preparation and approval of the annual work programme and budget, monthly management reporting, financial operating procedures, HSSE and anti-bribery management systems.

The relative importance and impact of risks faced by the Group can, and are likely to change with progress in the Group's strategy and developments in the external business environment. As such the Group reviews its business risks and management systems on a regular basis.

The Directors have identified the following principal risks and mitigants in relation to the Group's future performance.

Category	Risk	Mitigation	Change
Financial • Low commodity prices • Market volatility • Counterparty distress	• Low oil & gas commodity prices and market volatility. • Difficulty in capital raising for new acquisitions and/or to fund development activities. • Counterparty default. • Cost escalation and budget overruns (including Chinguetti decommissioning). • Fiscal stability. • Foreign currency risk. • Financial control of operated and non-operated assets. • Fraud and corruption / increased third party exposure.	• Group maintains a strong balance sheet and remains fully funded for its existing commitments. • Continually assess all existing asset and proposed new acquisitions in light of future capital requirements from a disciplined lifecycle investment perspective. • Regularly monitor and amend cost structure, investment strategy and tactics to include countercyclical investments and leverage low service costs for seismic and drilling. • Regularly review business plans, G&A expenses, ongoing strategy reviews, monthly reporting and regular Board meetings. • Regularly engage with partners to influence cost effective capital expenditure and decommissioning expenditure.	▲
External • Country risk • Climate change • Legal compliance	• The Group's assets are located in non-OECD countries. Governments, regulations, and the security environment may adversely change, including the use of tax claims, real or not. The Group's assets in Cameroon, Madagascar, Somaliland and Mauritania have been or are affected by country-specific situations. • The regulation of the energy industry to address climate change is increasingly international in scope and application. The Group's activity focuses on finding and producing carbon based fuels often with long investment and production lifecycles. • Legal compliance, regulatory or litigation risk.	• Regular monitoring of political, regulatory and HSSE changes. Engaging in constructive discussions where and when appropriate and introducing third-party expertise as required. The Group has objectives to acquire additional core assets, to assist in diversifying country risk. • New investments are considered in the light of changing environmental regulations. • The Company accords the highest importance to corporate governance matters and upholding the highest ethical standards. • Activities are subject to various different jurisdictional laws, customs, fiscal and administrative regulations. • The Company employs suitably experienced and qualified staff and, when required, external advisors to ensure full compliance. Legal risk assessment and due diligence (where appropriate) is undertaken for all counterparties the Company deals with.	▲
Strategic • Concentration of portfolio • Competition	• Group's assets remain concentrated on early stage frontier and emerging basin exploration within the African continent. • Reduction in interest to promote/carry early stage exploration assets – making it more difficult to farm-out the Group's early stage exploration assets. • Competitors have significantly greater financial and technical resources.	• The Board has and will consider diversifying the current exploration portfolio risk, using existing financial resources of the Group. • Retain and acquire lower cost ground floor flexible positions (low exit costs) and where possible, carried positions. • Highly selective in choosing where and when to deploy its business development resources and New Ventures focus.	►
Operational • Exploration Risk • Operator & Partner Risk	• Exploration activities may not result in a commercial discovery. Producing wells may lead to a financial loss. • For some assets, the Group is dependent on other operators for the performance of E&P activities. • Counterparty misalignment. • Operations under-insured.	• Diversify and manage risk across a portfolio of assets. Apply the Group's experience and expertise and appropriate technology to minimise risk. • The Group carefully considers the technical, HSSE and financial capabilities of operators and potential partners during any joint venture farm-out or new acquisition.	►

▲ Increased ▼ Decreased ► Unchanged

Business Risk (cont.)

OTHER BUSINESS RISKS

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

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

Category	Risk
Strategic and Economic	• Inappropriate or poorly conceived strategy and plans • Failure to deliver on strategy and plans • Business environment changes • Failure to access new opportunities • Shareholder concentration
Operational	• HSSE incident or non-compliance under local rules and/or laws • Poor field production (revenue) performance and end of field life decisions • Licences, permits and/or approvals may be difficult to sustain • Delays in conducting exploration work programmes
Commercial	• Failure to maximise value from existing interests • Loss of control of key assets • Dissatisfied stakeholders • Failure to negotiate optimal contract terms • Inexact reserve and production determinations • Complex regulatory compliance
Human Resources and Management Processes	• Failure to recruit and retain key personnel / human capital deficit • Human error or deliberate negative action(s) • Bribery and corruption • Inadequate management processes • Insufficient timely information available to the management and the Board

COMPANY POLICIES

The Directors are mindful of the impact of the Company's business on its employees and contractors, the environment and on the wider community. In particular, it notes the following with respect to corporate responsibility, business integrity, community responsibility, employees and HSSE.

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

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

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

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

CORPORATE RESPONSIBILITY

The Group is committed to conducting its business in a responsible and sustainable way. The Group has corporate, environmental and social responsibilities to the indigenous communities in the areas in which it operates, to its partners, to its employees and to its shareholders. In pursuing its business objectives it undertakes not to compromise it's corporate and social responsibilities with any of these stakeholders. In 2015, the Group commenced three CSR projects in Madagascar, as described in the Operations Review (page 14).

BUSINESS INTEGRITY

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

COMMUNITY RESPONSIBILITY

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

EMPLOYEES

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

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

The Strategic Report was approved by the Board of Directors on 10 March 2016 and signed on its behalf by:

Tony Hawkins
Company Secretary

Eskil Jersing
Chief Executive Officer

Sterling Energy plc

Corporate Governance

Year ended 31 December 2015

Board of Directors

Alastair Beardsall, executive Chairman, aged 62
Alastair joined the Company in September 2009. He has been involved in the oil industry for over 35 years. For the first 12 years Alastair worked on international assignments with Schlumberger, the oil-field services company. From 1992 he began working for exploration and production operators, with increasing responsibility for exploration, development and production ventures. Between September 2003 and October 2009, Alastair was executive Chairman of Emerald Energy plc (Emerald). In October 2009 Emerald was acquired by Sinochem Resources UK Limited, for £7.50 per share in a transaction that valued Emerald at £532.0 million. Alastair is a non-executive Director of Jupiter Energy Limited and advises other private companies in the oil and gas industry. Alastair was appointed executive Chairman of Gulfsands Petroleum in April 2015.

Eskil Jersing, Chief Executive Officer, aged 52
Eskil joined the Company on 23 March 2015. He holds a BSc in Geophysics from University College Cardiff and an MSc in Petroleum Geology from Imperial College London. He started his career in the oil and gas industry in 1985 as a Field Seismologist with SSL in Papua New Guinea. From 1993 to 2009 he worked for Enterprise Oil (London, Aberdeen, Houston, and Brazil), and following the takeover, Shell International (Houston); initially as a Senior Geophysicist, moving on to be the Gulf of Mexico Exploration Strategy and Planning Manager and finally as the Gulf of Mexico Paleogene Exploration Manager. In 2009, Eskil joined Marathon Oil (Houston) as their Exploration Manager (Conventional New Ventures) Worldwide and subsequently Apache Corporation (Perth) as Director Worldwide Exploration and New Ventures Asia Pacific. Most recently he was Head of New Ventures and Co-Head of Mergers & Acquisitions at Petrobras Oil & Gas BV (Rotterdam).

Nicholas Clayton, non-executive Director, aged 52
Nicholas was appointed a non-executive Director of the Company in October 2009. Nicholas is chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Nicholas has provided strategic and corporate finance advice to a number of public and private oil and gas companies since January 2007. Between August 2005 and December 2006 he was Global Co-Head of Oil and Gas Corporate Finance for Canaccord Adams. For the previous 5 years he held the position of Global Head of Oil and Gas Corporate Finance for Dresdner Kleinwort Benson, the investment bank, having previously been Global Head of Oil and Gas Research between 1997 and 2000. Nicholas obtained a first class honours degree in Business Studies, from Portsmouth Polytechnic in 1985. Nicholas serves as a non-executive Director of Alpha Petroleum Resources Limited and Circle Oil plc, where he is chairman of the Remuneration Committee.

Keith Henry, non-executive Director, aged 71
Keith was appointed a non-executive Director of the Company in September 2009. He chairs the Remuneration Committee and is a member of the Audit and Nominations Committees. He has over 35 years of international business experience in the development, ownership, design and construction of major facilities worldwide. He was with Brown & Root Limited for 23 years, the last five of which were as Chief Executive responsible for Europe, Africa and the FSU region. From 1995 to 1999 he was Chief Executive of National Power plc, and then Chief Executive of Kvaerner Engineering and Construction Ltd until June 2003. Keith serves as Chairman of Regal Petroleum plc as well as serving as a non-executive Director and advisor to a number of companies in the engineering, services and energy sectors. He is a Fellow of the Royal Academy of Engineering.

Malcolm Pattinson, non-executive Director, aged 72
Malcolm was appointed a non-executive Director of the Company in November 2010. Malcolm is Chairman of the Nomination Committee and a member of the Audit and Remuneration Committees. Malcolm is a geoscientist with 40 years of experience and joined the Company in November 2010. Until 2001 he was the vice-president of exploration for Ranger Oil (subsequently CNR); and prior to this he was exploration vice-president for Hamilton Brothers Oil (subsequently BHP). From 2001 to 2006 Malcolm was a consultant for Tullow Oil. Malcolm is an honorary life member and former chairman of the Petroleum Exploration Society of Great Britain, and was awarded the medal for outstanding achievement in 1996 by the Petroleum Group of the Geological Society. He is the chairman of GTO Limited and was formerly a non-executive Director of Aurelian Oil and Gas plc.

APPLICATION OF UK CORPORATE GOVERNANCE CODE PRINCIPLES

Throughout the year ended 31 December 2015 the Board has sought to comply with a number of the provisions of the UK Corporate Governance Code ('the Code') in so far as it considers them to be appropriate to an entity of the size and nature of the Group. The Directors make no statement of compliance with the Code overall and do not explain in detail any aspect of the Code with which they do not comply. The Group continues to keep its overall system of internal controls 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 57.

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

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

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

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

	Board Meetings	Audit Committee[1]	Remuneration Committee	Nominations Committee[2]
Number of meetings in year	9	4	3	-
Alastair Beardsall	9	-	-	-
Eskil Jersing (appointed 23 March 2015)	8	-	-	-
Philip Frank (resigned 13 March 2015)	1	-	-	-
Keith Henry	9	4	3	-
Nicholas Clayton	9	4	3	-
Malcolm Pattinson	9	4	3	-

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

[2] There were no separate Nominations Committee meetings held in the year as Nominations Committee matters were handled by the Directors during Board Meetings.

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

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

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

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 risk management and internal control systems is provided within the Strategic Report on pages 28 - 31 and also on page 51.

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

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

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

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

Additionally, the Committee also considered the management's assessment of going concern with respect to the Group's cash position and its commitments for the next 12 months and was satisfied that the Group continues to be able to fund its liabilities from existing cash reserves which totalled $98.7 million at 31 December 2015.

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

The Committee also considered the Group's whistleblowing procedures to ensure that its employees are able to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters. Whistleblowing was a standing agenda item at all Board meetings and the Audit Committee met several times during the year to consider these matters.

The external audit function plays an important part in assessing the effectiveness of financial reporting and internal controls and the effectiveness and quality of audit is of key importance. Our Auditors, BDO LLP have been in place since 2010 and, in line with the audit profession's own ethical guidance, the current audit engagement partner is due to rotate off the Company's account in the year ending 31 December 2020 having served for a period of five years.

Audit Committee Report (cont.)

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 79.

The Committee has reviewed the UK Corporate Governance Code including the best practice for companies to put the external audit contract out to tender at least every ten years. Having considered the Financial Reporting Council's ('FRC's') guidance on aligning the timing of such re-tenders with the audit engagement partner rotation cycle, the Committee's current intentions are that it will initiate a re-tendering process prior to 2020. This policy will be kept under review and the Committee will use its regular reviews of Auditor effectiveness to assess whether an earlier date for such a re-tender would be desirable. Such regular reviews are used to assess the effectiveness of the external audit process and the Auditors' performance, with the Committee undertaking an internal assessment of the audit effectiveness and performance which is mapped against audit appointment criteria. The Committee has recommended to the Board that it recommend that shareholders support the re-appointment of BDO LLP at the 2016 AGM.

Nicholas Clayton
Chairman of the Audit Committee
10 March 2016

MEMBERS

This Committee comprises:
- Nicholas Clayton (Chairman)
- Keith Henry
- Malcolm Pattinson

SUMMARY OF RESPONSIBILITIES

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

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

Nominations Committee

There were no separate Nominations Committee meetings held in the year, as Nominations Committee matters were handled by either the non-executive Directors prior to or by the Directors during Board Meetings. These discussions addressed the following topics:

- appointment of CEO/Director,
- succession planning,
- annual retirement and re-election of Directors,
- review of skills/experience on the board etc.

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 2016 AGM. The Senior Independent Director coordinates the annual performance evaluation of Directors.

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

Keith Henry and Nicholas Clayton will retire by rotation and offer themselves for re-election at the 2016 AGM. Their biographical details, provided on page 34, demonstrate the range of experience and skill they bring to the Group. The Nominations Committee and the Board considers that their performance continues to be effective and that they have the necessary commitment to fulfil their respective roles.

Remuneration Committee Report

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

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

- the terms of the 2009 All Staff LTIP, NED LTIP and HMRC Approved schemes and, if in the current economic conditions being experienced in the natural resources sector, whether or not they retain the ability to motivate, incentivise and retain the calibre of staff and management required to promote future success for the Group;
- the 2015 review of achievement of certain corporate objectives (KPIs); and subsequently
- the setting of 2016 corporate objectives (KPIs); and
- the proposed basic salary uplift for 2016 to reflect general inflation and merit awards for staff and executive management.

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

In Madagascar, the Ampasindava licence was relinquished with no liabilities to the Group in 2015; the Ambilobe licence that previously experienced very limited operational progress saw significant activity in 2015 with the completion and processing of a 1,175km^2 3D seismic survey. In Mauritania, the acquisition of a 40.5% interest in block C-3 and the acquisition of a 13.5% interest in block C-10 was completed and added to the Group's asset portfolio. Refer to the Operations Review for details on current assets.

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

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

Director	2015 salary	2014 salary	% change
Alastair Beardsall [1]	£100,000	£193,400	decrease 48%
Eskil Jersing	£275,000	n/a	n/a

[1] Alastair Beardsall's Interim CEO 2015 salary was initially £197,300, this was subsequently reduced following the appointment of Eskil Jersing as CEO.

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

The non-executive fees are determined by the Board with no Director voting on his own remuneration. For 2015 the fees for each non-executive individual were £35,700 (2014: £35,000).

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 2015 these objectives included HSSE performance, new ventures and farming out certain assets;
- up to 50% may be awarded for *exceptional* personal performance; *exceptional* is performance above and beyond that expected under the individual's job description.

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

Director	2015 bonus	2014 bonus	% change
Alastair Beardsall	-	-	n/a
Eskil Jersing	-	n/a	n/a
Philip Frank	-	-	n/a

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

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

Director	2015 LTIP Award	2014 LTIP Award	% change
Alastair Beardsall	-	727,100	n/a
Eskil Jersing	-	n/a	n/a
Philip Frank	-	936,100	n/a

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

Under the vesting criteria of the All Staff LTIP, options granted will only vest if the Company Share Price meets the criteria set out in Note 25 on pages 94 - 96. Under these criteria, if the Company Share Price underperforms the FTSE 350 Index ('Index'), by more than 10% then no options will vest. For 100% of the options to vest the Company Share Price must outperform the Index by more than 50%. No LTIPs vested in the year.

The Company also utilises an HMRC approved Company Share Option Plan ('CSOP') that allows both the Company and the employee to benefit from some tax savings offered on the exercise of qualifying options. The specific details of the scheme can again be found in Note 25. Where appropriate, Directors, senior management and other employees have been issued options under the HMRC Sub-Plan in preference to the non-approved All Staff LTIP; the sum of the awards to all individuals under the HMRC Sub-Plan and All Staff LTIP is equal to the number that would have been issued under the All Staff LTIP if the HMRC Sub-Plan had not been approved and implemented.

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

Remuneration Committee Report (cont.)

The Company made considerable progress during 2015 which will hopefully act as the springboard for future success in 2016 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
10 March 2016

MEMBERS

This Committee comprises:
- Keith Henry (Chairman)
- Nicholas Clayton
- Malcolm Pattinson

SUMMARY OF RESPONSIBILITIES

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

OPERATION OF THE COMMITTEE

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

REMUNERATION STRATEGY

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

REMUNERATION POLICY

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

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

Details of individual components of executive remuneration are:

Elements of package	Purpose and link to strategy	How element is reviewed
Base salary and fees	To recognise market value of the role, reflecting the individual's skills, experience, authorities and responsibilities, to ensure the business can attract and retain the appropriate Directors, both executive and non-executive.	Reviewed annually. The Committee uses comparator data collected from published accounts and industry surveys of peer companies to determine the base salary for each of the executive Directors. No executive remuneration consultants were used during the year. The executive Directors use peer group data to determine the level of fees for the non-executive Directors.
Performance related bonuses	To incentivise and reward, on an annual basis, the performance of individuals and the Group on both financial and non-financial metrics.	Objectives (KPIs) are set, prior to the year under review, to align near-term goals with the longer term sustainable future of the Group. At the end of each year the Committee considers if the KPIs have been achieved in addition to individual performance and contribution to the Group. The maximum level of performance related bonus for executive Directors is capped at 100% of annual salary; non-executive Directors do not participate in the bonus scheme.
All Staff LTIP, NED LTIP, HMRC Approved schemes	To reward delivery of sustained long-term total shareholder returns (TSR) performance aligned to the interests of shareholders.	The All Staff and NED LTIP scheme options are equity settled and have a vesting period of three years. If options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the employee or Director leaves the Group before the options vest or are exercised, however, the Committee may exercise discretionary powers in certain circumstances. All Staff LTIPs are subject to the performance conditions set out in Note 25. NED LTIPs have no performance conditions attached to them. The maximum value to which options may be granted in any one year is capped, the cap is based upon the individual's role and responsibilities, for the executive Directors the cap is 100% of annual base salary.
Pension provision	To provide competitive retirement benefits commensurate with schemes offered by peer companies.	The Group operates a number of defined contribution pension schemes pursuant to which it contributes 10% of pensionable salary per eligible member. Scheme membership and contribution is linked to the member's base salary (see above).
Other benefits	To provide competitive cost-effective benefits through leveraging the Group's size and scale.	The Group subscribes to a number of benefits for employees and Directors which include life assurance, income protection; subsidised fitness centre membership and private medical insurance, some of these benefits are linked to base salary.

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

Remuneration Committee Report (cont.)

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

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

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

Following the remuneration policy set out above the Remuneration Committee has determined the following packages for 2016:

- Alastair Beardsall, Executive Chairman, will receive a base salary, effective 1/1/2016, of £100,000, a 10% non-contributory pension contribution paid directly to Alastair Beardsall and other benefits as set out above.
- Eskil Jersing, Chief Executive Officer, will receive a base salary, effective 1/1/2016, of £277,800, a 10% non-contributory pension contribution paid to Eskil Jersing's personal pension scheme and other benefits as set out above.
- For Alastair Beardsall and Eskil Jersing any award under the performance related bonus scheme will be determined at the end of 2016 and will be based on achievement of certain corporate KPIs and individual performance, the principles of the bonus scheme are set out on page 43. The Company considers the specifics of the KPIs to be commercially sensitive as they reflect the Company's commercial strategy; in general the KPIs are focused on HSE, new ventures and managing the Companies financial exposure to its existing assets.
- The award of options under the Companies All Staff LTIP plan to Alastair Beardsall and Eskil Jersing will be determined by the Remuneration Committee during the year in accordance with the principles as set out on page 43, and disclosed at the time of any award.

Following the remuneration policy set out above the executive Directors have determined the fees for the non-executive Directors for 2016 is set at £36,057.

All Staff and NED LTIPs

Directors' interests in LTIPs are accounted for under International Financial Reporting Standards ('IFRS') 2 - Share-Based Payments; accounting charges in the period are detailed in Note 25 on pages 94 - 96.

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 2015	Lapsed	Granted	Exercised	31 December 2015	Exercise price	Earliest exercise date [1]	Latest exercise date [1]
Alastair Beardsall	2,384,600	-	-	-	2,384,600	40p	01.11.16	30.09.19
Eskil Jersing	-	-	-	-	-	n/a	n/a	n/a
Philip Frank	2,337,350	(2,337,350)	-	-	-	40p	01.10.15	30.09.19
Philip Frank	69,500	(69,500)	-	-	-	43p	10.12.16	09.12.18
	4,791,450	(2,406,850)	-	-	2,384,600			

[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 (2014: 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 2015 [2]	Lapsed	Granted	Exercised	31 December 2015	Exercise price	Earliest exercise date [1]	Latest exercise date [1]
Nicholas Clayton	103,150	-	-	-	103,150	40p	01.10.15	30.09.17
Keith Henry	103,150	-	-	-	103,150	40p	01.10.15	30.09.17
Malcolm Pattinson	186,483	(83,333)	-	-	103,150	40p	01.10.15	30.09.17
	392,783	(83,333)	-	-	309,450			

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

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

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

The rules of the LTIP schemes and a full list of performance conditions and vesting criteria are summarised in Note 25 on pages 94 - 96.

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 2015 salary review was implemented on 1 January 2016 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	£100,000	6 months
Eskil Jersing	23 March 2015	23 March 2015	£277,800	6 months

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

Director	Commencement of appointment	Date of current contract	Base fees per annum
Nicholas Clayton	1 October 2009	1 October 2009	£36,057
Keith Henry	8 September 2009	8 September 2009	£36,057
Malcolm Pattinson	15 November 2010	15 November 2010	£36,057

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.

Remuneration Committee Report (cont.)

Directors and their interests (audited)

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

Ordinary shares of 40p each	8 March 2016	31 December 2015	31 December 2014
Alastair Beardsall [1]	1,062,500	1,062,500	1,062,500
Eskil Jersing [1] (appointed 23 March 2015)	-	-	n/a
Philip Frank [1] (resigned 13 March 2015)	n/a	n/a	132,204
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.

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 $27k in 2015 (2014: $26k).

Aggregate Remuneration

The single figure of total remuneration paid to Directors in 2015 and 2014 is summarised below (audited):

2015 Remuneration	Fees and basic salary	Bonus	Defined contribution pension	Benefits in kind	Single figure remuneration Total 2015
	£	£	£	£	£
Executive Directors:					
Alastair Beardsall	163,515 [1]	-	-	9,413	**172,928**
Eskil Jersing (appointed 23 March 2015)	213,654	-	21,365	5,521	**240,540**
Philip Frank (resigned 13 March 2015)	70,176	-	7,018	3,693	**80,887**
Non-executive Directors:					
Nicholas Clayton	35,700	-	-	-	**35,700**
Keith Henry	35,700	-	-	-	**35,700**
Malcolm Pattinson	35,700	-	-	-	**35,700**
Aggregate remuneration 2015 (£)	554,445	-	28,383	18,627	**601,455**
Aggregate remuneration 2015 (US$)	847,518	-	43,386	28,473	**919,377**

[1] Includes pension contributions paid as cash.

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

[1] Includes pension contributions paid as cash.

Fees and basic salary

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

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

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

Bonus

The Remuneration Committee administers the bonus scheme for the Company and considers whether executive Directors are eligible for an annual and/or interim bonus payment; the Committee also has an oversight for bonus awards to staff. The bonus scheme comprises two parts, (i) corporate performance as measured against pre-determined objectives (KPIs), and (ii) individual performance; refer to page 43 for further details. If so, performance conditions will be relevant to the award, stretched and designed to enhance shareholder value and to promote the long term success of the Company. Upper limits are set and disclosed by the Remuneration Committee. The Remuneration Committee reviewed the outcome of the Company's performance with regard to its 2015 KPIs and noted that it had not met any of its key objectives and accordingly no executive bonuses were awarded to the executive Directors in 2015. As a comparison, in 2014 the Remuneration Committee noted that it had not met any of its key objectives and accordingly no executive bonuses were awarded to the executive Directors. The Company considers the KPIs to be commercially sensitive as they reflect the Company's commercial strategy; in general the KPIs are focused on HSE, new ventures and managing the Companies financial exposure to its existing assets. The KPIs for 2015 are similar to those adopted in 2014. Non-executive Directors are not eligible to receive bonus payments.

Remuneration Committee Report (cont.)

Defined Contribution Pension

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

Benefits in Kind

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

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

Year	CEO	CEO single figure of total remuneration (£)	% change	Annual bonus pay-out against maximum opportunity (%)	Long-term incentive vesting rates against maximum opportunity (%)
2015	Alastair Beardsall [1] / Eskil Jersing	290,184	32.0%	-	-
2014	Alastair Beardsall [1]	219,801	(51.3%)	-	-
2013	Angus MacAskill [2] / Alastair Beardsall [1]	451,417	52.4%	-	-
2012	Angus MacAskill	296,169	(18.9%)	-	-
2011	Angus MacAskill	365,004	(0.4%)	23%	-
2010	Graeme Thomson / Angus MacAskill	366,377	(51.2%)	-	-

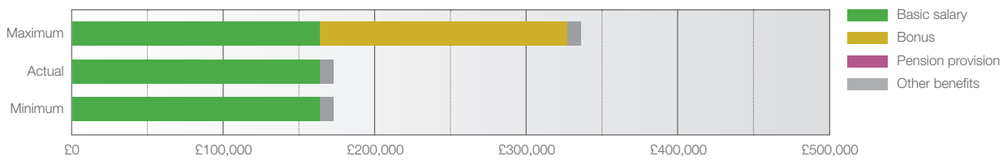
[1] Part-time.
[2] Includes £74,745 paid as compensation for loss of office.

Since August 2013, Alastair Beardsall had acted as interim CEO (until Eskil Jersing's appointment) in addition to being executive Chairman (his remuneration as relating to his appointment in 2013 had been prorated accordingly).

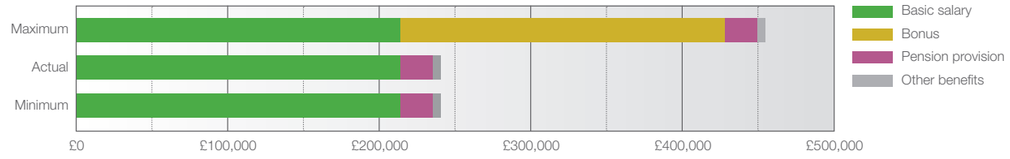
The annual percentage change in CEO single figure remuneration for years 2010 to 2015 compares with that of all employees: 1.3%, (23.9%), (20.5%), 8.5%, (19.8%) and 11.1% respectively.

The graphs below show the value of the executive Director packages for 2015 together with minimum and maximum remuneration attainable:

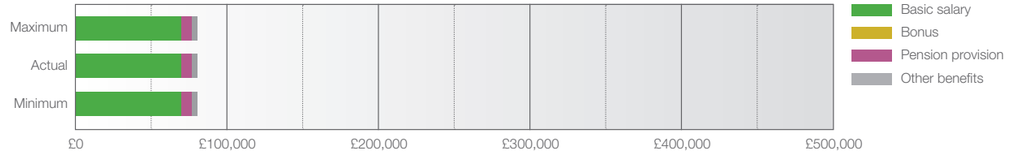
Alastair Beardsall (executive Chairman and interim CEO)



Eskil Jersing (Chief Executive)



Philip Frank (Exploration Director)

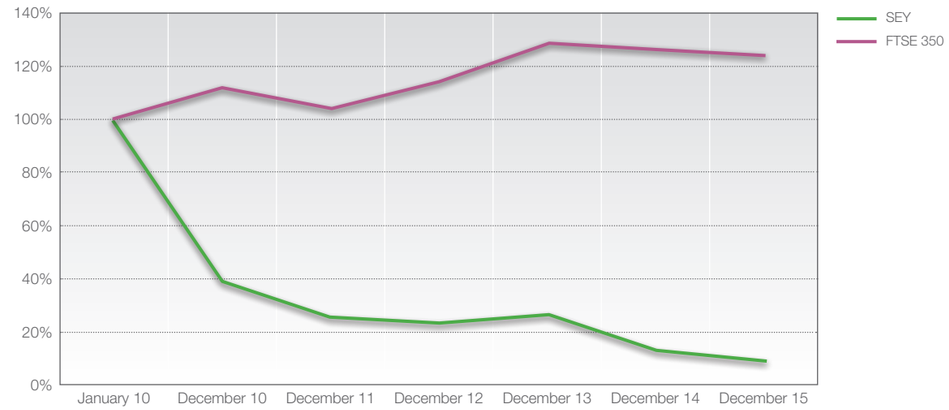


Performance Graph

The graph below shows a comparison between the TSR for the Company's shares for the five-year period to 31 December 2015 and the TSR for the companies comprising the Index over the same period. This Index has been selected to provide a relevant comparator to the Company. The TSR measure is based on the weighted average share price for December.

Total Shareholder Return

Based on weighted average share price for December



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

	Total Group remuneration (£)	Total distribution to shareholders
2015	2,011,139	-
2014	1,810,941	-

Communications with Shareholders

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

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

The executive Chairman provides periodic feedback to the Board following meetings with shareholders. The Senior Independent Director also attends some shareholder meetings to ensure the Board is 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 2016, 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 UK Corporate Governance Code was published for reporting periods beginning on or after 1 October 2012 and subsequently revised in September 2014 for reporting periods beginning on or after 1 October 2014.

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

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

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

Conflicts of Interest

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

Extractive Industries Transparency Initiative ('EITI')

In accordance with the Transparency Criteria as set out by the EITI, the Group has made the following payments to Government bodies during the year ended 31 December 2015:

	2015 $000	2014 $000
Madagascar: Ambilobe	**166**	146
Madagascar: Ampasindava [1]	**-**	108
Cameroon [2]	**-**	500
Mauritania [3]	**104**	104
Somaliland [4]	**75**	75
	345	933

[1] Payment in 2014 made by Exxon Mobil.

[2] Payment in 2014 made by Murphy Oil Corporation.

[3] Included within payments made to SMHPM under the terms of the Chinguetti Funding Agreement, relating to Chinguetti field operating costs and PSC obligations, totalling $8.8 million in 2015 (2014: $9.5 million).

[4] Payments made by Genel Energy.

Directors' Report

The Directors present their Annual Report and Financial Statements on the affairs of the Company and its subsidiaries, together with the independent Auditors' Report for the year ended 31 December 2015.

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 2015 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, Chief Executive'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 17 to the financial statements.

The Group uses a number of key performance indicators to assess the business performance against strategy. Some of these relate to net debt ($), reserves (million boe). Adjusted EBITDAX ($), production (bopd) and share price growth. Analysis of the KPIs can be found in the Financial Review on pages 24 - 27.

RESULTS AND DIVIDENDS

The Group loss for the financial year was $16.0 million (2014: loss $12.3 million). This leaves an accumulated Group retained deficit of $440.9 million (2014: deficit $425.2 million) to be carried forward. The Directors do not recommend the payment of a dividend (2014: $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 12 - 15. The financial position of the Group and Company, its cash flows and liquidity position are described in the Financial Review on pages 24 - 27. In addition, Note 24 to the financial statements includes the Group's objectives, policies and processes for managing its capital financial risk: details of its financial instruments and its exposures to credit risk and liquidity risk.

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

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

CAPITAL STRUCTURE

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in Note 19 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 25. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

DIRECTORS

The Directors who served during the year were as follows:

Mr. Alastair Beardsall
Mr. Eskil Jersing (appointed 23 March 2015)
Dr. Philip Frank (resigned 13 March 2015)
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 34.

DIRECTORS AND ELECTION ROTATION

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

In accordance with article 106 of the Company's Articles of Association, Keith Henry and Nicholas Clayton retire by rotation and offer themselves for re-election at the forthcoming AGM on 25 April 2016.

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 10 March 2016:

	Number	%
Waterford Finance & Investment Ltd	65,785,517	29.90
Mistyvale Limited	34,467,790	15.66
YF Finance Limited	26,387,105	11.99
Denis O'Brien	15,750,000	7.16
Banque Heritage	14,930,358	6.78
Sprott Asset Management	6,871,638	3.12

BUSINESS RISK

A summary of the principle and general business risks can be found within the Strategic Report on pages 28 - 31.

FINANCIAL INSTRUMENTS

Information about the use of financial instruments, the Group's policy and objectives for financial risk management is given in Note 24 to the financial statements.

Directors' Report (cont.)

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 to be held on 25 April 2016.

Eskil Jersing
Chief Executive Officer
10 March 2016

Statement of Directors' Responsibilities

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

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

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

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

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

WEBSITE PUBLICATION

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

DIRECTORS' RESPONSIBILITY STATEMENT

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

For and on behalf of the Board.

Eskil Jersing
Chief Executive Officer
10 March 2016

Sterling Energy plc

Group Accounts

Year ended 31 December 2015

Independent Auditors' Report

to the members of Sterling Energy plc

We have audited the financial statements of Sterling Energy plc for the year ended 31 December 2015 which comprises the consolidated and Company statement of financial position, the consolidated statement of comprehensive income, the consolidated and Company statement of cash flows, the consolidated and Company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's ('FRC's') Ethical Standards for Auditors. The company voluntarily prepares a Directors' Remuneration Report in accordance with the provisions of the Companies Act 2006 that would have applied had the company been a quoted company. We have agreed to audit the part of the Directors' Remuneration Report that we would have been required to audit under the Companies Act 2006 if the company was a quoted company.

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 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

OPINION ON DIRECTORS' REMUNERATION REPORT WHICH WE HAVE AGREED TO REPORT

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Scott McNaughton (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London, United Kingdom
10 March 2016

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2015

	Note	**31 December 2015 $000**	31 December 2014 $000
Revenue	4	**5,031**	15,991
Cost of sales	6	**(6,028)**	(11,873)
Gross (loss)/profit		**(997)**	4,118
Other administrative expenses		**(2,305)**	(2,069)
Impairment of oil and gas assets	3	**(8,183)**	(7,903)
Pre-licence costs		**(2,212)**	(2,196)
Onerous contract	21	**(3,700)**	(3,390)
Chinguetti cessation costs	7	**2,159**	-
Total administrative expenses		**(14,241)**	(15,558)
Loss from operations	5	**(15,238)**	(11,440)
Finance income	9	**356**	398
Finance expense	9	**(1,068)**	(1,276)
Loss before tax		**(15,950)**	(12,318)
Tax	10	**-**	-
Loss for the year attributable to the owners of the parent		**(15,950)**	(12,318)
Other comprehensive income			
Currency translation adjustments		**6**	24
Total other comprehensive income for the year		**6**	24
Total comprehensive expense for the year attributable to the owners of the parent		**(15,944)**	(12,294)
Basic loss per share (US cents)	13	**(7.25)**	(5.60)
Diluted loss per share (US cents)	13	**(7.25)**	(5.60)

Consolidated Statement of Financial Position

Year ended 31 December 2015

	Note	31 December 2015 $000	31 December 2014 $000
Non-current assets			
Intangible royalty assets	14	**-**	-
Intangible exploration and evaluation assets	15	**25,074**	28,426
Property, plant and equipment	16	**34**	72
		25,108	28,498
Current assets			
Inventories		**1,320**	2,223
Trade and other receivables	18	**550**	3,294
Cash and cash equivalents		**98,653**	108,148
		100,523	113,665
Total assets		**125,631**	142,163
Equity			
Share capital	19	**149,014**	149,014
Share premium		**378,863**	378,863
Currency translation reserve		**(219)**	(225)
Retained deficit		**(440,862)**	(425,209)
Total equity		**86,796**	102,443
Non-current liabilities			
Long-term provisions	21	**32,395**	22,667
		32,395	22,667
Current liabilities			
Trade and other payables	22	**2,740**	13,663
Short-term provisions	21	**3,700**	3,390
		6,440	17,053
Total liabilities		**38,835**	39,720
Total equity and liabilities		**125,631**	142,163

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 10 March 2016.

Signed on behalf of the Board of Directors.

Eskil Jersing
Chief Executive Officer
10 March 2016

Consolidated Statement of Changes in Equity

Year ended 31 December 2015

	Share capital $000	Share premium $000	Currency translation reserve $000	Retained deficit [1] $000	Total $000
At 1 January 2014	149,014	378,863	(249)	(413,550)	114,078
Loss for the year	-	-	-	(12,318)	(12,318)
Currency translation adjustments	-	-	24	-	24
Total comprehensive expense for the year attributable to the owners of the parent	-	-	24	(12,318)	(12,294)
Share option charge for the year	-	-	-	659	659
At 31 December 2014	149,014	378,863	(225)	(425,209)	102,443
Loss for the year	-	-	-	(15,950)	(15,950)
Currency translation adjustments	-	-	6	-	6
Total comprehensive expense for the year attributable to the owners of the parent	-	-	6	(15,950)	(15,944)
Share option charge for the year	-	-	-	297	297
At 31 December 2015	**149,014**	**378,863**	**(219)**	**(440,862)**	**86,796**

[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 2015

	Note	2015 $000	2014 $000
Operating activities			
Loss before tax		**(15,950)**	(12,318)
Depreciation, depletion & amortisation	14,16	**54**	2,358
Impairment expense	3	**8,183**	7,903
Chinguetti cessation costs		**(2,159)**	-
Onerous provision		**310**	3,390
Finance income and gains		**(356)**	(398)
Finance expense and losses		**1,056**	1,265
Share-based payment charge		**297**	659
Operating cash flow prior to working capital movements		**(8,565)**	2,859
Decrease in inventories		**903**	523
Decrease/(Increase) in trade and other receivables		**2,744**	(359)
Decrease in trade and other payables		**(2)**	(1,669)
		(4,920)	1,354
Cash (outflow)/generated from continuing operations		**(4,877)**	1,814
Cash outflow from discontinued operations		**(43)**	(460)
Net cash flow (used in)/generated from operating activities		**(4,920)**	1,354
Investing activities			
Interest received		**356**	398
Purchase of property, plant and equipment	16	**(16)**	(32)
Exploration and evaluation costs	15	**(4,831)**	(14,102)
Net cash used in investing activities		**(4,491)**	(13,736)
Net decrease in cash and cash equivalents		**(9,411)**	(12,382)
Cash and cash equivalents at beginning of year		**108,148**	120,755
Effect of foreign exchange rate changes		**(84)**	(225)
Cash and cash equivalents at end of year		**98,653**	108,148

Company Statement of Financial Position

Year ended 31 December 2015

	Note	31 December 2015 $000	31 December 2014 $000
Non-current assets			
Property, plant and equipment	16	**-**	-
Investments	17	**29,113**	28,890
		29,113	28,890
Current assets			
Inventories		**1,320**	2,223
Trade and other receivables	18	**20,478**	19,773
Cash and cash equivalents		**97,483**	106,473
		119,281	128,469
Total assets		**148,394**	157,359
Equity			
Share capital	19	**149,014**	149,014
Share premium		**378,863**	378,863
Retained deficit		**(451,885)**	(447,839)
Total equity		**75,992**	80,038
Non-current liabilities			
Long-term provisions	21a	**32,395**	22,667
		32,395	22,667
Current liabilities			
Trade and other payables	22	**36,307**	51,264
Short-term provisions	21	**3,700**	3,390
		40,007	54,654
Total liabilities		**72,402**	77,321
Total equity and liabilities		**148,394**	157,359

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 10 March 2016.

Signed on behalf of the Board of Directors

Eskil Jersing
Chief Executive Officer
10 March 2016

Company Statement of Changes in Equity

Year ended 31 December 2015

	Share capital $000	Share premium $000	Retained deficit [1] $000	Total $000
At 1 January 2014	149,014	378,863	(364,232)	163,645
Total comprehensive expense for the year	-	-	(84,266)	(84,266)
Share option charge for the year	-	-	659	659
At 31 December 2014	149,014	378,863	(447,839)	80,038
Total comprehensive expense for the year	-	-	(4,343)	(4,343)
Share option charge for the year	-	-	297	297
At 31 December 2015	**149,014**	**378,863**	**(451,885)**	**75,992**

[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 2015

	Note	2015 $000	2014 $000
Operating activities			
Loss before tax		**(4,344)**	(84,266)
Depreciation, depletion & amortisation	16	**-**	1,567
Impairment expense	16	**-**	3,979
Impairment of investment		**-**	79,604
Chinguetti cessation costs		**(2,159)**	-
Onerous provision		**310**	3,390
Finance income and gains		**(356)**	(398)
Finance expense and losses		**1,036**	1,241
Share-based payment charge		**22**	30
Operating cash flow prior to working capital movements		**(5,491)**	5,147
Decrease in inventories		**903**	522
(Increase)/decrease in trade and other receivables		**(705)**	5,569
Decrease in trade and other payables		**(4,018)**	(22,936)
Decrease in provisions		**(18)**	(533)
Net cash flow used in operating activities		**(9,329)**	(12,231)
Investing activities			
Interest received		**356**	398
Net cash generated from investing activities		**356**	398
Net decrease in cash and cash equivalents		**(8,973)**	(11,833)
Cash and cash equivalents at beginning of year		**106,473**	118,498
Effect of foreign exchange rate changes		**(17)**	(192)
Cash and cash equivalents at end of year		**97,483**	106,473

Notes to the Financial Statements

Year ended 31 December 2015

1. ACCOUNTING POLICIES

a) General Information

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

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

b) Basis of Accounting and Adoption of New and Revised Standards

The Group and Company financial statements have been prepared in accordance with IFRSs as adopted by the EU.

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

No standards adopted this year had a material affect.

(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 11	Accounting for Acquisitions of Interests in Joint Operations (Amendments)	1 January 2016
IAS 16 and IAS 38	Acceptable Methods of Depreciation and Amortisation (Amendments)	1 January 2016
IAS 16 and IAS 41	Agriculture: Bearer Plants (Amendments)	1 January 2016
IAS 27	Equity Method in Separate Financial Statements (Amendments)	1 January 2016
Annual Improvements to IFRSs	(2012–2014 Cycle)	1 January 2016
IAS 1	Disclosure Initiative (Amendments)	1 January 2016
IAS 19	Defined Benefit Plans (Amendments)	1 February 2015
Annual Improvements to IFRSs	(2010-2012 Cycle)	1 February 2015

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

c) Going Concern

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

d) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is recognised where an investor is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect these returns through its power over the investee.

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

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

(ii) Transactions eliminated on consolidation

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

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

e) Jointly Controlled Operations

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

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

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

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

f) Revenue

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

g) Oil and Gas Interests

Exploration and Evaluation Assets:

Capitalisation

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

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

Impairment

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

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

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

Development and Production Assets:

Capitalisation

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

Depreciation

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

Impairment

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

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

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

h) Property, Plant and Equipment Assets other than Oil and Gas Assets:

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

Computer and office equipment depreciation – 33% straight line.

i) Decommissioning

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

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

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

j) Intangible Royalty Interests

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

k) Foreign Currencies

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

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

l) Taxation

Current Tax:

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

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 development activities, the Middle East has exploration activities (discontinued) and the United Kingdom office is an administrative cost centre.

u) Contingent Consideration

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

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.

Company – Investment

If circumstances indicate that impairment may exist, investments in subsidiary undertakings of the Company are evaluated using market values, where available, or the discounted expected future cash flows of the investment. If these cash flows are lower than the Company's carrying value of the investment, an impairment charge is recorded in the Company. Evaluation of impairments on such investments involves significant management judgement and may differ from actual results - see Note 17.

Onerous commitment provision

A provision for an onerous commitment is made where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under the said contract - Details of these can be found in Note 21.

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

Commercial Reserves

Commercial reserves are proven and probable oil and gas reserves, calculated on an entitlement basis. Estimates of commercial reserves underpin the calculation of depletion and amortisation on a unit of production basis. Estimates of commercial reserves include estimates of the amount of oil and gas in place, assumptions about reservoir performance over the life of the field and assumptions about commercial factors which, in turn, will be affected by the future oil and gas price. See page 23.

Impairment of Assets

Management is required to assess oil and gas assets for indicators of impairment and has considered the economic value of both individual E&E assets and the Chinguetti Funding and Royalty Agreements. The carrying value of oil and gas assets is disclosed in Notes 14, 15 and 16. The carrying value of related investments in the Company Statement of Financial Position is disclosed in Note 17.

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

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

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

Key assumptions used in the value-in-use calculations

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

- production volumes;
- commodity prices;
- fixed and variable operating costs;
- capital expenditure; and
- discount rates.

Production volumes/recoverable reserves

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

Commodity prices

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

Fixed and variable operating costs

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

Capital expenditure

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

Discount rates

Discount rates reflect the current market assessment of the risks specific to the oil and gas sector and are based on the weighted average cost of capital for the Group. Where appropriate, the rates are adjusted to reflect the market assessment of any risk specific to the field for which future estimated cash flows have not been adjusted. The Group has applied a discount rate of 10% for the current year (2014: 10%).

Sensitivity to changes in assumptions

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

During the year the Group recognised impairments totalling $8.2 million in accordance with IAS 36 "Impairment of Assets". This related to the full impairment of the Ntem block, a decision based on a combination of above ground risks (the current impasse with the Government over the Company's claim of force majeure) and a risked assessment of the remaining prospectivity on block.

During 2014 the Group recognised impairments totalling $7.9 million in accordance with IAS 36 "Impairment of Assets" on the Chinguetti Funding & Royalty Agreement's ($6.0 million) and the Ampasindava block ($1.9 million).

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

Oil & gas expenditure – acquisitions and disposals

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

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

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

Decommissioning

The Company has obligations in respect of decommissioning in Mauritania. The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, the estimated costs and timing of the work and the discount rate applied. Decommissioning estimates for the Chinguetti field are based on a range of operator estimates which are periodically reviewed by the operator and the partnership. Details of these can be found in Note 21.

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 25.

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 2015 and for the year ended 31 December 2014.

		Africa		Middle East (Discontinued)		Total	
	Note	**2015 $000**	2014 $000	**2015 $000**	2014 $000	**2015 $000**	2014 $000
Statement of comprehensive income							
Revenue [1]		**5,031**	15,991	**-**	-	**5,031**	15,991
Cost of sales		**(6,028)**	(11,873)	**-**	-	**(6,028)**	(11,873)
Gross (loss)/profit		**(997)**	4,118	**-**	-	**(997)**	4,118
Impairment of E&E assets	15	**(8,183)**	(1,863)	**-**	-	**(8,183)**	(1,863)
Impairment of royalty assets	14	**-**	(2,061)	**-**	-	**-**	(2,061)
Impairment of D&P assets	16	**-**	(3,979)	**-**	-	**-**	(3,979)
Accruals release		**-**	-	**5**	5	**5**	5
Pre-licence costs		**(2,212)**	(2,196)	**-**	-	**(2,212)**	(2,196)
Chinguetti cessation costs		**2,159**	-	**-**	-	**2,159**	-
Onerous contract		**(3,700)**	(3,390)	**-**	-	**(3,700)**	(3,390)
Segment result		**(12,933)**	(9,371)	**5**	5	**(12,928)**	(9,366)
Unallocated corporate expenses						**(2,310)**	(2,074)
Loss from operations						**(15,238)**	(11,440)
Finance income						**356**	398
Finance expense						**(1,068)**	(1,276)
Loss before tax						**(15,950)**	(12,318)
Tax						**-**	-
Loss attributable to owners of the parent						**(15,950)**	(12,318)

[1] Revenue from continuing operations (Mauritania, Africa) includes amounts of $4.7 million (100% external) from one single customer (2014: $14.9 million).

	Corporate		Africa		Middle East (Discontinued)		Total	
	2015 $000	2014 $000	**2015 $000**	2014 $000	**2015 $000**	2014 $000	**2015 $000**	2014 $000
Other segment information								
Capital additions:								
Property, plant and equipment	**16**	32	**-**	-	**-**	-	**16**	32
Exploration and evaluation	**-**	-	**4,831**	17,102	**-**	-	**4,831**	17,102
Depreciation, depletion & amortisation	**(54)**	(58)	**-**	(2,300)	**-**	-	**(54)**	(2,358)
Impairment expense	**-**	-	**(8,183)**	(7,903)	**-**	-	**(8,183)**	(7,903)
Segment assets and liabilities								
Non-current assets [1]	**34**	72	**25,074**	28,426	**-**	-	**25,108**	28,498
Segment assets [2]	**98,010**	107,151	**2,503**	6,461	**10**	53	**100,523**	113,665
Segment liabilities [3]	**(654)**	(815)	**(38,173)**	(38,877)	**(8)**	(28)	**(38,835)**	(39,720)

[1] Segment non-current assets include $nil in Cameroon (2014: $8.0 million), $4.0 million in Mauritania (2014: $nil), $3.6 million in Madagascar (2014: $3.0 million) and $17.5 million in Somaliland (2014: $17.4 million).

[2] Corporate segment assets include $97.6 million cash and cash equivalents (2014: $106.6 million) and $426k other receivables (2014: $543k). Carrying amounts of segment assets exclude investments in subsidiaries.

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

4. REVENUE

	Total	
	2015 $000	2014 $000
Revenue from the sale of oil and gas	**4,670**	14,944
Royalty income	**361**	1,047
Total operating revenue	**5,031**	15,991

5. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Note	Total	
		2015 $000	2014 $000
Staff costs	8	**3,623**	3,524
Share-based payments	8	**297**	659
Impairment	14,15,16	**8,183**	7,903
Depreciation of other non-current assets	16	**54**	58
Onerous contract	21	**3,700**	3,390
An analysis of auditor's remuneration is as follows:			
Fees payable to the Group's auditors for the audit of the Group's annual accounts		**50**	53
Audit of the Company's subsidiaries pursuant to legislation		**56**	59
Audit related assurance services		**-**	-
Total audit fees		**106**	112

See Note 2 for details on the above impairment.

6. COST OF SALES

	2015 $000	2014 $000
Amortisation of intangible royalty asset	**-**	733
Depletion of property, plant & equipment - oil and gas	**-**	1,567
Operating costs	**8,514**	9,050
Over lift of product entitlement	**904**	523
Onerous contract provision	**(3,390)**	-
	6,028	11,873

7. CHINGUETTI CESSATION COSTS

	Note	2015 $000	2014 $000
Increase in decommissioning provision	21	**(8,762)**	-
Reassessment of accrued costs		**10,921**	-
		2,159	-

8. EMPLOYEE INFORMATION

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

	2015	2014
Africa	**7**	4
Corporate support staff	**10**	10
	17	14

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

	2015 $000	2014 $000
Wages and salaries	**3,023**	2,955
Social security costs	**372**	367
Other pension costs	**228**	202
Share-based payments	**297**	659
	3,920	4,183

Key management personnel include directors who have been paid $919k (2014: $1.0 million), see Remuneration Committee Report (pages 40 - 49) 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 2015 this portion amounted to $3.5 million (2014: $4.1 million).

9. FINANCE INCOME AND FINANCE EXPENSE

	2015 $000	2014 $000
Finance income:		
Interest revenue on short-term deposits	**356**	398
	356	398
Finance expense:		
Bank charges	**13**	11
Unwinding of discount on decommissioning provision	**966**	1,079
Unwinding of discount on production royalty bonus provision	**-**	5
Exchange differences	**89**	181
	1,068	1,276

10. TAXATION

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

	Total	
	2015 $000	2014 $000
Loss before tax	**(15,950)**	(12,318)
Tax on loss on ordinary activities at standard UK corporation tax rate of 20.25% (2014: 21.50%)	**(3,230)**	(2,648)
Effects of:		
Expenses not deductible for tax purposes	**1,572**	2,101
Capital allowances in excess of depreciation	**(785)**	102
Adjustment for tax losses	**2,443**	445
Tax charge for the year	**-**	-

Deferred Tax

At the reporting date the Group had an unrecognised deferred tax asset of $19.0 million (2014: $17.1 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 $15.4 million (2014: $13.4 million) relating primarily to unused losses and unutilised capital allowances.

11. DISCONTINUED OPERATIONS

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

During 2015 the Group released accruals totalling $5k.

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

	2015 $000	2014 $000
Net decrease in cash and cash equivalents	**(43)**	(460)

12. LOSS ATTRIBUTABLE TO THE COMPANY

The loss for the financial year within the Company accounts of Sterling Energy plc was $4.3 million (2014: $84.3 million) which includes the investment impairment as detailed in Note 17. As provided by s408 of the Companies Act 2006, no individual statement of comprehensive income and expense is provided in respect of the Company.

13. EARNINGS PER SHARE

	Basic		**Diluted**	
	2015 $000	2014 $000	**2015 $000**	2014 $000
Loss for the year (continuing operations)	**(15,950)**	(12,318)	**(15,950)**	(12,318)
Loss for the year (discontinuing operations)	**-**	-	**-**	-
Weighted average number of ordinary shares in issue during the year	**220,053,520**	220,053,520	**220,053,520**	220,053,520
Dilutive effect of share options outstanding	**-**	-	**-**	-
Fully diluted average number of ordinary shares during the year	**220,053,520**	220,053,520	**220,053,520**	220,053,520
EPS (continuing operations) (US cents)	**(7.25)**	(5.60)	**(7.25)**	(5.60)
EPS (discontinuing operations) (US cents)	**-**	-	**-**	-

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 7,578,783 (2014: 13,185,433) (see Note 25 on pages 94 - 96).

14. INTANGIBLE ROYALTY ASSETS

	Group $000
Net book value at 1 January 2014	2,794
Amortisation charge for the year	(733)
Impairment for the year	(2,061)
Net book value at 31 December 2014	-
Net book value at 31 December 2015	**-**

15. INTANGIBLE EXPLORATION AND EVALUATION ('E&E') ASSETS

	Group $000
Net book value at 1 January 2014	13,187
Additions during the year	17,102
Impairment for the year	(1,863)
Net book value at 31 December 2014	28,426
Additions during the year	4,831
Impairment for the year	(8,183)
Net book value at 31 December 2015	**25,074**

Impairment for the 2015 refers to the full impairment of the Ntem asset (2014: Ampasindava).

16. PROPERTY, PLANT AND EQUIPMENT

Group	Oil and Gas assets $000	Computer and office equipment $000	Total $000
Cost			
At 1 January 2014	185,802	143	185,945
Additions during the year	-	32	32
At 31 December 2014	185,802	175	185,977
Additions during the year	-	16	16
At 31 December 2015	**185,802**	**191**	**185,993**
Accumulated depreciation and impairment			
At 1 January 2014	(180,256)	(45)	(180,301)
Charge for the year	(1,567)	(58)	(1,625)
Impairment reversal for the year	(3,979)	-	(3,979)
At 31 December 2014	(185,802)	(103)	(185,905)
Charge for the year	-	(54)	(54)
Impairment for the year	-	-	-
At 31 December 2015	**(185,802)**	**(157)**	**(185,959)**
Net book value at 31 December 2015	**-**	**34**	**34**
Net book value at 31 December 2014	-	72	72
Net book value at 31 December 2013	5,546	98	5,644

Company	Oil and Gas assets $000	Computer and office equipment $000	Total $000
Cost			
At 1 January 2014	185,802	-	185,802
At 31 December 2014	185,802	-	185,802
At 31 December 2015	**185,802**	**-**	**185,802**
Accumulated depreciation and impairment			
At 1 January 2014	(180,256)	-	(180,256)
Charge for the year	(1,567)	-	(1,567)
Impairment for the year	(3,979)	-	(3,979)
At 31 December 2014	(185,802)	-	(185,802)
At 31 December 2015	**(185,802)**	**-**	**(185,802)**
Net book value at 31 December 2015	**-**	**-**	**-**
Net book value at 31 December 2014	-	-	-
Net book value at 31 December 2013	5,546	-	5,546

17. INVESTMENT IN SUBSIDIARIES

	Company $000
Cost	
At 1 January 2014	107,834
Impairment of investment in subsidiary	(79,604)
Additions during the year	660
At 31 December 2014	28,890
Additions during the year	223
At 31 December 2015	**29,113**

The subsidiary undertakings at 31 December 2015 are as follows (these undertakings are included on consolidation):

	Country of incorporation	Class of shares held	Proportion of voting rights held 2015	Proportion of voting rights held 2014	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 Energy Overseas Limited [1]	United Kingdom	Ordinary	100%	100%	Investment holding company
Sterling Energy Mauritania Limited [3]	United Kingdom	Ordinary	100%	100%	Exploration for oil and gas
Sterling Northwest Africa Holdings Limited [1]	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy Holdings Limited [4]	Jersey, CI	Ordinary	100%	100%	Investment holding company
Sterling Cameroon Limited [4]	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy (East Africa) Limited [4]	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Kenya Limited (Dormant) [4]	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas

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

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

[3] Held directly by Sterling Energy Overseas Limited

[4] Held directly or indirectly through Sterling Northwest Africa Limited

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2015 $000	2014 $000	**2015 $000**	2014 $000
Trade receivables	**80**	2,699	**42**	2,518
Amounts owed by subsidiary undertakings	**-**	-	**20,366**	17,130
Other receivables	**130**	162	**8**	55
Amounts due from joint venture partners	**-**	-	**-**	-
Prepayments and accrued income	**340**	433	**62**	70
	550	3,294	**20,478**	19,773

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

19. SHARE CAPITAL

	2015 $000	2014 $000
Authorised, called up, allotted and fully paid		
220,053,520 (2014: 220,053,520) ordinary shares of 40p	**149,014**	149,014

20. 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 dollar.

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

21. SHORT AND LONG-TERM PROVISIONS

At 31 December 2015, a provision of $3.7 million (2014: $3.4 million) has been made in recognition of all expected future net onerous commitments under the Chinguetti Funding Agreement – see also Note 2.

Long term provisions are detailed in the table below:

	2015 $000	2014 $000
Group		
Decommissioning provision (a)	**32,395**	22,667
2003 Production Royalty Bonus Scheme (b)	**-**	-
	32,395	22,667

a) Decommissioning Provisions	2015 $000	2014 $000
Group/Company		
At 1 January	**22,667**	21,588
Increase in decommissioning provision	**8,762**	-
Unwinding of discount	**966**	1,079
	32,395	22,667

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 $32.4 million (2014: $22.7 million) represents the amount provided within the Company for future decommissioning expenditure.

b) 2003 Production Royalty Bonus Scheme	2015 $000	2014 $000
Group		
At 1 January	**-**	63
Unwinding of discount	**-**	5
Transferred to current liabilities	**-**	(68)
Foreign exchange movements	**-**	-
	-	-

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 25) and no further sums were accrued. The scheme concluded in 2015.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Trade payables	**264**	356	**13**	10
Amounts owed to subsidiary undertakings	**-**	-	**35,523**	39,120
Amounts advanced from joint venture partners	**1,043**	850	**-**	-
Accruals	**1,433**	12,457	**771**	12,134
	2,740	13,663	**36,307**	51,264

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

23. OPERATING LEASES AND CAPITAL COMMITMENTS

	Group		Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Minimum lease payments under operating leases recognised as an expense in the year	**6,124**	5,220	**5,702**	4,763

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

	Group		Company	
	2015 $000	2014 $000	2015 $000	2014 $000
Within one year	**4,774**	5,203	**4,315**	4,809
In the second to fifth year inclusive	**422**	1,554	**-**	1,554
	5,196	6,757	**4,315**	6,363

Operating lease payments represent the Group's share of rentals for the Berge Helene vessel in Mauritania, a BWO operated Floating Production, Storage and Offtake ('FPSO') and rentals payable for its office properties. The current FPSO commitment is through the Chinguetti Funding Agreement and has a break clause in 2016; accordingly, included within the $5.1 million is $4.3 million payable on the FPSO within one year.

24. 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 2015 and 31 December 2014.

	Carrying amount/Fair value	
	2015	2014
Group	**$000**	$000
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	**97,553**	107,034
Cash and cash equivalents held on behalf of partners	**1,100**	1,114
Trade and other receivables	**209**	2,861
Total	**98,862**	111,009
Financial liabilities at amortised cost		
Trade and other payables	**2,740**	13,663
Total	**2,740**	13,663

	Carrying amount/Fair value	
	2015	2014
Company	**$000**	$000
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	**97,483**	106,473
Trade and other receivables	**20,416**	19,703
Total	**117,899**	126,176
Financial liabilities at amortised cost		
Trade and other payables	**36,307**	51,264
Total	**36,307**	51,264

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 at the reporting date and assumes the amount of the balances at the reporting date were outstanding for the whole year.

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

	Group Increase		Company Increase	
	2015	2014	**2015**	2014
	$000	$000	**$000**	$000
Cash and cash equivalents	**987**	1,081	**975**	1,065

Foreign Currency Risk

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

Financial Assets

	Group		Company	
Cash and cash equivalents	**2015 $000**	2014 $000	**2015 $000**	2014 $000
Cash and cash equivalents held in US$	**97,380**	106,791	**96,203**	105,180
Cash and cash equivalents held in GBP	**1,273**	1,357	**1,280**	1,293
	98,653	108,148	**97,483**	106,473

	Group		Company	
Trade and other receivables	**2015 $000**	2014 $000	**2015 $000**	2014 $000
Trade and other receivables held in US$	**157**	2,779	**20,408**	19,699
Trade and other receivables held in GBP	**53**	82	**8**	4
	210	2,861	**20,416**	19,703

Financial Liabilities

	Group		Company	
Trade and other payables	**2015 $000**	2014 $000	**2015 $000**	2014 $000
Trade and other payables held in US$	**2,202**	12,972	**30,042**	45,196
Trade and other payables held in GBP	**538**	691	**6,265**	6,068
	2,740	13,663	**36,307**	51,264

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, group or company of counter-parties with similar characteristics.

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. At the year end the Group held approximately 99% (2014: 99%) 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 $18k (2014: $533k) following the relinquishment of its Sangaw North licence in Kurdistan. Trade and other receivables are non-interest bearing. The Group does not hold any collateral as security and the Group does not hold any significant provision in the impairment account for trade and other receivables as they relate to customers with no default history. There are no financial instruments held at fair value under the level 1, 2 and 3 hierarchy.

Liquidity and Interest Rate Tables

The following tables detail the remaining contractual maturity for the non-derivative financial assets and liabilities of the Group and Company. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows including rates for loan liabilities and cash deposits on actual contractual arrangements. The weighted average interest rate used in 2015 is nil % (2014: nil %).

	Less than six months $000	**Six months to one year** $000	**One to six years** $000	**Total** $000	**Interest** $000	**Principal** $000
Group						
Trade payables (2015)	**1,197**	**-**	**-**	**1,197**	**-**	**-**
Trade payables (2014)	1,111	-	-	1,111	-	-
Company						
Trade and other payables (2015)	**8**	**-**	**35,523**	**35,531**	**-**	**-**
Trade and other payables (2014)	4	-	39,120	39,124	-	-

25. 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 $297k (2014: $659k). The Company recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of $22k (2014: $30k).

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

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

All Staff Long Term Incentive Plan ('All Staff LTIP')
In accordance with the approved All Staff LTIP, the Group has granted options to its staff and executive Directors to acquire shares in the Company.

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

	2015 Number of share options	**2015 Exercise price (pence)**	2014 Number of share options	2014 Exercise price (pence)
Outstanding at the beginning of the year	**11,556,950**	**40**	12,114,800	40
Granted during the period	**-**	**40**	4,396,300	40
Lapsed during the period	**(5,440,450)**	**40**	(4,954,150)	40
Outstanding at the end of the year	**6,116,500**	**40**	11,556,950	40
Exercisable at the end of the year	**-**	**-**	-	-

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

The options outstanding at 31 December 2015 have a contractual life of 3.35 years (2014: 3.81 years). The cost of the options is spread over the vesting period of three years. There were no options granted during the year. The fair value of the options granted in 2014 was 5.7 pence.

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

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

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

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

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

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:

	2015	2014
Share price (pence)	**n/a**	24
Exercise price (pence)	**n/a**	40
Expected volatility at time of grant	**n/a**	61.25%
Expected life (years)	**n/a**	3
Risk free rate (%)	**n/a**	0.66%
Expected dividends	**n/a**	Nil

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

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

	2015 Number of share options	**2015 Exercise price (pence)**	2014 Number of share options	2014 Exercise price (pence)
Outstanding at the beginning of the year	**1,235,700**	**42**	949,900	43
Granted during the period	**-**	**-**	563,800	40
Lapsed during the period	**(166,200)**	**42**	(278,000)	43
Outstanding at the end of the year	**1,069,500**	**42**	1,235,700	42
Exercisable at the end of the year	**-**	**-**	-	-

The options outstanding at 31 December 2015 have a contractual life of 3.33 years (2014: 4.31 years). The cost of the options is spread over the vesting period of three years. There were no options granted during the year. The fair value of the options granted during 2014 was 5.7 pence.

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

	2015	2014
Share price (pence)	**n/a**	24
Exercise price (pence)	**n/a**	40
Expected volatility at time of grant	**n/a**	61.25%
Expected life (years)	**n/a**	3
Risk free rate (%)	**n/a**	0.66%
Expected dividends	**n/a**	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, was as follows:

	2015 Number of share options	**2015 Exercise price (pence)**	2014 Number of share options	2014 Exercise price (pence)
Outstanding at the beginning of the year	**392,783**	**40**	642,783	40
Granted during the period	**-**	**-**	-	40
Lapsed during the period	**(83,333)**	**40**	(250,000)	40
Outstanding at the end of the year	**309,450**	**40**	392,783	40
Exercisable at the end of the year	**309,450**	**40**	83,333	40

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

Furthermore, options are forfeited if the non-executive Director leaves the Group before the options vest or are exercised. The options outstanding at 31 December 2015 have a contractual life of 1.75 years (2014: 2.33 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.

26. RELATED PARTY TRANSACTIONS

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

	Group		**Company**	
	2015 $000	2014 $000	**2015 $000**	2014 $000
Short-term employee benefits	**876**	960	**163**	173
Payments on loss of office	**-**	123	**-**	-
Defined contribution pension	**43**	41	**-**	-
Share-based payments	**(84)**	416	**22**	30
	835	1,540	**185**	203

Further information on Directors' remuneration is detailed in the Remuneration Committee Report, on pages 40 - 49.

The Group and Company has no other disclosed related party transactions.

27. SUBSEQUENT EVENTS

Mauritania – Withdrawal from block C-3

On 29 January 2016 it was announced that it's wholly owned subsidiary SEML had submitted a notice of withdrawal to its joint venture partners in relation to block C-3, offshore Mauritania. As part of the withdrawal, SEML will assign its entire 40.5% participating interest in the production sharing contract for block C-3, located offshore in the Islamic Republic of Mauritania to Tullow Oil at no cost to Tullow Oil. The minimum work obligations for block C-3 have been completed. As a result, SEML will have no additional costs associated with the withdrawal.

28. CONTINGENT LIABILITIES

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

Following the farm-in to the Odewayne licence in Somaliland, there is a remaining contingent consideration of $8.0 million payable to Petrosoma Limited based upon various operational milestones being met. At 31 December 2015, these milestones had not been met.

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 (both proved developed reserves + proved undeveloped reserves)
2D	two dimensional
2P	1P (proven reserves) + probable reserves, hence "proved AND probable"
3D	three dimensional
3P	the sum of 2P (proven reserves + probable reserves) + possible reserves, all 3Ps "proven AND probable AND possible"
AIM	AIM, a market of the London Stock Exchange
All Staff LTIP	the All Staff Long-Term Incentive Plan adopted in 2009
AGM	Annual General Meeting
Articles	the Articles of Association of the Company
bbl	barrel, equivalent to 42 US gallons of fluid
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
Board	the Board of Directors of the Company
Combined Code or Code	UK Corporate Governance Code
Companies Act	the Companies Act (as amended 2006)
Company	Sterling Energy plc
CSOP	Company Share Option Plan (HMRC approved share option scheme)
Directors	the Directors of the Company
E&P	exploration and production
Adjusted EBITDAX	earnings before interest, taxation, depreciation, depletion and amortisation, impairment, share-based payments, provisions, and pre-licence expenditure
EITI	Extractive Industries Transparency Initiative
EUR	the total amount of hydrocarbons expected to be produced from the hydrocarbon accumulation over the life of the project. Estimated ultimate recovery is synonymous with recoverable resource and the terms are used interchangeably.
Farm-in & Farm-out	a transaction under which one party (farm-out party) transfers part of its interest to a contract to another party (farm-in party) in exchange for a consideration which may comprise the obligation to pay for some of the farm-out party costs relating to the contract and a cash sum for past costs incurred by the farm-out party.
FA	Funding Agreement
FCA	Financial Conduct Authority
FPSO	Floating, Production, Storage and Offloading vessel

G&G	geological and geophysical
GBP	pounds sterling
Genel Energy	Genel Energy Somaliland Limited
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
IFRS	International Financial Reporting Standards
Index	FTSE 350 Index
JV	joint venture
K	thousands
km	kilometre(s)
km2	square kilometre(s)
lead	indication of a potential exploration prospect
London Stock Exchange or LSE	London Stock Exchange Plc
m	metre(s)
mcf	thousand cubic feet
Murphy	Murphy Cameroon Ntem Oil Co. Ltd
NED LTIP	non-executive Director Long Term Incentive Plan adopted in 2009
OECD	Organisation for Economic Cooperation and Development
OPU	Oil Protection Unit
Ordinary Shares	ordinary shares of 40 pence each
P90	the value on a probabilistic distribution which is exceeded by 90% of the outcomes.
P50	the value on a probabilistic distribution which is exceeded by 50% of the outcomes. The P50 is also the median value of the distribution.
P10	the value on a probabilistic distribution which is exceeded by 10% of the outcomes.
Pmean	the average of the values in the probabilistic distribution between defined 'boundary conditions'. Universally regarded as the best single value to quote or communicate for any uncertain distribution of outcomes involved in repeated trial investigations.
Panel or Takeover Panel	the Panel on Takeovers and Mergers
Petroleum	oil, gas, condensate and natural gas liquids
Petroleum system	geologic components and processes necessary to generate and store hydrocarbons, including a mature source rock, migration pathway, reservoir rock, trap and seal.

Definitions and Glossary of Terms (cont.)

Petronas	PC Mauritania 1 PTY LTD
Petrosoma	Petrosoma Limited (joint venture partner in Somaliland)
Premier	Premier Oil
Pre Stack Depth Migration	process by which seismic events are geometrically re-located in space and depth to the location the event occurred in the subsurface
Prospect	an area of exploration in which hydrocarbons have been predicted to exist in economic quantity. A group of prospects of a similar nature constitutes a play.
PSA	production sharing agreement
PSC	production sharing contract
Pura Vida	Pura Vida Mauritius
RA	Royalty Agreement
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
Seismic	data, obtained using a sound source and receiver, that is processed to provide a representation of a vertical cross-section through the subsurface layers.
SESP	Sterling Energy plc share price
Shares	40p ordinary shares
Shareholders	ordinary shareholders of 40p each in the Company
SMHPM	Société Mauritanienne Des Hydrocarbures et de Patrimoine Minier
Subsidiary	a subsidiary undertaking as defined in the 2006 Act
Tcf	Trillion cubic feet
TSR	total shareholder return (End Share Price – Opening Share Price/Opening Share Price) plus (Sum of Dividends per Share/Opening Share Price)
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
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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