

**STERLING  
ENERGY**  
PLC



**Report and Financial Statements**  
**2016**

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 exploration and production licences, with a primary geographic focus on Africa. The Group has high potential exploration projects in Mauritania and Somaliland together with a production and royalty interest in Mauritania. The Company has an active strategy to deliver shareholder value through disciplined, material exploration and production projects; leveraging the Company's experience, with an emphasis on securing near term cash flow generative opportunities.



# Report and Financial Statements

**Year ended 31 December 2016**

## CONTENTS

### OVERVIEW

Chairman's Statement	4
Chief Executive's Review	6
2016 Summary	9

### STRATEGIC REPORT

Operations Review	12
Schedule of Interests	15
Reserves Summary	18
Financial Review	19
Business Risk	23

### CORPORATE GOVERNANCE

Board of Directors	30
Audit Committee Report	33
Nominations Committee	35
Remuneration Committee Report	36
Communications with Shareholders	46
Internal Controls	47
Conflicts of Interest	48
Extractive Industries Transparency Initiative ('EITI')	49
Directors' Report	50
Statement of Directors' Responsibilities	53

### GROUP ACCOUNTS

Independent Auditors' Report	56
Consolidated Statement of Comprehensive Income	57
Consolidated Statement of Financial Position	58
Consolidated Statement of Changes In Equity	59
Consolidated Statement of Cash Flows	60
Company Statement of Financial Position	61
Company Statement of Changes In Equity	62
Company Statement of Cash Flows	63
Notes to the Financial Statements	64
Definitions and Glossary of Terms	91
Professional Advisers	94

# Chairman's Statement

“ We expect to see activity on both the Somaliland Odewayne block in 2017 and Mauritania C-10 exploration block in 2018. ”

The severe decline in the global oil price reached its lowest point during January 2016 when Brent crude reached \$26 a barrel. During 2016 the price improved ending at \$54 a barrel reversing the downward trend experienced in 2015. It appears therefore that the very low, longer downturn predicted has been partially reversed. Despite improvements to the oil price, the E&P sector continues to be adversely affected by projects being delayed and exploration being deferred or cancelled. As my predecessor observed last year 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 significant slowdown in activity coupled with a shift away from exploration.

As reported this decline in the oil price has forced us to review our business model. Both the lack of farm-in appetite on the part of the larger oil companies to fund expensive exploration activities and the lack of appetite in the capital markets for funding appraisal projects, let alone funding exploration, has set us on a much narrower strategy where as a first step in our review cost saving and preservation of cash resources is our paramount objective. In addition to that ongoing process, we have reviewed our business model in light of the changes in market conditions and we are looking to invest in a more balanced cash flow generating portfolio.

We have also continued with our portfolio realignment efforts, relinquishing exploration assets with limited near to mid-term value triggers or monetisation options (at little or no cost). Sterling has successfully executed this re-alignment at minimal cost to the Company. We expect to see activity on both the Somaliland Odewayne block in 2017 and Mauritania C-10 exploration block in 2018. In addition, the Company continues to actively investigate possible acquisition or merger opportunities which may bring transformational growth and help deliver a more balanced cash flow generating portfolio.

Our financial interest in the Chinguetti oil field in Mauritania is loss making and we expect production to cease in 2017. We are therefore concentrating our efforts in determining the extent of our contingent financial liability for decommissioning and abandonment of the field.

In terms of cost saving initiatives, the Company has been working to reduce the Group's administrative expenses in reaction to external adverse market conditions. These efforts have, over the last year, materially reduced the Group's wages and salary expenses. A reduction in office floor space is also scheduled and we are committed to further material reduction in costs.

---

---

## FINANCIAL

The Group had cash resources of \$88.1 million at the end of 2016 and we remain free of debt. Our work programme for 2017 is fully funded and we have resources available to progress both our existing portfolio and add new venture activity in the event that such a venture presents itself and meets with our stricter investment criteria.

## BOARD AND CHANGES

In the last quarter of 2016 three members of the Board resigned due to strategic differences on the future direction of the Company. Post the year end two new directors were appointed, namely Ilya Belyaev and Leo Koot. Mr Belyaev is a representative of one of our shareholders who brings valuable financial and entrepreneurial experience, while Mr Koot is an experienced oil and gas professional and we will benefit from his considerable industry experience. Also in 2017, I had the honour of being appointed as your Chairman, a role which I will faithfully serve in the interest of all shareholders. Eskil Jersing, our CEO, continues to serve on the Board.

## OUTLOOK FOR 2017 AND BEYOND

While the global oil price has seen a marked and what appears to be a sustainable recovery, it is very unlikely that in the near term this will impact positively on the industry or investor appetite for exploration assets. We shall pursue our new business model cautiously, preserving resources in anticipation of a recovery in market conditions and investor sentiment towards active exploration driven strategies. Whilst we wait for this recovery, we will continue to actively investigate possible acquisition or merger opportunities, to deliver a more balanced, revenue focused portfolio of assets.

I would like to thank all our stakeholders for their continuing support and all of our management and staff for their diligent efforts during 2016.

### **Michael Kroupeev**

Chairman

17 March 2017

# Chief Executive's Review

---

---

## MARKET LANDSCAPE

The previous 12 months have clearly demonstrated that the prolonged commodity downturn will be the new normal, despite the slight respite from November's OPEC agreement boosting prices to above \$50/bbl. The fundamentals of supply and demand continue to set the cost basis under which our industry operates.

Pure exploration driven activity continues to decline, with a renewed focus on lower risk infrastructure led drilling and hydrocarbon reserves conversion from contingent to firm. Whilst global upstream spending outlook is improving, capital spending in 2017 is still forecast to be approximately 40% lower than 2014, at ca. \$450 billion per Wood Mackenzie. Governments and resource holders will need to continue the momentum in improving fiscal terms across the value lifecycle in order to attract investment. The forward view on oil prices suggests we will stay within a \$50-\$70 per barrel band through to 2020.

This backdrop imparts the need for acute focus on fiscal discipline, on those top quartile projects that deliver robust returns at the lower end of that price band, and as a consequence most mergers and acquisition ('M&A') activity is directed to lower cost, fast response projects.

The service cost deflation (approximately 20-30%) over the last few years appears to be reducing with some jurisdictions now seeing small cost increases. Despite this, the opportunity landscape continues to favour those with access to capital, operating cost advantages and flexibility to scale back, with deferred capital outlay as prices continue to stay low.

## REFRESHED BOARD, SHAREHOLDER ALIGNMENT AND STRATEGY

Sterling has continued to proactively manage our legacy exploration portfolio by exiting from our C-3, Ntem and Ambilobe assets; all viewed as having no realistic chance of monetisation, or limited risked success potential in the near to mid-term.

Revenue from our Chinguetti oil field Funding and Royalty Agreements will come to end, with cessation of production in 2017. In response, our efforts continue to be focused on limiting our Chinguetti liability exposure and repositioning the Company to source and execute the acquisition of a material M&A led cash flow generating asset.

Through the last year, we have also seen a governance transition, with our majority shareholders Waterford Finance and Investment Limited ('Waterford') and Mistyvale, requesting seats on the Board to ensure a fully aligned forward strategy. In May 2016 Alastair Beardsall retired and was replaced by Nick Clayton in the position of non-executive Chairman. Additionally, Michael Kroupeeov was appointed as a non-executive Director.

In October 2016, Nick Clayton, together with Keith Henry and Malcolm Pattinson, resigned from the Board citing strategic differences on the future direction of the Company.

Sterling remains unique in the smaller E&P sector, with a strong cash position from which to leverage. However, given our loss of Chinguetti revenue and external market conditions, we have continued on a path of prudent cash

---

“ Sterling remains unique in the smaller E&P sector, with a strong cash position from which to leverage. ”

---

preservation. Since 2015, we have undertaken a number of initiatives to reduce our costs, with wages and salaries reducing by 23%, leaving our group administrative overhead at approximately \$2.0 million. This has primarily been delivered through a shift in our capability set and resources related to exiting of non-core assets to better fit our strategic mandate. These efforts continue and will be regularly monitored into 2017, with amongst others, plans to move to smaller serviced office space.

#### ASSET ACTIVITY

The Group has an economic interest in the offshore Chinguetti oil field in Mauritania via the Funding and Royalty Agreements, amounting to ca. 9.5% of cumulative production. Revenues from Chinguetti since late 2014 have been insufficient to cover ongoing operational costs and thus Sterling's administrative overhead costs. The Joint Venture ('JV') participants, led by the operator PC Mauritania 1 PTY LTD ('Petronas') and relevant stakeholders are collectively working towards cessation of production in 2017, with the implementation of a safe, compliant and cost-effective A&D plan. The A&D plan and associated Environmental Impact Statement ('EIS') both lie with the Government of Mauritania for final approval.

On the C-10 block in Mauritania, we continue to work diligently with the operator Tullow Mauritania Limited ('Tullow Oil') and with Société Mauritanienne Des Hydrocarbures et de Patrimoine Minier ('SMHPM'), to mature a top ranking drill ready prospect suitable for drilling in 2018. 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 flexible exit options for Sterling. This has further been validated by BP's recent ca. \$1 billion strategic entry to the basin and their intention to drill up to 4 high impact exploration wells in 2017, some of which will target material oil prone prospects close to the C-10 block.

On the Odewayne licence in Somaliland, a regional 2D seismic acquisition program due to commence Q2 2017 will help de-risk this vast frontier exploration block. 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 and the first exploration well commitment. In August 2016, we received a further 2 year extension on the current third exploration period of the block.

Over the year we undertook disciplined exits from three assets at limited cost. All assets were seen as having low chances of being monetised in the near to mid-term and as such did not fit our revised strategic mandate. We completed our withdrawal from the C-3 block in Mauritania in March 2016, assigning our entire 40.5% participating interest to Tullow Oil; as a result we had no additional costs associated with the withdrawal.

Following a full interpretation and evaluation of our 2015 operated 3D survey on the Ambilobe block in Madagascar we completed our withdrawal in May 2016, without material cost. Prior to that, I am pleased that we maintained our corporate social responsibility ('CSR')

## Chief Executive's Review (cont.)

activities by successfully completing the Nosy Be and Ambanja fish market rehabilitation and Beramanja school projects.

Finally on the Ntem block in Cameroon we exited in December 2016, as we were unable to reach an acceptable solution with the resource holder to advance operational activities on the block.

### OUTLOOK

Sterling is fully funded for all of our asset level commitments and liabilities through a strong balance sheet with cash resources of \$88.1 million as at 31 December 2016.

With regards to the Sterling portfolio, we have the potential to deliver material value to our shareholders in the Somaliland and Mauritania assets over the next few years. We look forward towards the completion and interpretation of the Somaliland regional 2D seismic survey in the second half of 2017 and the C-10 JV drilling a material exploration well in 2018.

On the growth front, we restructured our capability set in 2016 to focus on M&A led due diligence efforts. As a result we undertook lengthy evaluations on a number of projects. We will continue on this M&A led mandate in 2017, with the intent of originating, delivering and executing on a transformative asset or corporate solution.

I am very pleased that as of January 2017, with Michael Kroupeev as our new Chairman along with Ilya Belyaev and Leo Koot joining the Board, we now have a highly aligned team looking to directly deliver on a refreshed shareholder driven mandate.

Finally, on behalf of the Company I would like to thank Alastair Beardsall, Nick Clayton, Keith Henry and Malcolm Pattinson for all their contributions to the Company since 2009; we wish them every success in their various endeavours.

### Eskil Jersing

Chief Executive Officer  
17 March 2017



---

## 2016 SUMMARY

Production, net to the Company from the Chinguetti field (including royalty barrels), averaged 279 barrels of oil per day ('bopd') (2015: 310 bopd).

Adjusted Earnings before Interest, Tax, Depreciation, Amortisation and Exploration Expense ('EBITDAX') loss for the Group of \$3.1 million (2015: \$6.3 million loss).

C-3 block, Mauritania, exit (40.5% working interest) in March 2016.

Ambilobe block, Madagascar, exit (50% working interest and Operator) in May 2016.

Ntem Concession, Cameroon, exit (100% working interest and Operator) in December 2016.

Working with all Chinguetti oil field stakeholders on a safe, cost-effective and technically robust decommissioning and abandonment plan ('A&D plan'), to commence in 2017.

Odewayne block, Somaliland, 2D seismic campaign to commence in Q2 2017.

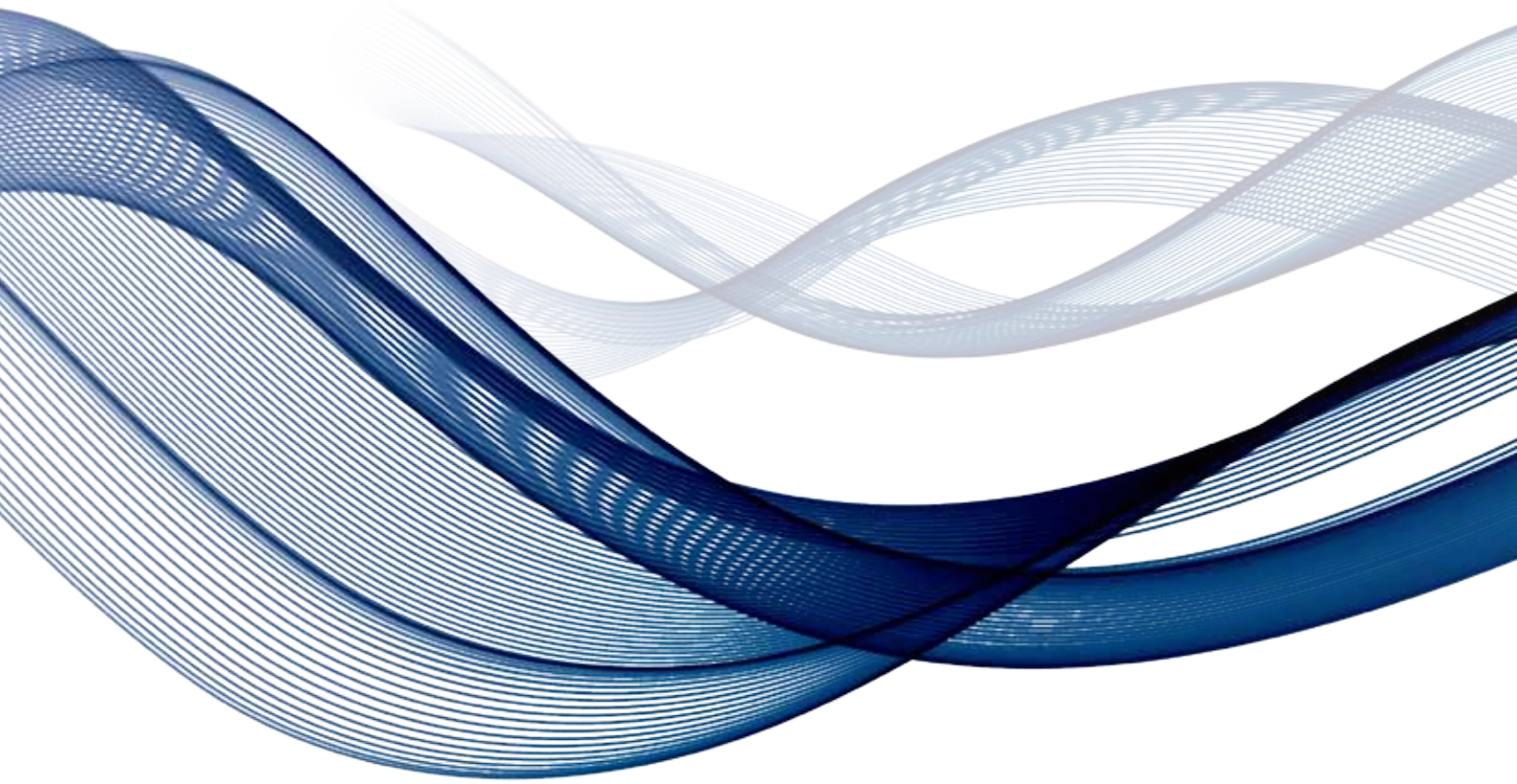
Cash resources net to the Group at 31 December 2016 of \$88.1 million (2015: \$97.6 million).

The Group remains debt free, with cash resources significantly in excess of all outstanding firm commitments.

Ongoing focus on capital discipline, cash G&A expenses reduced by approximately 20% with continued reductions in 2017.

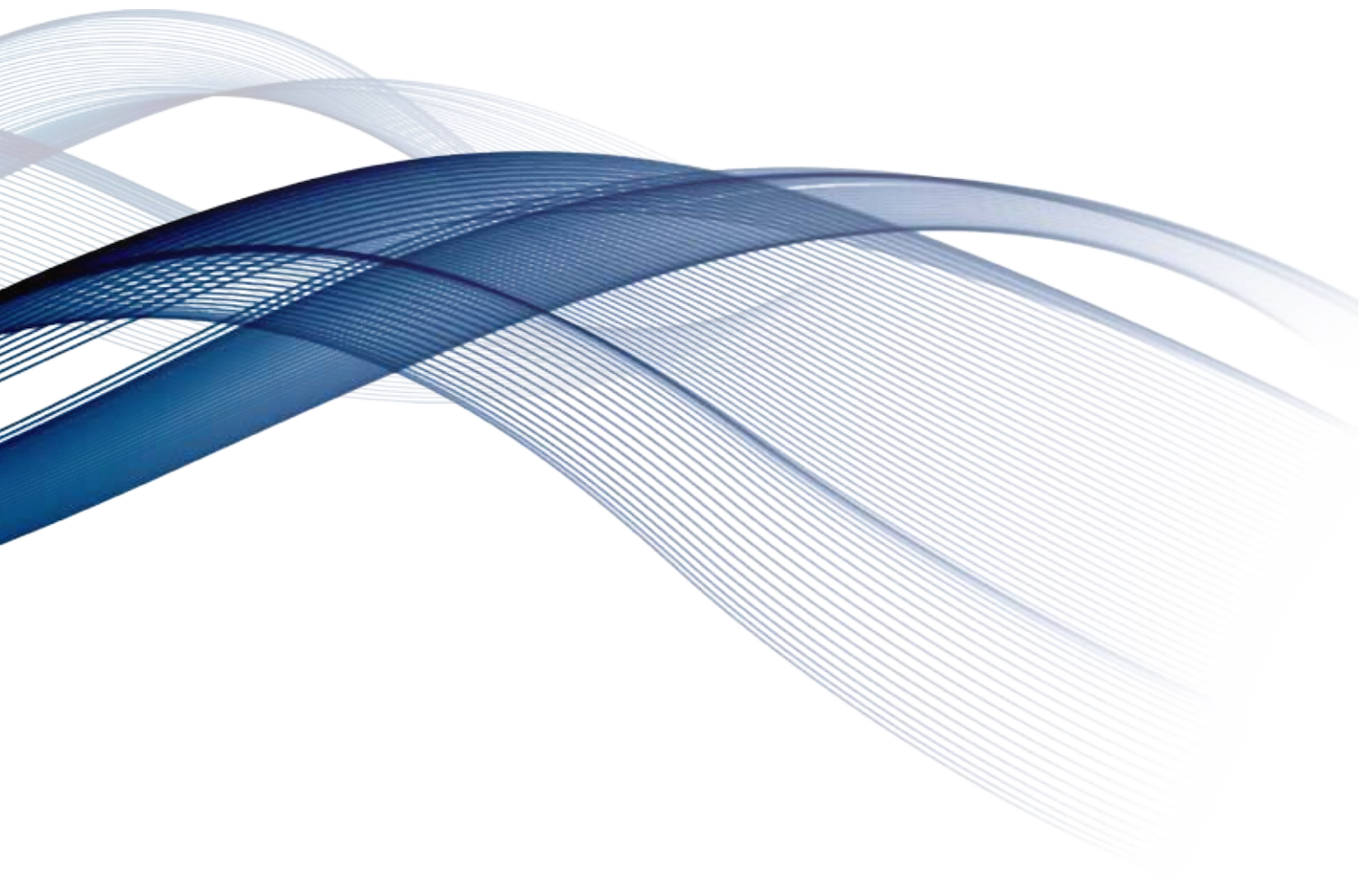
Continued merger and acquisition mandate for transformational growth (asset and corporate options).

---



# Strategic Report

**Year ended 31 December 2016**



# Operations Review

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

## MAURITANIA

**Chinguetti (ca. 9.5% of cumulative production through the Funding Agreement and a 6% Royalty Agreement derived from Premier's WI). 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'). The C-10 block offers potential exposure to a world class LNG and possibly liquids prone play, proved up by Kosmos in the adjacent outboard acreage.**

### Chinguetti

#### Overview

Gross production for the Chinguetti oil field during 2016 averaged 4,549 bopd (2015: 5,083 bopd). Average production net to the Group, from the Group's economic interests during 2016, was 279 bopd (2015: 310 bopd). Production was in steady decline throughout the year, reflecting the maturity of the field, but revenues benefited from a reduction in the Floating Production, Storage and Offtake ('FPSO') base day rate, and a field wide cost saving exercise implemented by the Operator.

The Group estimates that at the end of 2016, net entitlement 2P reserves stood at 73k barrels of oil equivalent ('boe') (2015: 173k boe).

#### Outlook

The Chinguetti JV (Petronas, Tullow Oil, SMHPM, Premier, Kufpec) are evaluating how best to manage the Chinguetti field with the current end of field life challenges. Discussions continue to be held with the Government of Mauritania and relevant stakeholders

on how best to both 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 15 and 18 of the Strategic Report.

In 2015, the Group enlarged its Mauritanian footprint through entering into two offshore exploration blocks, C-3 and C-10. The rationale underlying entry was that the acreage offered low cost ground floor exposure to material exploration upside in a re-emerging petroleum province. This was subsequently validated with recent world class LNG scale discoveries by Kosmos. Following the exit from C-3 in early 2016, efforts have been focused on maturing the prospect inventory for drilling on the C-10 block.

### C-10 (WI 13.5%) Exploration block

#### Overview

Block C-10 covers an area of approximately 8,025km<sup>2</sup> and lies in water depths of 50 to 2,400m within the Nouakchott sub-basin, offshore Mauritania, and wholly surrounds the Chinguetti field. The C-10 production sharing contract ('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 almost fully covered by numerous legacy 3D seismic surveys 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 2000-03 targeting the Miocene play and yielded four oil and gas discoveries, including the Chinguetti oil field.

Since 2014, Kosmos Energy has discovered and appraised in deep water block C-8 immediately outboard of C-10, 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. In 2017, Kosmos and new partner BP will continue exploration within the Cenomanian/Albian play with a focus on proving an oil fairway adjacent to the northwestern boundary of the C-10 block. 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 2C in place resources of more than 2.7 billion barrels and the ongoing programme will further define the recovery potential of the field, per Cairn Energy's press release in March 2017.

#### Outlook

Following entry into the C-10 block in mid-2015, Sterling and its JV partners have been actively maturing and ranking the technical description of the play, prospect and lead portfolio on the 3D seismic dataset. The JV continues to work towards selecting a prospect for drilling to meet the minimum work obligations.

Tullow Oil and the JV are in discussions with SMHPM and the Ministry with regards to the appropriate future path on the C-10 block, with a view to securing an extension and recognising that a well will not be drilled prior to the current Phase 2 expiry in November 2017.

Should the JV 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 JV may elect to enter into Phase 3 (with a 3 year term) with a minimum work obligation of a further two exploration wells.

#### C-3 Exploration block (Relinquished 2016)

##### Overview

Following the submission of a withdrawal notice in January 2016 to Tullow Oil and SMHPM, the completion of Sterling's withdrawal from the C-3 block became effective in March 2016.

Sterling entered into the C-3 block in February 2015 following extensive re-evaluation of exploration data along the margin post the 2014 Cairn SNE-1 discovery in Senegal to the south. This highlighted the possible extension of an Albian clastic play into PSC C-3.

The subsequent C-3 block exit decision was data driven and based on disciplined technical and commercial rationale. A full technical evaluation of the acreage was completed in early Q1 2016 on the newly acquired 2D seismic data. This enabled Sterling to take a technical view that the new data had insufficiently de-risked the remaining play and lead potential to justify committing to a 3D seismic survey and the drilling of 1 well.

## Operations Review (cont.)

### 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. In 2016 the JV, in collaboration with the Ministry of Energy and Mines has been progressing towards the acquisition of the first seismic data in the region.**

#### **Odewayne (WI 40%) Exploration block**

##### *Overview*

This large, unexplored frontier acreage position comprises an area of 22,840km<sup>2</sup>. Exploration activity 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 provides strong encouragement for a deep sedimentary basin and has highlighted the presence of oil seeps at surface, suggesting that a working hydrocarbon system exists.

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 in 2016 by two years to 2 November 2018. The minimum work obligation during the optional Fourth Period of the PSA (also extended by 2 years to May 2020) 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 \$4.0 million is to be paid in stages to Petrosoma as and when certain operational milestones are reached, with a further \$ 4.0 million due on drilling of an exploration well.

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

##### *Outlook*

In 2016 the Ministry of Energy and Mines progressed a directed speculative survey in Somaliland to allow the acquisition of 2D seismic data. The project is led by the Ministry who in Q4 2016 signed a contract with BGP (a Chinese geophysical and drilling contractor) to acquire seismic data over a number of blocks, including Odewayne. The data on Odewayne is scheduled to be acquired from Q2 2017, is intended to fulfil (at least) the minimum work obligation and will be the first seismic data acquired on the block.

### MADAGASCAR

#### **Ambilobe Exploration block (Relinquished 2016)**

##### *Overview*

Following the acquisition and interpretation of 3D seismic data on the Ambilobe block in 2015 and 2016, Sterling issued a notice of withdrawal from the Ambilobe block in April 2016 to its JV partner Pura Vida Mauritius ('Pura Vida'). In May 2016 the withdrawal was completed prior to the end of the second phase of the PSC with all commitments met and no material surrender costs.

### CAMEROON

#### **Ntem Exploration block (Relinquished 2016)**

##### *Overview*

The Company issued a notice of surrender in relation to the Ntem Concession, offshore Cameroon in 2016 which became effective in December 2016. The Company did not incur any material costs associated with the surrender.

# Schedule of Interests

Year ended 31 December 2016

Location	Size (km <sup>2</sup> )	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 <sup>1</sup> Economic interest for approximately 7% of Chinguetti project <sup>2</sup>	Non-operated
Mauritania: Offshore	8,025	PSC C-10	13.5%		Non-operated
Somalliland: Onshore	22,840	Odewayne Block <sup>3</sup>	40%		Non-operated

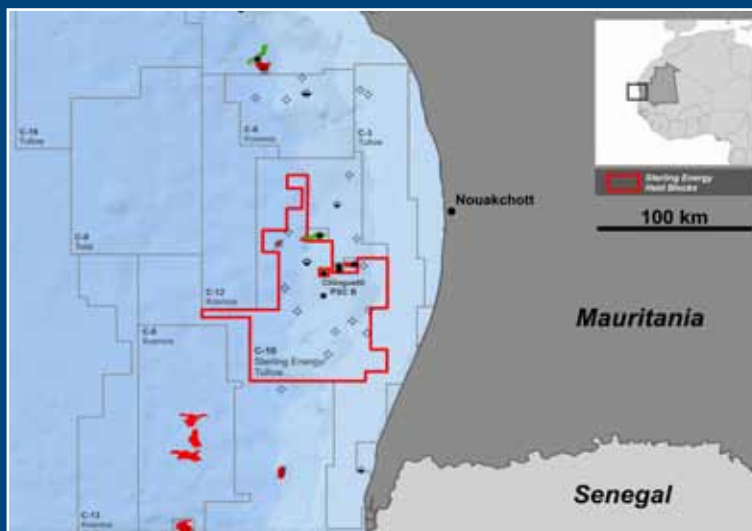
<sup>1</sup> The Company's royalty interest derives from Premier's working interest of 6% in PSC B. The Company's royalty is up to 6% of Premier's working interest.

<sup>2</sup> The Company's interest derives from the Funding Agreement with SMHPM (Based on December 2016 net lifting revenue).

<sup>3</sup> Carried for the minimum work obligation of current phase and next phase of PSA.

# Mauritania

## Block C-10 (WI 13.5%)



### CONTRACT SUMMARY

<b>Contract type</b>	PSC	<b>Participants</b>	
<b>Contract signed</b>	27 October 2011	Tullow Mauritania Limited (Operator)	76.5%
<b>Contract effective date</b>	30 November 2011	Sterling Energy Mauritania Limited	13.5%
<b>Contract area</b>	8,025km <sup>2</sup>	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, SEML completed the acquisition of a 13.5% working interest in PSC C-10.

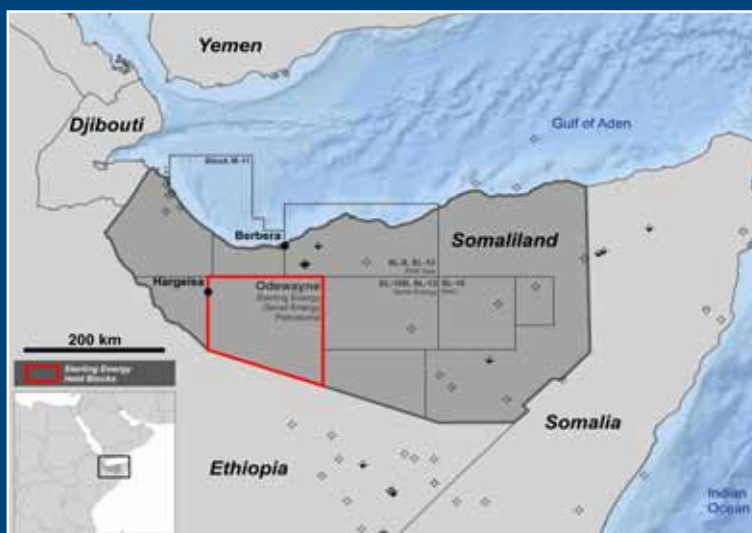
\* Carried through exploration





# Somaliland

## Odewayne (WI 40%)



### CONTRACT SUMMARY

<b>Contract type</b>	PSA	<b>Participants</b>	
<b>Contract signed</b>	6 October 2005	Genel Energy Somaliland Limited (Operator)	50%
<b>Contract effective date</b>	6 October 2005	Sterling Energy (East Africa) Limited	40%
<b>Contract area</b>	22,840km <sup>2</sup>	Petrosoma Limited	10%

### Exploration term

Current Period 3: To 2 November 2018

Period 3 work commitment: 500km 2D seismic acquisition

Period 4 (optional): To 2 May 2020

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

Period 5 (optional): To 2 May 2021

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

Period 6 (optional): To 2 May 2022

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

### Production term

Twenty five years, renewable for additional 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 Period 3 and 4 work programmes are fully carried by Genel Energy.



# Reserves Summary

Year ended 31 December 2016

	2016 Oil (000 boe)	2016 Gas (mcf)	2016 Reserves (000 boe)	2015 Oil (000 boe)	2015 Gas (mcf)	2015 Reserves (000 boe)
Volumes of Proven plus Probable Reserves						
At 1 January	173	-	173	292	-	292
Revision – Chinguetti <sup>(1-3)</sup>	2	-	2	(6)	-	(6)
Production	(102)	-	(102)	(113)	-	(113)
At 31 December	73	-	73	173	-	173

<sup>1</sup> 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 2016. 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 91 - 93.

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

<sup>3</sup> In accordance with the guidelines of the AIM Market of the London Stock Exchange, Mr Matthew Bowyer, Subsurface Manager of Sterling Energy plc, who has been involved in the oil industry for over 21 years, is the qualified person that has reviewed the technical information set out above.

## Matthew Bowyer

Subsurface Manager

17 March 2017

# Financial Review

Year ended 31 December 2016

## Selected Financial Data

		2016	2015
Chinguetti production	bopd	279	310
Year end 2P reserves	kboe	73	173
Revenue	\$million	4.8	5.0
Adjusted EBITDAX <sup>1</sup>	\$million	(3.1)	(6.3)
Loss after tax	\$million	(8.5)	(16.0)
Net cash investment in oil & gas assets	\$million	1.1	4.8
Year-end cash net to the Group	\$million	88.1	97.6
Average realised oil price	\$/bbl	39.8	50.3
Total cash operating costs (produced)	\$/bbl	64.6	75.3
Year-end share price	Pence	15.0	14.5
Share price change	%	3	(26)
Debt	\$million	–	–

<sup>1</sup> As defined within the definitions and glossary of terms on pages 91 - 93.

## Revenue and Cost of Sales

2016 Chinguetti production, net to the Group, averaged 279 bopd (including royalty barrels), a decrease of 10% from the 310 bopd averaged in 2015; the reduced volumes reflect the lower oil price realised at the start of 2016 along with the expected decline in production for the field.

Gross volumes lifted and sold during the year from the Chinguetti oil field were up by 49% to 2.2 million barrels over four cargo liftings (2015: 1.5 million barrels over three cargo liftings); whilst the main increase in gross volumes is as a result of the extra lift, on average cargo volumes were up by 12% in 2016.

The achieved lifting cost per barrel (excluding the onerous contract provision) has decreased in 2016 by \$44.9 to \$49.3 (2015: \$94.2).

Cost of sales for the Group for 2016 (excluding the onerous contract provision) decreased by \$3.5 million, due in part to a reduction in the FPSO base day rates and a field wide cost saving exercise implemented by the Operator.

# Financial Review (cont.)

Year ended 31 December 2016

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

	2016	2015
Liftings (bbls) <sup>1</sup>	<b>121,031</b>	99,948
Revenue (\$million)	<b>4.8</b>	5.0
Revenue/bbl (\$)	<b>39.8</b>	50.3
Lifting cost (\$million) <sup>2</sup>	<b>(6.0)</b>	(9.4)
Lifting cost/bbl (\$) <sup>2</sup>	<b>(49.3)</b>	(94.2)

<sup>1</sup> Net Sterling production during the year totalled 101,939 (2015: 113,085)

<sup>2</sup> Excluding onerous contract provision

## Loss for Year

The 2016 loss totalled \$8.5 million (2015: loss \$16.0 million).

	\$ (million)
<b>Loss for Year 2015</b>	<b>(16.0)</b>
Other obligations (2015)	3.7
Impairment of Ntem (2015)	8.2
Chinguetti cessation costs (2015)	(2.2)
Impairment of Ambilobe (2016)	(3.8)
Impairment of C-3 (2016)	(3.6)
Decrease in revenue	(0.2)
Decrease in cost of sales	3.9
Decrease in G&A and pre licence	0.5
Increase in net finance income	1.0
<b>Loss for year 2016</b>	<b>(8.5)</b>

During 2016, the Group fully impaired the Ambilobe block in Madagascar (\$3.8 million) and the C-3 block in Mauritania (\$3.6 million), resulting in a total charge of \$7.4 million.

Group administrative overhead decreased during the year to \$2.0 million (2015: \$2.3 million). Included within this charge is \$73k (2015: \$297k) with respect to share-based payment charges. The continued reduction in the Group's administrative overhead is in reaction to both external market conditions and the change in strategic mandate. In 2016 the Group's wages and salaries have reduced by 23%.

In 2016, a portion of the Group's staff costs and associated overheads have been recharged to JV partners (\$87k), expensed as pre-licence expenditure (\$1.8 million), or capitalised (\$785k) where they are directly assigned to capital projects. This totals \$2.7 million in the year (2015: \$3.6 million).

A summary of these movements is provided below.

	<b>2016</b> <b>\$ (million)</b>	2015 \$ (million)
Group administrative overhead (page 57)	<b>(2.0)</b>	(2.3)
Costs capitalised	<b>(0.8)</b>	(1.1)
Costs recharged to JV partners	<b>(0.1)</b>	(0.5)
Pre-licence expenditure	<b>(1.8)</b>	(2.0)
	<b>(2.7)</b>	(3.6)
Share based payment expense	<b>0.1</b>	0.3
Other non-cash expenditure	-	0.1
Group cash G&A expense	<b>(4.6)</b>	(5.5)

### **Adjusted EBITDAX and Net Loss**

Group adjusted EBITDAX (as defined within the definitions and glossary of terms on pages 91 - 93) loss totalled \$3.1 million (2015: \$6.3 million loss).

Net loss after tax totalled \$8.5 million (2015: loss \$16.0 million). The basic loss per share was \$0.04 per share (2015: loss \$0.07 per share).

Interest received and finance expenses result in a net income of \$290k (2015: \$712k expense) which includes exchange losses of \$231k (2015: \$89k) on GBP cash deposits held at 31 December 2016 reported in US dollars, a non-cash finance expense of \$149k (2015: \$1.0 million) relating to the unwinding of the Chinguetti decommissioning provision (see Note 9 on page 77 and Note 20 on page 83), interest received totalling \$683k (2015: \$356k) and other finance expenses totalling \$14k (2015: \$13k).

No dividend is proposed to be paid for the year ended 31 December 2016 (2015: \$nil).

# Financial Review (cont.)

Year ended 31 December 2016

## Cash Flow

Net Group cash outflow generated from operating activities was \$8.8 million (2015: \$4.9 million outflow) a full reconciliation of which is provided in the Consolidated Statement of Cash Flows.

Net cash investments in oil and gas assets totalled \$1.1 million (2015: \$4.8 million) and are summarised below:

	<b>2016</b> <b>\$ (million)</b>	2015 \$ (million)
Mauritania	<b>1.0</b>	4.0
Somaliland	-	0.1
Madagascar	<b>0.1</b>	0.6
Cameroon	-	0.1
	<b>1.1</b>	4.8

## Statement of Financial Position

At the year end, cash and cash equivalents totalled \$88.1 million (2015: \$98.7 million of which \$1.1 million were held on behalf of partners, leaving a cash balance of \$97.6 million).

At the end of 2016, net assets/total equity stood at \$78.4 million (2015: \$86.8 million), and non-current assets totalled \$18.9 million (2015: \$25.1 million). Net current assets reduced to \$74.0 million (2015: \$94.1 million) due mainly to the \$18.1 million decommissioning provision movement from non-current to current liabilities.

The Group's Chinguetti decommissioning provision (current and non-current) decreased during the year by \$939k to \$31.5 million (2015: \$32.4 million) reflecting the Group's estimate of gross abandonment and decommissioning costs based on a draft A&D plan presented to the JV by the operator and further provided to the Group by SMHPM (see Note 20 on page 83).

## 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/or commercially produce new 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, securities 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
<b>Financial</b> <ul style="list-style-type: none"> <li>• Low commodity prices</li> <li>• Market volatility</li> <li>• Counterparty distress</li> </ul>	<ul style="list-style-type: none"> <li>• Low oil &amp; gas commodity prices and market volatility.</li> <li>• Difficulty in capital raising for new acquisitions and/or to fund development activities.</li> <li>• Counterparty default.</li> <li>• Cost escalation and budget overruns (including Chinguetti decommissioning).</li> <li>• Licence extension uncertainty.</li> <li>• Fiscal stability.</li> <li>• Foreign currency risk.</li> <li>• Financial control of operated and non-operated assets.</li> <li>• Fraud and corruption / increased third party exposure.</li> </ul>	<ul style="list-style-type: none"> <li>• Group maintains a strong balance sheet and remains fully funded for its existing commitments.</li> <li>• Continually assess all existing asset and proposed new acquisitions in light of future capital requirements from a disciplined lifecycle investment perspective.</li> <li>• Regularly monitor and amend cost structure, investment strategy and tactics to include countercyclical investments and leverage low service costs for seismic and drilling.</li> <li>• Regularly review business plans, G&amp;A expenses, ongoing strategy reviews, monthly reporting and regular Board meetings.</li> <li>• The Group holds the majority of its cash in US dollars which is the predominant currency used in oil and gas operations.</li> <li>• Regularly engage with partners to influence cost-effective capital expenditure and decommissioning expenditure.</li> <li>• Engagement with shareholders to inform investment decisions (including shareholder representatives on the Board).</li> </ul>	▶

## Business Risk (cont.)

<p><b>External</b></p> <ul style="list-style-type: none"> <li>• Country risk</li> <li>• Climate change</li> <li>• Legal compliance</li> <li>• Brexit</li> </ul>	<ul style="list-style-type: none"> <li>• 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 Somaliland and Mauritania have been or are affected by country-specific situations.</li> <li>• 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.</li> <li>• Legal compliance, regulatory or litigation risk.</li> <li>• The Group's headquarters are located in the UK, which is negotiating its exit from the European Union.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• New investments are considered in the light of changing environmental regulations.</li> <li>• The Company accords the highest importance to corporate governance matters and upholding the highest ethical standards.</li> <li>• Activities are subject to various different jurisdictional laws, customs, fiscal and administrative regulations.</li> <li>• 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.</li> <li>• The Group's exploration activities are located outside of the UK and the EU and should be relatively unaffected by Brexit.</li> </ul>	
<p><b>Strategic</b></p> <ul style="list-style-type: none"> <li>• Concentration of portfolio</li> <li>• Competition</li> </ul>	<ul style="list-style-type: none"> <li>• Group's assets remain concentrated on early stage frontier and emerging basin exploration within the African continent.</li> <li>• Reduction in interest to promote/carry early stage exploration assets – making it more difficult to farm-out the Group's early stage exploration assets.</li> <li>• Competitors have significantly greater financial and technical resources.</li> </ul>	<ul style="list-style-type: none"> <li>• The Board has and will consider diversifying the current exploration portfolio risk by acquiring appraisal, development and/or producing assets, using existing financial resources of the Group and additional capital (as required).</li> <li>• Highly selective in choosing where and when to deploy its business development resources and New Ventures focus.</li> </ul>	
<p><b>Operational</b></p> <ul style="list-style-type: none"> <li>• Exploration, production and decommissioning risk</li> <li>• Operator and partner risk</li> </ul>	<ul style="list-style-type: none"> <li>• Exploration activities may not result in a commercial discovery. Producing wells may lead to a financial loss.</li> <li>• For some assets, the Group is dependent on other operators for the performance of E&amp;P activities.</li> <li>• Counterparty misalignment.</li> <li>• Operations under-insured.</li> </ul>	<ul style="list-style-type: none"> <li>• Diversify and manage risk across a portfolio of assets. Apply the Group's experience and expertise and appropriate technology to minimise risk.</li> <li>• The Group carefully considers the technical, HSSE and financial capabilities of operators and potential partners during any JV farm-out or new acquisition.</li> </ul>	

▲ Increased ▼ Decreased ► Unchanged



## 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
<b>Strategic and Economic</b>	<ul style="list-style-type: none"><li>• Inappropriate or poorly conceived strategy and plans</li><li>• Failure to deliver on strategy and plans</li><li>• Business environment changes</li><li>• Failure to access new opportunities</li><li>• Shareholder concentration</li></ul>
<b>Operational</b>	<ul style="list-style-type: none"><li>• HSSE incident or non-compliance under local rules and/or laws</li><li>• Poor field production (revenue) performance and end of field life decisions</li><li>• Licences, permits and/or approvals may be difficult to sustain</li><li>• Delays in conducting exploration work programmes</li></ul>
<b>Commercial</b>	<ul style="list-style-type: none"><li>• Failure to maximise value from existing interests</li><li>• Loss of control of key assets</li><li>• Dissatisfied stakeholders</li><li>• Failure to negotiate optimal contract terms</li><li>• Inexact reserve and production determinations</li><li>• Complex regulatory compliance</li></ul>
<b>Human Resources and Management Processes</b>	<ul style="list-style-type: none"><li>• Failure to recruit and retain key personnel / human capital deficit and/or engage in adequate succession planning</li><li>• Human error or deliberate negative action(s)</li><li>• Bribery and corruption</li><li>• Inadequate management processes</li><li>• Insufficient timely information available to the management and the Board</li></ul>

## Business Risk (cont.)

---

### 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 JV 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 its CSR with any of these stakeholders. In 2016, the Group successfully completed three CSR projects in Madagascar.

### 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 an independent non-executive Director.

The Strategic Report was approved by the Board of Directors on 17 March 2017 and signed on its behalf by:

**Tony Hawkins**  
Company Secretary

**Eskil Jersing**  
Chief Executive Officer



# Corporate Governance

**Year ended 31 December 2016**



## Board of Directors

---

### **Eskil Jersing, Chief Executive Officer, aged 53**

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 on numerous Exploration projects (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.

Prior to joining Sterling he was Head of New Ventures and Co-Head of Mergers & Acquisitions at Petrobras Oil & Gas BV (Rotterdam).

### **Michael Kroupeev, non-executive Chairman, aged 50**

Michael joined Sterling Energy's Board as a non-executive Director in May 2016 and was appointed as non-executive Chairman of Sterling Energy in January 2017. He is a member of the Nominations Committee.

Michael has 21 years' experience working within the exploration and production sector. After attending University in Russia and the United Kingdom in Plasma physics and an MBA respectively, he began his UK career working for Dana Petroleum plc as a Director in 1994. In 1995, Michael founded Waterford. Waterford is an oil and gas focused vehicle, specialising in the financing of oil, gas and other energy related projects in emerging markets. He has been directly involved in the capital raising for natural resource projects and in acquiring, restructuring, developing and divesting such assets. Waterford has a number of substantial shareholdings in oil and gas companies with operations in Europe, Africa and Australasia.

### **Leo Koot, Senior Independent non-executive Director, aged 54**

Leo was appointed the Senior Independent non-executive Director of Sterling Energy in January 2017. He chairs the Audit and Remuneration Committees and is a member of the Nominations Committee.

Leo has over 28 years' experience in the energy sector and an MSc in Petroleum Engineering from Delft University, the Netherlands. Following a successful start to his career with Shell International, he has been involved in multiple successful business start-ups of scale including EDP Ltd, TAQA Bratani (UK) Ltd and TAQA Iraq BV.

He was Managing Director of Taqa in the UK from 2008 to 2013, delivering 60,000 bopd and \$1.7 billion revenue in 2013. Subsequently, Leo was President of Taqa Iraq from 2013 to 2015 primarily responsible for the Atrush field development and Sulaymaniyah power plant in Kurdistan.

Leo is currently the Managing Partner of MENA Gulf Investments, with an energy related sector focus and a target fund size of US\$500 million.

### **Ilya Belyaev, non-executive Director, aged 35**

Ilya was appointed a non-executive Director of Sterling Energy in January 2017. He is a member of the Audit, Nominations and Remuneration Committees.

Ilya has acted as investor in private equity and venture capital projects via Supremum Capital where he is currently Chief Executive Officer, Managing Partner and fund co-founder, and Concentric VC where he is a Venture Partner, having closed over a dozen transactions in Russia and UK with a focus on finance and real estate sectors.

Prior to moving into private equity and venture capital, Ilya spent over 8 years in investment banking at JPMorgan, Barclays Capital and VEB Capital in London and Moscow. Ilya graduated from Moscow State University in 2004, with an MSc in Mathematics.

## APPLICATION OF UK CORPORATE GOVERNANCE CODE PRINCIPLES

Throughout the year ended 31 December 2016 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

As at March 2017 the Board currently comprises the non-executive Chairman, one executive Director, one Senior Independent non-executive Director and a non-executive Director. The executive Director has extensive knowledge of the oil and gas industry combined with general business and financial skills. All of the Directors bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards. The Board meets regularly throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

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

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

Leo Koot is the Senior Independent non-executive Director. The Senior Independent non-executive Director is available to all shareholders if they have concerns which, through the normal channels of contact with the non-executive 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 <sup>1</sup>	Remuneration Committee	Nominations Committee
<b>Number of meetings in year</b>	<b>10</b>	<b>3</b>	<b>2</b>	<b>1</b>
Eskil Jersing	10	-	-	-
Alastair Beardsall (resigned 11 May 2016)	4	-	-	-
Michael Kroupeev (appointed 11 May 2016)	6	-	-	-
Keith Henry (resigned 13 October 2016)	9	3	2	1
Nicholas Clayton (resigned 13 October 2016)	9	3	2	1
Malcolm Pattinson (resigned 13 October 2016)	9	3	2	1

<sup>1</sup> In addition to the Audit Committee meeting to discuss the annual audit and full year results, the Committee also met in advance of announcements of a financial disclosure, including the Interim Results at 30 June and the quarterly IMS.

## 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 non-executive 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 non-executive 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 non-executive Director, on behalf of the Nominations Committee; the Company Secretary is advised of its completion. The performance of the non-executive Chairman is reviewed annually in a meeting of the non-executive Directors, led by the Senior Independent non-executive Director. This review takes into account the views of the executive Director.

### **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 23 - 27 and also on page 47.

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

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

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

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

Additionally, the Committee also considered 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 \$88.1 million at 31 December 2016.

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. 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 75.

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 2017 AGM.

The previous committee comprising Nicholas Clayton, Keith Henry and Malcolm Pattinson resigned in Q4 2016, I would like to thank them for their contributions to the Audit committee.

### **Leo Koot**

Chairman of the Audit Committee

17 March 2017

### **MEMBERS**

This Committee currently comprises:

- Leo Koot (Chairman)
- Ilya Belyaev

### **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 other Directors and senior management.

---

# Nominations Committee

---

During 2016, the Nominations Committee held one meeting; additionally other 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 Chairman;
- appointment of non-executive Directors; and
- review of skills/experience on the board.

As at March 2017 the members of this Committee are Michael Kroupeev, Leo Koot, Ilya Belyaev and Eskil Jersing under the Chairmanship of Michael Kroupeev. 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.

The Chairman of the Nominations Committee coordinates the annual performance evaluation of Directors.

The previous committee comprising Malcolm Pattinson (Chairman), Nicholas Clayton and Keith Henry resigned in Q4 2016. I would like to thank them for their contributions to the Nominations Committee.

## **Michael Kroupeev**

Chairman of the Nominations Committee

17 March 2017

# Remuneration Committee Report

---

The Remuneration Committee convened twice during the year and has been actively engaged on all matters of corporate remuneration. The Remuneration Committee of Keith Henry (Chairman), Malcolm Pattinson and Nick Clayton resigned from their posts in October 2016. The new Committee of Leo Koot (Chairman) and Ilya Belyaev have taken seat from 19 January 2017.

The Committee has considered the following matters:

- the 2016 review of achievement of certain corporate objectives/key performance indicators ('KPIs'); and subsequently
- the setting of 2017 corporate objectives/KPIs;
- the terms of the 2009 All Staff LTIP, NED LTIP and HMRC Approved schemes; and
- the proposed basic salary uplift for 2017 to reflect general inflation and merit awards for staff and executive management.

The safe operation of our activities, the management maturation and exposure limitation of the Group's assets and liabilities, and the selective disciplined 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.

2016 has been a year of transition at Sterling in what continues to be a challenging landscape for E&P companies. We have continued to reshape our portfolio away from long-cycle pure Exploration-biased assets, exiting three Exploration blocks cleanly, reducing our contingent commitment and liability exposures where possible, and ensuring our focus is primarily on an evolved M&A led growth mandate, chasing material revenue generating opportunities. In addition much emphasis has been placed on ensuring our capabilities are better aligned to our corporate strategic mandate, with regards staffing and G&A overheads to ensure continued disciplined capital allocation. This cost reduction initiative is under ongoing review by the new committee.

Sterling withdrew from the C-3 block, Mauritania in March 2016, assigning its entire 40.5% working interest to Tullow Oil, with no outstanding commitments or material costs to the Group.

The exit from the Ambilobe block (50% working interest and Operator) in Madagascar was completed in May 2016, with no outstanding commitments or material costs associated to the withdrawal, with Pura Vida taking over operatorship.

On the Ntem Concession (100% working interest and Operator) in Cameroon, Sterling issued a notice of surrender in August 2016 (effective end of December 2016), again with no outstanding commitments or material costs to the Company.

A major and ongoing focus has been working with our Chinguetti oil field key partners, SMHPM and the Government of Mauritania on a safe, cost-effective and technically prudent decommissioning and abandonment plan, due to commence execution in 2017.

Refer to the Operations Review for details on current assets.

With regards the continued M&A mandate for transformational growth (asset and corporate options), origination, due diligence and subsequent delivery to the Group continues to be challenging in the current market. Ultimately, despite being unsuccessful in executing on any specific project, the Committee was satisfied that the management team was able to originate and propose a number of high-graded opportunities to the Board for sanction.

The new Remuneration Committee has, since January 2017, focused on revising and updating the existing corporate remuneration philosophy and structure, to ensure a fair and equitable structure with direct shareholder alignment on the

core objective of value creation for the Group. In essence the intent is to align the entire Company and provide material rewards only if we are successful in delivering the core Group objectives. This will initially involve looking at the following Remuneration policy matters:

- the terms of the 2009 All Staff LTIP and HMRC Approved schemes and their ability to motivate, incentivise and retain the calibre of staff and management required to promote future success for the Group; we will look to factor out the impact of commodity prices so that these events are neutral to ensure that the reward pool is not artificially inflated or deflated by the commodity cycle;
- the setting of 2017 corporate objectives/KPIs and associated bonus structures;
- proposed basic salary uplift for 2017 to reflect general inflation and merit awards for staff and executive management; and
- staff capability optimization to the renewed strategic mandate.

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 are intended to provide the core reward for the role at a sufficient level to help recruit and retain employees as well as reflecting the role and experience of the individual. The annual base salary levels for executive Directors were as follows:

Director	2016 salary	2015 salary	% change
Alastair Beardsall	£100,000	£100,000	n/a
Eskil Jersing	£277,800	£275,000	1%

The non-executive fees are determined by the Board with no Director voting on his own remuneration. For 2016 the fees for each non-executive individual are provided on page 43.

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; it is intended to incentivise the execution of the business strategy. It rewards the achievement of annual financial and strategic business targets, KPIs and delivery of personal objectives. These targets are renewed annually and relate to the Business as a whole;
- up to 50% may be awarded for achieving certain corporate objectives, for 2016 these objectives included HSSE performance, M&A execution and certain asset/liability exposure targets;
- up to 50% may be awarded for exceptional personal performance; exceptional is performance above and beyond that expected under the individual's job description. This element includes a subjective assessment of performance as opposed to operating on a sliding scale; and
- the Committee retains discretion to reduce the bonus payment in the event of a serious HSSE incident or series of incidents.

The Committee awarded the following bonus to the executive Director during the year:

Director	2016 bonus	2015 bonus	% change
Alastair Beardsall	£0	£0	n/a
Eskil Jersing	£13,890	£0	n/a

# Remuneration Committee Report (cont.)

---

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 no options under the All Staff LTIP or HMRC Approved schemes during the year.

Under the vesting criteria of the All Staff LTIP, options granted will only vest if the Company Share Price meets the criteria set out in Note 24 on pages 88 - 89. 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 24. 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.

The intent of the LTIP scheme is to incentivise the achievement of business strategy over the longer term. The Committee is considering 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.

I am excited to be a part of Sterling Energy's future and am committed to help the Company navigate the challenging industry environment. The Board and Committee believe the changes in the E&P industry and Sterling Energy's position within this industry warrants a review of the present remuneration structure aiming to closer align staff and shareholders. I am committed to maintaining an open and constructive dialogue with all stakeholders in remuneration matters.

Finally, I would like to thank Keith Henry (Chairman), Nicholas Clayton and Malcolm Pattinson for all their contributions to the Remuneration Committee since 2009.

## **Leo Koot**

Chairman of the Remuneration Committee  
17 March 2017

## **MEMBERS**

This Committee currently comprises:

- Leo Koot (Chairman)
- Ilya Belyaev

## **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 as a whole. The Chairman and non-executive Directors are not entitled to participate in the Companies executive remuneration programmes or pension arrangements. The Committee has not engaged the services of any remuneration consultants during the year.

## REMUNERATION STRATEGY

The Company remuneration strategy is under review and the intent 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 where possible, 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.

## Remuneration Committee Report (cont.)

All Staff 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 LTIP scheme options are equity settled and have a vesting period of three years. If options remain unexercised after a period of five years from the date of grant, the options expire. Options are forfeited if the employee or Director leaves the Group before the options vest or are exercised, however, the Committee may exercise discretionary powers in certain circumstances. All Staff LTIPs are subject to the performance conditions set out in Note 24. The maximum value to which options may be granted in any one year is capped, the cap is based upon the individual's role and responsibilities, for the executive Directors the cap is 100% of annual base salary.
Pension provision	To provide competitive retirement benefits commensurate with schemes offered by peer companies.	The Group operates a number of defined contribution pension schemes pursuant to which it contributes 10% of pensionable salary per eligible member. Scheme membership and contribution is linked to the member's base salary (see above).
Other benefits	To provide competitive cost-effective benefits through leveraging the Group's size and scale.	The Group subscribes to a number of benefits for employees and Directors which include life assurance, income protection; subsidised fitness centre membership and private medical insurance, some of these benefits are linked to base salary.

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

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

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

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

Following the remuneration policy set out above the Remuneration Committee has determined the following packages for 2017:

- Eskil Jersing, Chief Executive Officer, will receive a base salary, effective 1/1/2017, of £277,800, a 10% non-contributory pension contribution paid directly to Eskil Jersing and other benefits as set out above.
- For Eskil Jersing any award under the performance related bonus scheme will be determined at the end of 2017 and will be based on achievement of certain corporate KPIs and individual performance, the principles of the bonus scheme are set out on page 39. 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 HSSE, M&A led growth initiatives and managing the Group's financial exposure to its existing assets.
- The award of options under the Company's All Staff LTIP plan to Eskil Jersing will be determined by the Remuneration Committee during the year in accordance with the principles as set out above and disclosed at the time of any award.



Following the remuneration policy set out above the Directors have determined the 2017 fees for the non-executive Directors to be set at £100,000 for Michael Kroupeev (non-executive Chairman from 19 January 2017), £50,000 for Leo Koot and £36,000 for Ilya Belyaev.

### All Staff and NED LTIPs

Directors' interests in LTIPs are accounted for under International Financial Reporting Standard ("IFRS") 2 - Share-Based Payments; accounting charges in the period are detailed in Note 24 on pages 88 - 89.

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 2016	Lapsed/ forfeited	Granted	Exercised	31 December 2016	Exercise price	Earliest exercise date	Latest exercise date
Alastair Beardsall	2,384,600	(2,384,600)	-	-	-	n/a	n/a	n/a
Eskil Jersing	-	-	-	-	-	n/a	n/a	n/a
	2,384,600	(2,384,600)	-	-	-			

All of Alastair Beardsall's LTIPs were forfeited in the year due to resignation.

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 2016 <sup>1</sup>	Lapsed/ forfeited	Granted	Exercised	31 December 2016	Exercise price	Earliest exercise date	Latest exercise date
Nicholas Clayton	103,150	(103,150)	-	-	-	n/a	n/a	n/a
Keith Henry	103,150	(103,150)	-	-	-	n/a	n/a	n/a
Malcolm Pattinson	103,150	(103,150)	-	-	-	n/a	n/a	n/a
	309,450	(309,450)	-	-	-			

<sup>1</sup> Awards approved by shareholders on 22 December 2009, 28 April 2011 and 19 April 2013.

All LTIPs were forfeited in the year due to resignations. The Company intends to cease the operation of the NED LTIP.

### 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 2016 salary review was implemented on 1 January 2017 and is incorporated within the numbers below:

Director	Commencement of appointment	Date of current contract	Base annual salary	Notice period
Eskil Jersing	23 March 2015	23 March 2015	£277,800	6 months

## Remuneration Committee Report (cont.)

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

Director	Commencement of appointment	Date of current contract	Base fees per annum
Michael Kroupeev	09 May 2016	09 May 2016	£100,000
Leo Koot	19 January 2017	19 January 2017	£50,000
Ilya Belyaev	19 January 2017	19 January 2017	£36,000

Save for the fees outlined above, 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. In addition, Waterford, founded by Michael Kroupeev, entered into a relationship agreement with the Company, given that Waterford and its associates beneficially own Ordinary shares in the Company, equivalent to approximately 29.5% of the entire issued share capital of the Company. This was undertaken on terms and conditions that are customary for a substantial shareholding of this nature (the 'Relationship Agreement').

### Directors and their interests (audited)

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

Ordinary shares of 40p each	14 March 2017	31 December 2016	31 December 2015
Alastair Beardsall <sup>1</sup> (resigned 11 May 2016)	n/a	n/a	1,062,500
Eskil Jersing <sup>1</sup>	-	-	-
Michael Kroupeev <sup>2</sup> (appointed 11 May 2016)	64,815,517	64,815,517	n/a
Keith Henry <sup>3</sup> (resigned 13 October 2016)	n/a	n/a	500,000
Nicholas Clayton <sup>3</sup> (resigned 13 October 2016)	n/a	n/a	132,500
Malcolm Pattinson <sup>3</sup> (resigned 13 October 2016)	n/a	n/a	62,810
Leo Koot <sup>3</sup> (appointed 19 January 2017)	-	n/a	n/a
Ilya Belyaev <sup>4</sup> (appointed 19 January 2017)	-	n/a	n/a

<sup>1</sup> Executive Director.

<sup>2</sup> Non-executive Chairman, member of the Nominations Committees. Founder of Waterford Finance and Investment Limited ('Waterford'). Waterford and its Associates beneficially own 64,815,517 Ordinary Shares in the Company, equivalent to approximately 29.5% of the entire issued share capital.

<sup>3</sup> Non-executive Director, member of the Audit, Remuneration and Nominations Committees.

<sup>4</sup> Non-executive Director, member of the Audit, Remuneration and Nominations Committees. Nominee of Mistyvale Limited ('Mistyvale'). Mistyvale beneficially own 34,467,790 Ordinary Shares in the Company, equivalent to approximately 15.7% of the entire issued share capital.

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 \$24k in 2016 (2015: \$27k).

## Aggregate Remuneration

The single figure of total remuneration paid to Directors in 2016 and 2015 is summarised below (audited):

2016 Remuneration	Fees and basic salary	Bonus	Pension contributions paid as cash	Defined contribution pension	Benefits in kind	Single figure remuneration Total 2016
	£	£	£	£	£	£
<b>Executive Directors:</b>						
Alastair Beardsall (resigned 11 May 2016)	41,667	-	4,167	-	3,956	<b>49,790</b>
Eskil Jersing	277,800	13,890	9,145	18,635	9,411	<b>328,881</b>
<b>Non-executive Directors:</b>						
Michael Kroupeev (appointed 11 May 2016)	23,113	-	-	-	-	<b>23,113</b>
Nicholas Clayton (resigned 13 October 2016)	55,754	-	-	-	-	<b>55,754</b>
Keith Henry (resigned 13 October 2016)	28,291	-	-	-	-	<b>28,291</b>
Malcolm Pattinson (resigned 13 October 2016)	28,291	-	-	-	-	<b>28,291</b>
Aggregate remuneration 2016 (£)	454,916	13,890	13,312	18,635	13,367	<b>514,120</b>
Aggregate remuneration 2016 (US\$)	616,027	18,809	18,027	25,234	18,101	<b>696,198</b>
<b>2015 Remuneration</b>						
	Fees and basic salary	Bonus	Pension contributions paid as cash	Defined contribution pension	Benefits in kind	Single figure remuneration Total 2015
	£	£	£	£	£	£
<b>Executive Directors:</b>						
Alastair Beardsall	148,650	-	14,865	-	9,413	<b>172,928</b>
Eskil Jersing (appointed 23 March 2015)	213,654	-	-	21,365	5,521	<b>240,540</b>
Philip Frank (resigned 13 March 2015)	70,176	-	-	7,018	3,693	<b>80,887</b>
<b>Non-executive Directors:</b>						
Nicholas Clayton	35,700	-	-	-	-	<b>35,700</b>
Keith Henry	35,700	-	-	-	-	<b>35,700</b>
Malcolm Pattinson	35,700	-	-	-	-	<b>35,700</b>
Aggregate remuneration 2015 (£)	539,580	-	14,865	28,383	18,627	<b>601,455</b>
Aggregate remuneration 2015 (US\$)	824,796	-	22,722	43,386	28,473	<b>919,377</b>

# Remuneration Committee Report (cont.)

---

## **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 Remuneration Committee 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 39 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 2016 KPIs and noted that some of the key objectives had been achieved and accordingly a limited executive bonus was awarded to the executive Directors in 2016. As a comparison, in 2015 the Remuneration Committee noted that although it had met some of its key objectives, no executive bonuses were awarded to the executive Directors as both the CEO and Chairman declined to take them. The Company considers the KPIs to be commercially sensitive as they reflect the Company's commercial strategy; in general the KPIs are focused on HSSE, new ventures and managing the Companies financial exposure to its existing assets. The KPIs for 2016 are similar to those adopted in 2015. Non-executive Directors are not eligible to receive bonus payments.

## **Defined Contribution Pension**

The defined contribution pension scheme is an employer contribution scheme calculated at 10% of base salary. Such payments are made into individual Director personal pension plans as chosen by each individual Director. On retirement, such contribution payments cease from the effective date of cessation of employment. 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 (%)
2016	Eskil Jersing	328,881	13.3%	4%	-
2015	Alastair Beardsall <sup>1</sup> / Eskil Jersing	290,184	32.0%	-	-
2014	Alastair Beardsall <sup>1</sup>	219,801	(51.3%)	-	-
2013	Angus MacAskill <sup>2</sup> / Alastair Beardsall <sup>1</sup>	451,417	52.4%	-	-
2012	Angus MacAskill	296,169	(18.9%)	-	-
2011	Angus MacAskill	365,004	(0.4%)	23%	-

<sup>1</sup> Part-time.

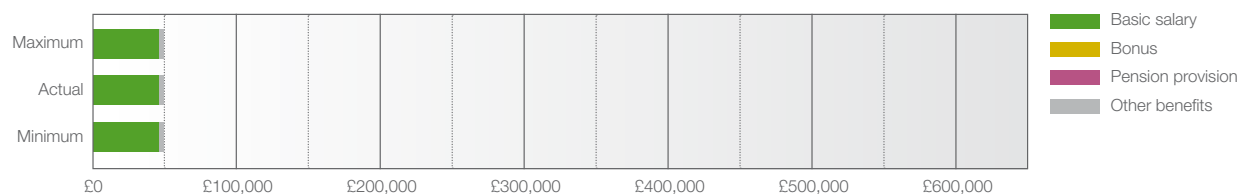
<sup>2</sup> Includes £74,745 paid as compensation for loss of office.

From August 2013 until Eskil Jersing's appointment (March 2015), Alastair Beardsall had acted as interim CEO in addition to being executive Chairman (his remuneration as relating to his appointment in 2013 had been prorated accordingly).

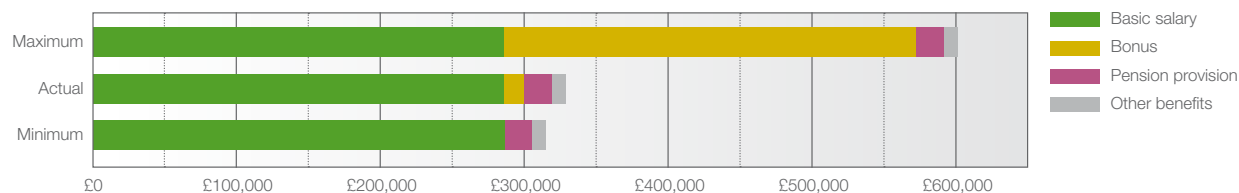
The annual percentage change in CEO single figure remuneration for years 2011 to 2016 compares with that of all employees: (23.9%), (20.5%), 8.5%, (19.8%), 11.1% and (6.0%) respectively.

The graphs below show the value of the executive Director packages for 2016 together with minimum and maximum remuneration attainable:

#### Alastair Beardsall (executive Chairman)



#### Eskil Jersing (Chief Executive)



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

	Total Group remuneration (£)	Total distribution to shareholders
2016	1,890,314	-
2015	2,011,139	-

## 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. With non-executive Chairman Michael Kroupeeov and Ilya Belyaev on the Board as shareholder representatives, this has allowed for more direct alignment between the Board and the shareholders.

The Board formally 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.sterlingenergypc.com](http://www.sterlingenergypc.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 not directly represented at the Board 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.

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

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. The Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the Annual General Meeting, to be held on 25 April 2017, 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 following payments to Government bodies have been made during the year ended 31 December 2016:

	<b>2016 \$000</b>	2015 \$000
Madagascar: Ambilobe <sup>1</sup>	<b>156</b>	166
Mauritania: Chinguetti <sup>2</sup>	<b>104</b>	104
Mauritania: C-3 <sup>3</sup>	<b>370</b>	370
Mauritania: C-10 <sup>3</sup>	<b>248</b>	224
Somaliland <sup>4</sup>	<b>75</b>	75
	<b>953</b>	939

<sup>1</sup> Payments made by Pura Vida (SE(UK)L pays its pro rata share of cost).

<sup>2</sup> Included within payments made to SMHPM under the terms of the Chinguetti Funding Agreement, relating to Chinguetti field operating costs, PSC obligations and decommissioning, totalling \$7.5 million in 2016 (2015: \$8.8 million).

<sup>3</sup> Gross payments made by Tullow (SEML pays its share of cost).

<sup>4</sup> Payments made by Genel Energy (SE(EA)L fully carried for its share of cost).

# 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 2016.

## 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 with a primary focus on Africa. The significant developments during 2016 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 16 to the financial statements.

The Group uses a number of KPIs to assess the business performance against strategy, these include; HSSE, M&A led growth initiatives and managing the Group's financial exposure to its existing assets.

## RESULTS AND DIVIDENDS

The Group loss for the financial year was \$8.5 million (2015: loss \$16.0 million). This leaves an accumulated Group retained deficit of \$449.3 million (2015: deficit \$440.9 million) to be carried forward. The Directors do not recommend the payment of a dividend (2015: \$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 - 14. The financial position of the Group and Company, its cash flows and liquidity position are described in the Financial Review on pages 19 - 22. In addition, Note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital financial risk: details of its financial instruments and its exposures to credit risk and liquidity risk.

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

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

## CAPITAL STRUCTURE

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

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

---

## DIRECTORS

The Directors who served during the year were as follows:

Mr. Alastair Beardsall	(resigned 11 May 2016)
Mr. Eskil Jersing	
Mr. Michael Kroupeev	(appointed 11 May 2016)
Mr. Keith Henry	(resigned 13 October 2016)
Mr. Nicholas Clayton	(resigned 13 October 2016)
Mr. Malcolm Pattinson	(resigned 13 October 2016)
Mr Leo Koot	(appointed 19 January 2017)
Mr Ilya Belyaev	(appointed 19 January 2017)

Biographical details of serving Directors can be found in the Board of Directors section of this report on page 30.

## 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 Article of Association Eskil Jersing offers himself for re-election and in accordance with article 110 of the Company's Article of Association Michael Kroupeev, Leo Koot and Ilya Belyaev offer themselves for election at the forthcoming AGM on 25 April 2017.

## SUBSTANTIAL SHAREHOLDINGS

Except for the holdings of ordinary shares listed below, the Company has not been notified by or become aware of any persons holding 3% or more of the 220,053,520 issued ordinary shares of 40 pence each of the Company at 14 March 2017:

	Number	%
Waterford Finance & Investment Ltd	64,815,517	29.45
YF Finance Limited	36,611,361	16.64
Mistyvale Limited	34,467,790	15.66
Denis O'Brien	15,750,000	7.16
Banque Heritage	14,930,358	6.78

## BUSINESS RISK

A summary of the principle and general business risks can be found within the Strategic Report on pages 23 - 27.

## FINANCIAL INSTRUMENTS

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

## 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 2017.

### **Eskil Jersing**

Chief Executive Officer

17 March 2017

---

# 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

17 March 2017



**Sterling Energy plc**

# Group Accounts

**Year ended 31 December 2016**



# 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 2016 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](http://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 2016 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## 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  
17 March 2017

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



**GROUP ACCOUNTS**

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2016

	Note	31 December 2016 \$000	31 December 2015 \$000
Revenue	4	4,815	5,031
Cost of sales	6	(2,262)	(6,028)
<b>Gross profit/(loss)</b>		<b>2,553</b>	<b>(997)</b>
Other administrative expenses		(2,045)	(2,305)
Impairment of oil and gas exploration assets	3	(7,375)	(8,183)
Pre-licence costs		(1,951)	(2,212)
Onerous contract	20	-	(3,700)
Chinguetti cessation costs	7	-	2,159
<b>Total administrative expenses</b>		<b>(11,371)</b>	<b>(14,241)</b>
<b>Loss from operations</b>	5	<b>(8,818)</b>	<b>(15,238)</b>
Finance income	9	683	356
Finance expense	9	(394)	(1,068)
<b>Loss before tax</b>		<b>(8,529)</b>	<b>(15,950)</b>
Tax	10	-	-
<b>Loss for the year attributable to the owners of the parent</b>		<b>(8,529)</b>	<b>(15,950)</b>
<b>Other comprehensive income - items to be reclassified to the income statement in subsequent periods</b>			
Currency translation adjustments		50	6
Total other comprehensive income for the year		50	6
<b>Total comprehensive expense for the year attributable to the owners of the parent</b>		<b>(8,479)</b>	<b>(15,944)</b>
<b>Basic loss per share (US cents)</b>	13	<b>(3.88)</b>	<b>(7.25)</b>
<b>Diluted loss per share (US cents)</b>	13	<b>(3.88)</b>	<b>(7.25)</b>

**GROUP ACCOUNTS**

# Consolidated Statement of Financial Position

Year ended 31 December 2016

	Note	31 December 2016 \$000	31 December 2015 \$000
<b>Non-current assets</b>			
Intangible exploration and evaluation assets	14	18,846	25,074
Property, plant and equipment	15	17	34
		<b>18,863</b>	25,108
<b>Current assets</b>			
Inventories		1,948	1,320
Trade and other receivables	17	6,540	550
Cash and cash equivalents		88,058	98,653
		<b>96,546</b>	100,523
<b>Total assets</b>		<b>115,409</b>	125,631
<b>Equity</b>			
Share capital	18	149,014	149,014
Share premium		378,863	378,863
Currency translation reserve		(169)	(219)
Retained deficit		(449,318)	(440,862)
<b>Total equity</b>		<b>78,390</b>	86,796
<b>Non-current liabilities</b>			
Long-term provisions	20	14,472	32,395
		<b>14,472</b>	32,395
<b>Current liabilities</b>			
Trade and other payables	21	1,363	2,740
Short-term provisions	20	21,184	3,700
		<b>22,547</b>	6,440
<b>Total liabilities</b>		<b>37,019</b>	38,835
<b>Total equity and liabilities</b>		<b>115,409</b>	125,631

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 17 March 2017.

Signed on behalf of the Board of Directors.

**Eskil Jersing**

Chief Executive Officer  
17 March 2017

**GROUP ACCOUNTS**

# Consolidated Statement of Changes in Equity

Year ended 31 December 2016

	Share capital	Share premium	Currency translation reserve	Retained deficit <sup>1</sup>	Total
	\$000	\$000	\$000	\$000	\$000
At 1 January 2015	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
Loss for the year	-	-	-	(8,529)	(8,529)
Currency translation adjustments	-	-	50	-	50
Total comprehensive expense for the year attributable to the owners of the parent	-	-	50	(8,529)	(8,479)
Share option charge for the year	-	-	-	73	73
<b>At 31 December 2016</b>	<b>149,014</b>	<b>378,863</b>	<b>(169)</b>	<b>(449,318)</b>	<b>78,390</b>

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

**GROUP ACCOUNTS****Consolidated Statement of Cash Flows**

Year ended 31 December 2016

	Note	2016 \$000	2015 \$000
<b>Operating activities</b>			
Loss before tax		(8,529)	(15,950)
Depreciation, depletion & amortisation	15	32	54
Impairment expense	3	7,375	8,183
Chinguetti cessation costs		-	(2,159)
Onerous provision		(3,700)	310
Finance income and gains		(683)	(356)
Finance expense and losses		380	1,056
Share-based payment charge		75	297
Operating cash flow prior to working capital movements		(5,050)	(8,565)
(Increase)/decrease in inventories		(628)	903
(Increase)/decrease in trade and other receivables		(5,990)	2,744
Decrease in trade and other payables		(1,377)	(2)
Increase in short-term provisions		4,200	-
		(8,845)	(4,920)
Cash outflow from continuing operations		(8,835)	(4,877)
Cash outflow from discontinued operations		(10)	(43)
<b>Net cash flow used in operating activities</b>		<b>(8,845)</b>	<b>(4,920)</b>
<b>Investing activities</b>			
Interest received		683	356
Purchase of property, plant and equipment	15	(15)	(16)
Exploration and evaluation costs	14	(1,147)	(4,831)
Decommissioning costs	20	(1,088)	-
<b>Net cash used in investing activities</b>		<b>(1,567)</b>	<b>(4,491)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(10,412)</b>	<b>(9,411)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>98,653</b>	<b>108,148</b>
Effect of foreign exchange rate changes		(183)	(84)
<b>Cash and cash equivalents at end of year</b>		<b>88,058</b>	<b>98,653</b>

**GROUP ACCOUNTS**

# Company Statement of Financial Position

Year ended 31 December 2016

	Note	31 December 2016 \$000	31 December 2015 \$000
<b>Non-current assets</b>			
Property, plant and equipment	15	-	-
Investments	16	29,148	29,113
		<b>29,148</b>	29,113
<b>Current assets</b>			
Inventories		1,948	1,320
Trade and other receivables	17	24,686	20,478
Cash and cash equivalents		88,054	97,483
		<b>114,688</b>	119,281
<b>Total assets</b>		<b>143,836</b>	148,394
<b>Equity</b>			
Share capital	18	149,014	149,014
Share premium		378,863	378,863
Retained deficit		(449,921)	(451,885)
<b>Total equity</b>		<b>77,956</b>	75,992
<b>Non-current liabilities</b>			
Long-term provisions	20	14,472	32,395
		<b>14,472</b>	32,395
<b>Current liabilities</b>			
Trade and other payables	21	34,424	36,307
Short-term provisions	20	16,984	3,700
		<b>51,408</b>	40,007
<b>Total liabilities</b>		<b>65,880</b>	72,402
<b>Total equity and liabilities</b>		<b>143,836</b>	148,394

During the year the Company made a profit of \$1.9 million (2015: \$4.3 million loss).

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 17 March 2017.

Signed on behalf of the Board of Directors

**Eskil Jersing**

Chief Executive Officer

17 March 2017

**GROUP ACCOUNTS**

# Company Statement of Changes in Equity

Year ended 31 December 2016

	<b>Share capital</b> \$000	<b>Share premium</b> \$000	<b>Retained deficit <sup>1</sup></b> \$000	<b>Total</b> \$000
At 1 January 2015	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
Total comprehensive income for the year	-	-	1,891	1,891
Share option charge for the year	-	-	73	73
<b>At 31 December 2016</b>	<b>149,014</b>	<b>378,863</b>	<b>(449,921)</b>	<b>77,956</b>

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

**GROUP ACCOUNTS**

# Company Statement of Cash Flows

Year ended 31 December 2016

	Note	2016 \$000	2015 \$000
<b>Operating activities</b>			
Profit/(loss) before tax		1,891	(4,344)
Chinguetti cessation costs		-	(2,159)
Onerous provision		(3,700)	310
Finance income and gains		(683)	(356)
Finance expense and losses		406	1,036
Share-based payment charge		-	22
Operating cash flow prior to working capital movements		(2,086)	(5,491)
(Increase)/decrease in inventories		(628)	903
Increase in trade and other receivables		(4,208)	(705)
Decrease in trade and other payables		(1,883)	(4,018)
Decrease in provisions		-	(18)
<b>Net cash flow used in operating activities</b>		<b>(8,805)</b>	<b>(9,329)</b>
<b>Investing activities</b>			
Interest received		683	356
Decommissioning costs	20	(1,088)	-
<b>Net cash (used in)/generated from investing activities</b>		<b>(405)</b>	<b>356</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(9,210)</b>	<b>(8,973)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>97,483</b>	<b>106,473</b>
Effect of foreign exchange rate changes		(219)	(17)
<b>Cash and cash equivalents at end of year</b>		<b>88,054</b>	<b>97,483</b>

## Notes to the Financial Statements

Year ended 31 December 2016

**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 effect.

(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	EU Endorsement status
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Endorsed
IFRS 9	Financial Instruments	1 January 2018	Endorsed
IFRS 16	Leases	1 January 2019	Expected H2 2017
IAS 12	Recognition of deferred tax assets for unrealised losses (Amendments)	1 January 2017	Expected Q2 2017
IAS 7	Disclosure Initiative: amendments	1 January 2017	Expected Q2 2017
IFRS 15	Clarifications to IFRS 15 revenue from Contracts with Customers	1 January 2018	Expected Q2 2017
IFRS 2	Classification and Measurement of Share-based Payment Transactions (Amendments)	1 January 2018	Expected H2 2017
Annual Improvements to IFRSs	(2012–2014 Cycle)	1 January 2017 and 1 January 2018	Expected H2 2017
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018	Expected H2 2017

**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 ('E&E') 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.

# Notes to the Financial Statements

Year ended 31 December 2016

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 Notes 2 and 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.

# Notes to the Financial Statements

Year ended 31 December 2016

## **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 JV's, 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 Board of Directors.

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.

# Notes to the Financial Statements

Year ended 31 December 2016

## **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 16.

### **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 – for 2015 details of this can be found in Note 20.

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. No onerous commitment provision has been recognised in 2016 due to the uncertain nature of the Chinguetti field performance in 2017. Management has forecasted various sensitivities to the performance of the Chinguetti field in 2017 and deemed the commitment to be immaterial.

### **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 18.

### **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 Agreements. The carrying value of oil and gas

assets is disclosed in Notes 14 and 15. The carrying value of related investments in the Company Statement of Financial Position is disclosed in Note 16.

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

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

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

# Notes to the Financial Statements

Year ended 31 December 2016

## 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 (2015: 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 Ambilobe and C-3 blocks.

During the year the Group recognised impairments totalling \$7.4 million in accordance with IAS 36 "Impairment of Assets". This related to the full impairment of the Ambilobe and C-3 blocks, the decisions were based on a combination of above ground risks and a risked assessment of the prospectivity on the blocks.

During 2015 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.

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 20.

## Share-based payments

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



### 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 2016 and for the year ended 31 December 2015.

	Note	Africa		Middle East (Discontinued)		Total	
		2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>Statement of comprehensive income</b>							
Revenue <sup>1</sup>		4,815	5,031	-	-	4,815	5,031
Cost of sales		(2,262)	(6,028)	-	-	(2,262)	(6,028)
<b>Gross profit/(loss)</b>		<b>2,553</b>	<b>(997)</b>	<b>-</b>	<b>-</b>	<b>2,553</b>	<b>(997)</b>
Impairment of E&E assets	14	(7,375)	(8,183)	-	-	(7,375)	(8,183)
Accruals release		-	-	-	5	-	5
Pre-licence costs		(1,951)	(2,212)	-	-	(1,951)	(2,212)
Onerous contract		-	(3,700)	-	-	-	(3,700)
Chinguetti cessation costs		-	2,159	-	-	-	2,159
<b>Segment result</b>		<b>(6,773)</b>	<b>(12,933)</b>	<b>-</b>	<b>5</b>	<b>(6,773)</b>	<b>(12,928)</b>
Unallocated corporate expenses						(2,045)	(2,310)
<b>Loss from operations</b>						<b>(8,818)</b>	<b>(15,238)</b>
Finance income						683	356
Finance expense						(394)	(1,068)
<b>Loss before tax</b>						<b>(8,529)</b>	<b>(15,950)</b>
Tax						-	-
<b>Loss attributable to owners of the parent</b>						<b>(8,529)</b>	<b>(15,950)</b>

<sup>1</sup> Revenue from continuing operations (Mauritania, Africa) includes amounts of \$4.6 million (100% external) from one single customer (2015: \$4.7 million).

## Notes to the Financial Statements

Year ended 31 December 2016

	Corporate		Africa		Middle East (Discontinued)		Total	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>Other segment information</b>								
<u>Capital additions:</u>								
Property, plant and equipment	15	16	-	-	-	-	15	16
Exploration and evaluation	-	-	1,147	4,831	-	-	1,147	4,831
Depreciation, depletion & amortisation	(32)	(54)	-	-	-	-	(32)	(54)
Impairment expense	-	-	(7,375)	(8,183)	-	-	(7,375)	(8,183)
<b>Segment assets and liabilities</b>								
Non-current assets <sup>1</sup>	17	34	18,846	25,074	-	-	18,863	25,108
Segment assets <sup>2</sup>	88,570	98,010	7,976	2,503	-	10	96,546	100,523
Segment liabilities <sup>3</sup>	(555)	(654)	(36,459)	(38,173)	(5)	(8)	(37,019)	(38,835)

<sup>1</sup> Segment non-current assets include \$1.4 million in Mauritania (2015: \$4.0 million) and \$17.5 million in Somaliland (2015: \$17.5 million).

<sup>2</sup> Corporate segment assets include \$88.1 million cash and cash equivalents (2015: \$97.6 million) and \$511k other receivables (2015: \$426k). Carrying amounts of segment assets exclude investments in subsidiaries.

<sup>3</sup> Carrying amounts of segment liabilities exclude intra-group financing.

## 4. REVENUE

	Total	
	2016 \$000	2015 \$000
Revenue from the sale of oil and gas	4,555	4,670
Royalty income	260	361
<b>Total operating revenue</b>	<b>4,815</b>	<b>5,031</b>

## 5. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Note	2016 \$000	Total 2015 \$000
Staff costs	8	2,980	3,623
Share-based payments	8	73	297
Impairment	14	7,375	8,183
Depreciation of other non-current assets	15	32	54
Onerous contract	20	-	3,700
<b>An analysis of auditor's remuneration is as follows:</b>			
Fees payable to the Group's auditors for the audit of the Group's annual accounts		43	50
Audit of the Company's subsidiaries pursuant to legislation		50	56
Audit related assurance services		-	-
<b>Total audit fees</b>		<b>93</b>	<b>106</b>

See Note 2 for details on the above impairment.

## 6. COST OF SALES

	2016 \$000	2015 \$000
Operating costs	6,590	8,514
(Under)/over lift of product entitlement	(628)	904
Onerous contract provision	(3,700)	(3,390)
	<b>2,262</b>	<b>6,028</b>

## 7. CHINGUETTI CESSATION COSTS

	Note	2016 \$000	2015 \$000
Increase in decommissioning provision	20	-	(8,762)
Reassessment of accrued costs		-	10,921
		-	2,159

## Notes to the Financial Statements

Year ended 31 December 2016

## 8. EMPLOYEE INFORMATION

The average monthly number of employees of the Group and Company was as follows:

	Group		Company	
	2016	2015	2016	2015
Africa	5	7	-	-
Corporate support staff	9	10	-	-
Non-executive	3	3	3	3
	<b>17</b>	20	<b>3</b>	3

Group and Company employee costs during the year amounted to:

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Wages and salaries	2,314	3,023	183	163
Social security costs	298	372	21	17
Other pension costs	182	228	-	-
Compensation payments	186	-	-	-
Share-based payments	73	297	-	22
	<b>3,053</b>	3,920	<b>204</b>	202

Key management personnel include directors who have been paid \$696k (2015: \$919k), see Remuneration Committee Report (pages 36 - 45) for additional detail.

A portion of the Group's staff costs and associated overheads are recharged to the JV partners, expensed as pre-licence expenditure or capitalised where they are directly attributable to ongoing capital projects. In 2016 this portion amounted to \$2.7 million (2015: \$3.6 million).

## 9. FINANCE INCOME AND FINANCE EXPENSE

	2016 \$000	2015 \$000
<b>Finance income:</b>		
Interest revenue on short-term deposits	683	356
	<b>683</b>	356
<b>Finance expense:</b>		
Bank charges	14	13
Unwinding of discount on decommissioning provision	149	966
Exchange differences	231	89
	<b>394</b>	1,068

## 10. TAXATION

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

	2016 \$000	Total 2015 \$000
Loss before tax	<b>(8,529)</b>	(15,950)
Tax on loss on ordinary activities at standard UK corporation tax rate of 20.00% (2015: 20.25%)	<b>(1,706)</b>	(3,230)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	<b>618</b>	1,572
Capital allowances in excess of depreciation	<b>(600)</b>	(785)
Adjustment for tax losses	<b>1,688</b>	2,443
Tax charge for the year	-	-

### Deferred Tax

At the reporting date the Group had an unrecognised deferred tax asset of \$17.8 million (2015: \$19.0 million) relating primarily to unused tax losses and unutilised capital allowances. No deferred tax asset has been recognised due to the uncertainty of future profit streams against which these losses could be utilised. At the reporting date the Company had an unrecognised deferred tax asset of \$14.1 million (2015: \$15.4 million) relating primarily to unused losses and unutilised capital allowances.

## Notes to the Financial Statements

Year ended 31 December 2016

**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.

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

	<b>2016</b>	2015
	<b>\$000</b>	\$000
Net decrease in cash and cash equivalents	<b>(10)</b>	(43)

**12. PROFIT/(LOSS) ATTRIBUTABLE TO THE COMPANY**

The profit for the financial year within the Company accounts of Sterling Energy plc was \$1.9 million (2015: \$4.3 million loss). 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**

	<b>Basic</b>		<b>Diluted</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>\$000</b>	\$000	<b>\$000</b>	\$000
Loss for the year	<b>(8,529)</b>	(15,950)	<b>(8,529)</b>	(15,950)
Weighted average number of ordinary shares in issue during the year	<b>220,053,520</b>	220,053,520	<b>220,053,520</b>	220,053,520
Dilutive effect of share options outstanding	-	-	-	-
Fully diluted average number of ordinary shares during the year	<b>220,053,520</b>	220,053,520	<b>220,053,520</b>	220,053,520
EPS (US cents)	<b>(3.88)</b>	(7.25)	<b>(3.88)</b>	(7.25)

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 2,287,800 (2015: 7,495,450) (see Note 24 on pages 88 and 89).

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

	<b>Group</b> \$000
Net book value at 1 January 2015	28,426
Additions during the year	4,831
Impairment for the year	(8,183)
Net book value at 31 December 2015	25,074
Additions during the year	1,147
Impairment for the year	(7,375)
<b>Net book value at 31 December 2016</b>	<b>18,846</b>

Impairment for the 2016 refers to the full impairment of the Ambilobe and C-3 assets (2015: Ntem).

## Notes to the Financial Statements

Year ended 31 December 2016

## 15. PROPERTY, PLANT AND EQUIPMENT

	Oil and Gas assets	Computer and office equipment	Total
Group	\$000	\$000	\$000
<b>Cost</b>			
At 1 January 2015	185,802	175	185,977
Additions during the year	-	16	16
At 31 December 2015	185,802	191	185,993
Additions during the year	-	15	15
<b>At 31 December 2016</b>	<b>185,802</b>	<b>206</b>	<b>186,008</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2015	(185,802)	(103)	(185,905)
Charge for the year	-	(54)	(54)
At 31 December 2015	(185,802)	(157)	(185,959)
Charge for the year	-	(32)	(32)
<b>At 31 December 2016</b>	<b>(185,802)</b>	<b>(189)</b>	<b>(185,991)</b>
<b>Net book value at 31 December 2016</b>	<b>-</b>	<b>17</b>	<b>17</b>
Net book value at 31 December 2015	-	34	34
Net book value at 31 December 2014	-	72	72
<b>Company</b>			
	Oil and Gas assets	Computer and office equipment	Total
Company	\$000	\$000	\$000
<b>Cost</b>			
At 1 January 2015	185,802	-	185,802
At 31 December 2015	185,802	-	185,802
<b>At 31 December 2016</b>	<b>185,802</b>	<b>-</b>	<b>185,802</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2015	(185,802)	-	(185,802)
At 31 December 2015	(185,802)	-	(185,802)
<b>At 31 December 2016</b>	<b>(185,802)</b>	<b>-</b>	<b>(185,802)</b>
<b>Net book value at 31 December 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net book value at 31 December 2015	-	-	-
Net book value at 31 December 2014	-	-	-



## 16. INVESTMENT IN SUBSIDIARIES

	<b>Company</b>
	\$000
<b>Cost</b>	
At 1 January 2015	28,890
Additions during the year	223
At 31 December 2015	29,113
Additions during the year	35
<b>At 31 December 2016</b>	<b>29,148</b>

The subsidiary undertakings at 31 December 2016 are as follows (these undertakings are included on consolidation):

	<b>Country of incorporation</b>	<b>Class of shares held</b>	<b>Type of ownership</b>	<b>Proportion of voting rights held 2016</b>	<b>Proportion of voting rights held 2015</b>	<b>Nature of business</b>
Sterling Energy (UK) Limited	United Kingdom <sup>5</sup>	Ordinary	Direct	100%	100%	Exploration for oil and gas
Sterling Energy (International) Limited <sup>1</sup>	United Kingdom <sup>5</sup>	Ordinary	Indirect	100%	100%	Exploration for oil and gas
Sterling Energy Overseas Limited	United Kingdom <sup>5</sup>	Ordinary	Direct	100%	100%	Investment holding company
Sterling Energy Mauritania Limited <sup>2</sup>	United Kingdom <sup>5</sup>	Ordinary	Indirect	100%	100%	Exploration for oil and gas
Sterling Northwest Africa Holdings Limited	Jersey, CI <sup>6</sup>	Ordinary	Direct	100%	100%	Exploration for oil and gas
Sterling Energy Holdings Limited <sup>3</sup>	Jersey, CI <sup>6</sup>	Ordinary	Indirect	100%	100%	Investment holding company
Sterling Cameroon Limited <sup>4</sup>	Jersey, CI <sup>6</sup>	Ordinary	Indirect	100%	100%	Exploration for oil and gas
Sterling Energy (East Africa) Limited <sup>4</sup>	Jersey, CI <sup>6</sup>	Ordinary	Indirect	100%	100%	Exploration for oil and gas

<sup>1</sup> Held directly by Sterling Energy (UK) Limited

<sup>2</sup> Held directly by Sterling Energy Overseas Limited

<sup>3</sup> Held directly by Sterling Northwest Africa Holdings Limited

<sup>4</sup> Held directly by Sterling Energy Holdings Limited

<sup>5</sup> Registered address - 85 Fleet Street, London, EC4Y 1AE

<sup>6</sup> Registered address - 12 Castle Street, St Helier, Jersey, JE2 3RT

## Notes to the Financial Statements

Year ended 31 December 2016

## 17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Trade receivables	2,249	80	2,146	42
Amounts owed by subsidiary undertakings	-	-	22,475	20,366
Other receivables	4,089	130	17	8
Amounts due from joint venture partners	-	-	-	-
Prepayments and accrued income	202	340	48	62
	<b>6,540</b>	550	<b>24,686</b>	20,478

No trade receivables are overdue or impaired.

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

## 18. SHARE CAPITAL

	2016 \$000	2015 \$000
<b>Authorised, called up, allotted and fully paid</b>		
220,053,520 (2015: 220,053,520) ordinary shares of 40p	<b>149,014</b>	149,014

## 19. RESERVES

Reserves within equity are as follows:

**Share Capital**

Amounts subscribed for share capital at nominal value.

**Share Premium Account**

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

**Currency Translation Reserve**

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

## 20. SHORT AND LONG-TERM PROVISIONS

Short-term provisions are detailed in the table below:

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Onerous commitment	-	3,700	-	3,700
Decommissioning provision (a)	<b>16,984</b>	-	<b>16,984</b>	-
Odewayne consideration	<b>4,000</b>	-	-	-
Other provisions	<b>200</b>	-	-	-
	<b>21,184</b>	3,700	<b>16,984</b>	3,700

	2016 \$000
<b>a) Decommissioning provisions Group/Company</b>	
At 1 January	-
Transferred from long-term provision	<b>18,072</b>
Used	<b>(1,088)</b>
	<b>16,984</b>

Long-term provisions are detailed in the table below:

	2016 \$000	2015 \$000
<b>Decommissioning provisions Group/Company</b>		
At 1 January	<b>32,395</b>	22,667
Increase in decommissioning provision	-	8,762
Unwinding of discount	<b>149</b>	966
Transferred to short-term provision	<b>(18,072)</b>	-
	<b>14,472</b>	<b>32,395</b>

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 \$14.5 million (2015: \$32.4 million) represents the amount provided within the Company for future decommissioning expenditure.

## Notes to the Financial Statements

Year ended 31 December 2016

## 21. TRADE AND OTHER PAYABLES

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Trade payables	118	264	3	13
Amounts owed to subsidiary undertakings	-	-	33,470	35,523
Amounts advanced from joint venture partners	-	1,043	-	-
Accruals	1,245	1,433	951	771
	<b>1,363</b>	2,740	<b>34,424</b>	36,307

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

## 22. OPERATING LEASES AND CAPITAL COMMITMENTS

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Minimum lease payments under operating leases recognised as an expense in the year	4,737	6,124	4,308	5,702

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

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Within one year	1,745	4,774	1,387	4,315
In the second to fifth year inclusive	-	422	-	-
	<b>1,745</b>	5,196	<b>1,387</b>	4,315

Operating lease payments represent the Group's share of rentals for the Berge Helene vessel in Mauritania, a BWO operated FPSO and rentals payable for its office properties.

## 23. FINANCIAL INSTRUMENTS

**Capital Risk Management and Liquidity Risk**

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

### Significant Accounting Policies

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

Due to the short-term nature of these assets and liabilities such values approximate their fair values at 31 December 2016 and 31 December 2015.

Group	Carrying amount/Fair value	
	2016 \$000	2015 \$000
<b>Financial assets (classified as loans and receivables)</b>		
Cash and cash equivalents	88,058	97,553
Cash and cash equivalents held on behalf of partners	-	1,100
Trade and other receivables	6,338	209
<b>Total</b>	<b>94,396</b>	<b>98,862</b>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	1,363	2,740
<b>Total</b>	<b>1,363</b>	<b>2,740</b>

Company	Carrying amount/Fair value	
	2016 \$000	2015 \$000
<b>Financial assets (classified as loans and receivables)</b>		
Cash and cash equivalents	88,054	97,483
Trade and other receivables	24,638	20,416
<b>Total</b>	<b>112,692</b>	<b>117,899</b>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	34,424	36,307
<b>Total</b>	<b>34,424</b>	<b>36,307</b>

### 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.

## Notes to the Financial Statements

Year ended 31 December 2016

**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	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Cash and cash equivalents	881	987	881	975

**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. Such elements transacted in pounds sterling have been exchanged at; the average rate of \$1.3542/£1.00 (2015:\$1.5286/£1.00) or the year-end spot rate of \$1.2303/£1.00 (2015:\$1.4819/£1.00), depending on its nature. 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	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>Cash and cash equivalents</b>				
Cash and cash equivalents held in US\$	87,646	97,380	87,641	96,203
Cash and cash equivalents held in GBP	412	1,273	413	1,280
	<b>88,058</b>	98,653	<b>88,054</b>	97,483

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>Trade and other receivables</b>				
Trade and other receivables held in US\$	6,241	157	23,005	20,408
Trade and other receivables held in GBP	97	53	1,633	8
	<b>6,338</b>	210	<b>24,638</b>	20,416

## Financial Liabilities

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
<b>Trade and other payables</b>				
Trade and other payables held in US\$	<b>1,011</b>	2,202	<b>28,058</b>	30,042
Trade and other payables held in GBP	<b>352</b>	538	<b>6,366</b>	6,265
	<b>1,363</b>	2,740	<b>34,424</b>	36,307

## 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 99.5% (2015: 98.7%) of its cash in US dollars. At the year end the Group held the majority of its balances with AA- and A+ Standard & Poor's rated institutions. The Group continues to monitor its treasury management to ensure an appropriate balance of the safety of funds and maximisation of yield.

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 2016 is nil % (2015: nil %).

	Less than six months \$000	Six months to one year \$000	One to six years \$000	Total \$000	Interest \$000	Principal \$000
<b>Group</b>						
<b>Trade payables (2016)</b>	<b>65</b>	-	-	<b>65</b>	-	-
Trade payables (2015)	1,197	-	-	1,197	-	-
<b>Company</b>						
<b>Trade and other payables (2016)</b>	<b>2</b>	-	<b>33,470</b>	<b>33,472</b>	-	-
Trade and other payables (2015)	8	-	35,523	35,531	-	-

## Notes to the Financial Statements

Year ended 31 December 2016

**24. SHARE-BASED PAYMENTS**

The Group recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of \$73k (2015: \$297k). The Company recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of \$nil (2015: \$22k).

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 ('All Staff LTIP') 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 LTIP. Awards are made on similar terms to non-executive Directors of the Company, under the non-executive Director Long-Term Incentive Plan ('NED LTIP').

**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:

	<b>2016</b> Number of share options	<b>2016</b> Exercise price (pence)	2015 Number of share options	2015 Exercise price (pence)
Outstanding at the beginning of the year	<b>6,116,500</b>	<b>40</b>	11,556,950	40
Lapsed/forfeited during the period	<b>(3,962,700)</b>	<b>40</b>	(5,440,450)	40
Outstanding at the end of the year	<b>2,153,800</b>	<b>40</b>	6,116,500	40
<b>Exercisable at the end of the year</b>	-	-	-	-

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 2016 have a contractual life of 2.75 years (2015: 3.35 years). The cost of the options is spread over the vesting period of three years. There have been no options granted under the plan since 2014. 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.

### All Staff LTIP Sub-Plan

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

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

	2016 Number of share options	2016 Exercise price (pence)	2015 Number of share options	2015 Exercise price (pence)
Outstanding at the beginning of the year	1,069,500	42	1,235,700	42
Lapsed/forfeited during the period	(935,500)	42	(166,200)	42
Outstanding at the end of the year	134,000	40	1,069,500	42
<b>Exercisable at the end of the year</b>	-	-	-	-

The options outstanding at 31 December 2016 have a contractual life of 2.75 years (2015: 3.33 years). The cost of the options is spread over the vesting period of three years. There have been no options granted under the plan since 2014. The fair value of the options granted during 2014 was 5.7 pence.

Fair values were measured by use of a modified binomial model.

### 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:

	2016 Number of share options	2016 Exercise price (pence)	2015 Number of share options	2015 Exercise price (pence)
Outstanding at the beginning of the year	309,450	40	392,783	40
Lapsed/forfeited during the period	(309,450)	40	(83,333)	40
Outstanding at the end of the year	-	40	309,450	40
<b>Exercisable at the end of the year</b>	-	40	309,450	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.

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

## Notes to the Financial Statements

Year ended 31 December 2016

**25. RELATED PARTY TRANSACTIONS**

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

	Group		Company	
	2016 \$000	2015 \$000	2016 \$000	2015 \$000
Short-term employee benefits	671	876	183	163
Defined contribution pension	25	43	-	-
Share-based payments	(47)	(84)	-	22
	<b>649</b>	835	<b>183</b>	185

Further information on Directors' remuneration is detailed in the Remuneration Committee Report, on pages 36 - 45.

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

**26. CONTINGENT LIABILITIES**

Following the farm-in to the Odewayne licence in Somaliland, there is a remaining contingent consideration of \$4.0 million (2015:\$8.0 million) payable to Petrosoma based upon various operational milestones being met. At 31 December 2016, these milestones had not been met.

**27. SUBSEQUENT EVENTS**

No significant subsequent events requiring disclosure or adjustment have occurred.

## Definitions and Glossary of Terms

\$	US dollars
2006 Act	the Companies Act 2006, as amended
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 “proved 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

## Definitions and Glossary of Terms (cont.)

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)
km <sup>2</sup>	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
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.
Petronas	PC Mauritania 1 PTY LTD
Petrosoma	Petrosoma Limited (JV partner in Somaliland)
Premier	Premier Oil PLC

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 (Mauritania's national oil company)
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)
Tullow Mauritania Limited	Tullow Oil
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
Waterford	Waterford Finance and Investment Limited
Working Interest or WI	a Company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms

# Professional Advisers

## **Nominated Adviser and Corporate Broker**

Peel Hunt  
Moor House  
120 London Wall  
London  
EC2Y 5ET

## **Corporate Bankers**

The Royal Bank of Scotland Plc  
1 Albyn Place  
Aberdeen  
AB10 1BR

## **HSBC**

165 Fleet Street  
London  
EC4A 2DY

## **Julius Baer & Co. Ltd**

Freie Strasse 107  
4001 Basle  
Switzerland

## **Legal**

Memery Crystal LLP  
44 Southampton Buildings  
London  
WC2A 1AP

## **Auditors**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

## **Registered Office**

85 Fleet Street  
London  
EC4Y 1AE



A decorative graphic consisting of several overlapping, wavy lines in various shades of green, ranging from light lime to a darker forest green. The lines flow from the bottom left towards the right, creating a sense of movement and energy.

**Sterling Energy plc**

85 Fleet Street  
London  
EC4Y 1AE

Tel: +44 (0)20 7405 4133

Fax: +44 (0)20 7440 9059

Email: [info@sterlingenergyuk.com](mailto:info@sterlingenergyuk.com)

**[www.sterlingenergyplc.com](http://www.sterlingenergyplc.com)**