STERLING ENERGY PLC

Report and Financial Statements

2017

STERLING ENERGY PLC

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Year ended 31 December 2017

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 and the Middle East. The Group has a high potential exploration asset in Somaliland and 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.

CONTENTS

2017 Summary

OPERATIONS

April 2017: Odewayne block, Somaliland; reduction in exposure to deferred consideration payments.

September 2017: Odewayne block, Somaliland; 1,000km 2D seismic campaign completed.

November 2017: C-10 block, Mauritania; exit (13.5% working interest).

Production, net to the Company from the Chinguetti field (including royalty barrels), averaged 199 barrels of oil per day ('bopd') (2016: 279 bopd).

CORPORATE

January 2017: Refreshed Board and non-executive Directors appointed.

June 2017: Completion of capital restructuring.

October 2017: Relocation to new office (forecasted ca. 60% cost savings).

December 2017: CEO resignation. Eskil Jersing to remain in the post to effect an orderly handover. Departure date in Q2 2018.

FINANCIAL

Adjusted Earnings before Interest, Tax, Depreciation, Amortisation and Exploration Expense ('EBITDAX') loss for the Group of $5.9 million (2016: $3.1 million loss).

Cash resources net to the Group at 31 December 2017 of $81.4 million (2016: $88.1 million).

The Group remains debt free and fully funded for all commitments.

Ongoing focus on capital discipline, cash G&A expenses reduced by ca. 15% to $3.9 million and is forecast to be ca. 25% lower in 2018.

Continued merger and acquisition ('M&A') mandate for transformational growth (asset and corporate options).

POST YEAR END

January 2018: Chinguetti, Mauritania; cessation of production ('CoP') and negotiated termination of the Funding Agreement.

Chairman's Statement

Though 2017 was a year of partial oil price recovery, the question remains if this is a sign of reduced volatility and that the global oil market is finally finding its supply-demand balance.

Since 2014, a prolonged period of volatility has led to junior natural resource companies facing operational challenges and restricting their access to capital markets. We successfully navigated through this period without significant losses in our core values, and given the markets were still unsupportive, we managed to reduce our exposure to mid-term exploration. In 2017, we implemented our strategy of exiting from the Mauritanian C-10 block at low cost and also reduced our position in the Somaliland Odewayne block.

Oil production from the Chinguetti field ceased at the end of the year. Following a negotiated Deed of Termination settlement in January 2018, we are no longer exposed to this asset and the potential for escalating costs and project scope creep.

Following a period of instability in the oil market, many large portfolios of assets have been available for reorganisation and divestment. Numerous technically sound and material upstream opportunities have come to the market and were pursued by our team during 2017. No deals were concluded in the year, although due diligence is ongoing on a number of opportunities.

FINANCIAL

In 2017, business costs were further reduced by continued rationalisation of our structure and overheads. The Group had cash resources of $81.4 million at the end of 2017 (prior to the Chinguetti Funding Agreement termination settlement) and we remain free of debt with our work programme for 2018 fully funded.

BOARD AND CHANGES

In December 2017, Eskil Jersing elected to accept another appointment and resigned from the CEO role. The Board is currently reviewing options to further optimise the governance of the Company and will make appointments in due course. We would like to thank Eskil for his excellent contribution and achievements during his CEO tenure.

OUTLOOK FOR 2018 AND BEYOND

The outlook for 2018 to 2019 is positive. The Company is now in a good shape to pursue real time opportunities in our regions of focus and with strong expertise. Should market conditions worsen, we will preserve our capabilities and strengths, accordingly.

I would like to thank all our stakeholders for their continuing support and all of our management and staff for their diligent efforts during 2017.

Michael Kroupeev
Chairman
21 March 2018

Chief Executive's Review

MARKET LANDSCAPE

The previous year has seen oil prices move within a relatively narrow band between $52 and $60. This period of price stability has allowed for better Upstream sector planning and more efficient project execution. This is in part due to OPEC and non OPEC members, led by Russia, agreeing to continue production cuts through into 2018.

The Oil and Gas industry continues on its slow recovery which though prolonged, will likely persist in constraining oil prices. This assumes ongoing compliance with OPEC led global production targets and recognises uncertainty around the likelihood of US shale oil production growth in the second half of 2018. As a result, market conditions remain somewhat strained as Companies seek greater returns on upstream investments amid capital markets being highly selective in their funding appetite for the E&P sector.

SHAREHOLDER ALIGNMENT AND STRATEGY

The Board, led by the major shareholder, Michael Kroupeev, has continued on the 2016 strategic mandate of repositioning the Company to execute on M&A led material cash flow generating asset(s) or Corporate solutions to the shareholders. In parallel, the overarching focus for management has been on continued cash preservation and reduction of outstanding asset liability exposure, in particular with respect to the Chinguetti oil field abandonment and decommissioning ('A&D') project.

Through early 2018 we have delivered on those initiatives, bar executing on a material M&A transaction. As a result, Sterling retains a unique position in the AIM listed E&P sector, with a strong cash platform of $48.8 million (post Chinguetti Deed of Termination as at 31 January 2018), lower G&A cost base and no liabilities, from which to leverage material growth.

OPERATIONS

The Group has had a Funding and Royalty Agreement based economic interest in the offshore Chinguetti oil field in Mauritania. The joint venture ('JV') participants, led by the Operator, Petronas, worked towards CoP at the end of 2017, through a safe, compliant and cost effective A&D project plan.

Given the corporate strategy and significant exposure to potentially major A&D operational risk and cost overruns, Sterling agreed to terminate the Funding Agreement on Chinguetti in January 2018 for $32.6 million. This was the culmination of almost

two years of negotiations and persistence. The crystallisation of this liability exposure has cleaned up our balance sheet and allows for significantly improved optionality on the Company's strategic mandate.

On the C-10 block in Mauritania; in November 2017, we undertook a disciplined exit given the low likelihood of commercial hub-class risked potential. This was based on an extensive subsurface evaluation undertaken over the last two years. Subsequently, a penalty payment of $1.1 million for not fulfilling the minimum work obligations has been made to the Government as of March 2018.

With regards the Odewayne block in Somaliland; in April 2017, we reduced our overall cash exposure, by amending the farm-out agreement whilst still maintaining a material 34% working interest in the asset. Subsequently, we successfully and safely completed a ca. 1,000km regional 2D seismic acquisition program in Q3 2017 and will be trial line processing the data in house in Q1 2018.

CORPORATE

In June 2017 we completed a capital reduction reducing the nominal share value from 40 pence to 10 pence in order to eliminate our retained deficit, create distributable reserves, allow for the flexibility to make returns of capital to the shareholders and give the Company the option to issue new capital, should it be desirable to do so.

In October 2017, we moved to a smaller and more cost effective office space in Holborn and will see further G&A cost savings materialise into 2018.

Finally, I would like to truly thank the team at Sterling. They have my utmost respect and gratitude for their dedication and professionalism these last three years. It has been an honour to serve as your CEO leading the changed mandate. It is fitting that Sterling should embark on its next phase under new leadership, with a fresh and clean platform for growth. I wish my successor all the very best in steering the future progress of the Company to create shareholder value.

Eskil Jersing
Chief Executive Officer
21 March 2018

STERLING ENERGY PLC

Strategic Report

Year ended 31 December 2017

Operations Review

Since late 2015, the Company has continued with a strategic mandate of exiting non-core exploration portfolio assets and reducing outstanding liabilities, to provide a simpler and rejuvenated platform for M&A led growth. The Group's remaining African exploration focused Odewayne block provides fully carried exposure to a frontier basin that has the potential to deliver material hydrocarbon reserves.

SOMALILAND

Somaliland offers one of the last opportunities to target an undrilled onshore Mesozoic rift basin in Africa. The Odewayne block, with access to Berbera deepwater port less than a 100km to the north, is ideally located to explore this frontier basin. A 2D geophysical survey acquired in 2017, along with potential field data and legacy geological field studies help corroborate the presence of a sedimentary basin with further evidence for a working hydrocarbon system.

Odewayne (W.I. 34%) Exploration block

Overview

This large and unexplored frontier acreage position comprises an area of 22,840km², the equivalent of ca. 100 UK North Sea blocks. Exploration activity prior to the 2017 regional 2D seismic acquisition program has been limited to the acquisition of airborne gravity and magnetic data and surface fieldwork studies, with no wells drilled on block.

The Odewayne production sharing agreement ('PSA') was awarded in 2005. It is in the Third Period, with a minimum work obligation of 500km of 2D seismic. The Third Period has been extended to 2 November 2019, through the 6th deed of amendment. 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'), holds a 34% working interest in the PSA. SE(EA)L originally acquired a 10% position from Petrosoma Limited ('Petrosoma') in November 2013 and an additional 30% from Jacka Resources Somaliland Limited ('Jacka') in two transactions during 2014.

In April 2017, the Company agreed to revised farm-out terms to reduce the staged contingent consideration payments due to Petrosoma and reduce SE(EA)L's interest in the Odewayne asset by 6%. The farm-out agreement was amended such that the parties cancelled the $8.0 million contingent consideration in return for: (i) a payment by SE(EA)L to Petrosoma of $3.5 million; and (ii) a transfer from SE(EA)L to Petrosoma of a 6% interest in the PSA. Post Government of Somaliland approval, SE(EA)L holds a 34% interest in the Odewayne Block, fully carried by Genel Energy Somaliland Limited ('Genel Energy') for its share of the costs of all exploration activities during the Third and Fourth Periods of the PSA.

In June 2017, the Somali Government (Ministry of Energy and Minerals) contracted BGP (Geophysical contractor) to undertake a 1,000km (full fold, 1,076km surface) 10km by 10km, 2D seismic campaign, to both satisfy and exceed the 500km minimum work program for the current Third Period. This acquisition program was undertaken over the basinal areas identified from the potential fields (gravity and magnetic) legacy data. The three month program was completed in late August 2017, safely and on time, with the second 500km recorded at an average of 14.5km per day.

Outlook

As of November 2017, Sterling undertook an integrated geological review of the basic post stack processed 2D dataset provided by the Operator Genel Energy. Following encouraging technical indications, the Company will undertake a highly focused and rigorous processing effort, independent of the Operator. The first phase deliverables will be a full pre stack time migrated dataset, consisting of 3 lines of ca. 235km. The primary technical objective will be improving the deeper subsurface image. Should this be successful, a second phase of processing will be undertaken on the remaining 765km (13 lines) of data. This workflow will allow for an informed technical and commercial perspective on the block by end Q2 2018.

MAURITANIA

The Group has had an economic interest (ca. 9.5% of cumulative production through the Funding Agreement and a 6% Royalty Agreement derived from Premier's WI) in the Chinguetti oil field through a Funding Agreement with Société Mauritanienne Des Hydrocarbures et de Patrimoine Minier ('SMHPM'), Mauritania's national oil company since 2004, and a Royalty Agreement with Premier Oil ('Premier') since 2006.

Since 2016, a persistent and ultimately successful Board mandate has focused on crystallising the Company's A&D liability exposure on Chinguetti.

Additionally, post extensive regional and prospect level evaluations it was decided to exit the C-10 block in November 2017.

For Sterling, these activities comprised the final elements of a strategic exit from Mauritania. In particular, the settlement of A&D costs for a fixed amount with no exposure to future operational risk and/or cost overruns allow for certainty for the business as it plans for 2018 and beyond.

Chinguetti

Overview

Gross production for the Chinguetti oil field during 2017 averaged 3,524 bopd (2016: 4,549 bopd). Average production net to the Group, from the Group's economic interests during 2017, was 199 bopd (2016: 279 bopd). Production was in steady decline throughout the year, reflecting the approaching 31 December 2017 CoP.

As of 26 January 2018, in light of the CoP from the Chinguetti oil field, the Company, the Government of Mauritania and SMHPM agreed to terminate the Funding Agreement ('Deed of Termination'). The Deed of Termination provides for a payment (made on 26 January 2018) by Sterling to the Government of Mauritania and SMHPM of a fixed sum of $32.6 million to settle any and all claims under the Funding Agreement, including Sterling's obligation to pay for its share of A&D costs and outstanding 2018 operational expenditures. As a result, Sterling has no residual exposure to the A&D costs.

A summary of 2017 Chinguetti interests and the Group reserves summary are provided on pages 12 and 14 of the Strategic Report.

C-10 Exploration block (Relinquished November 2017)

Overview

Block C-10 covers an area of approximately 8,025km^2 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 Operator in 2017, on behalf of the JV, undertook lengthy and ultimately unsuccessful negotiations with the Government, to secure a one year extension through committing to a new inboard 3D seismic survey. Subsequent, SEML determined that whilst the block was deemed technically prospective, there was insufficient commercial justification to entering Phase 3 (3 year term), with a minimum work obligation of 2 wells. Accordingly, the PSC second phase exploration period, with a minimum work obligation of one exploration well expired on 30 November 2017.

Outlook

Given that the JV did not fulfill the minimum work obligations, the gross penalty payment owing to the Mauritanian government is $7.5 million ($1.1 million net to SEML) and was paid in March 2018.

Schedule of Interests

Year ended 31 December 2017

Location	Size (km²)	Licence Name	Sterling Working Interest %	Sterling Net Revenue Interest %	Operated/ Non-operated
Africa					
Mauritania: Offshore	29	PSC B - Chinguetti Field	n/a	Sliding scale royalty from 6% WI [1] Economic interest for approximately 9.5% of Chinguetti project [2]	Non-operated
Somaliland: Onshore	22,840	Odewayne Block [3]	34%		Non-operated

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

[2] The Company's interest derives from the Funding Agreement with SMHPM (Based on cumulative production entitlement to cessation of production 31 December 2017).

[3] Carried for the minimum work obligation of current phase and next phase of PSA.

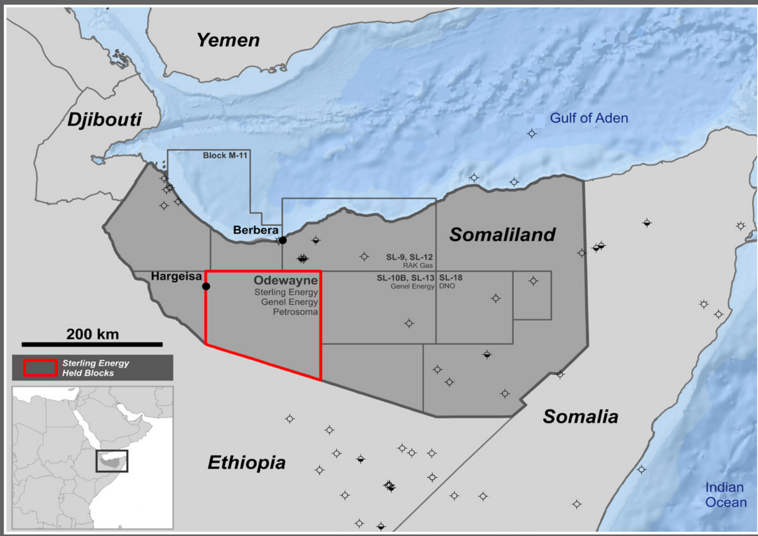
As of 26 January 2018 the Company, the Government of Mauritania and SMHPM agreed to terminate the Chinguetti Funding Agreement.

The Royalty Agreement ended 31 December 2017 on CoP.

ASSET SUMMARY

Somaliland

Odewayne (WI 34%)



CONTRACT SUMMARY

Contract type	PSA	**Participants**
Contract signed	6 October 2005	Genel Energy Somaliland Limited (Operator) 50%
Contract effective date	6 October 2005	Sterling Energy (East Africa) Limited 34%
Contract area	22,840km²	Petrosoma Limited 16%

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. The Group's costs associated with Period 3 and 4 work programmes are fully carried by Genel Energy. Amendment in place to extend Period 3 beyond 2 November 2018, thus extending all subsequent Periods.

Reserves Summary

Year ended 31 December 2017

	2017 Oil (000 boe)	2017 Gas (mcf)	2017 Reserves (000 boe)	2016 Oil (000 boe)	2016 Gas (mcf)	2016 Reserves (000 boe)
Volumes of Proven plus Probable Reserves						
At 1 January	73	-	73	173	-	173
Revision – Chinguetti [1-3]	-	-	-	2	-	2
Production	(73)	-	(73)	(102)	-	(102)
At 31 December	-	-	-	73	-	73

[1] The reserves stated are for the Company's net interests in the Chinguetti field only and are based on the Company's own assessment of reserves, as at 31 December 2017. 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 88 - 90.

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

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

Anish Airi
Subsurface Manager
21 March 2018

Financial Review

Year ended 31 December 2017

SELECTED FINANCIAL DATA

		2017	2016
Chinguetti production	bopd	**199**	279
Revenue	$million	**4.4**	4.8
Adjusted EBITDAX [1]	$million	**(5.9)**	(3.1)
Loss after tax	$million	**(9.0)**	(8.5)
Net cash investment in oil & gas assets	$million	**3.7**	1.1
Year-end cash net to the Group	$million	**81.4**	88.1
Average realised oil price	$/bbl	**48.2**	39.8
Total cash operating costs (produced)	$/bbl	**87.1**	64.6
Year-end share price	Pence	**13.8**	15.0
Share price change	%	**(8)**	3
Debt	$million	**-**	–

[1] As defined within the definitions and glossary of terms on pages 88 - 90.

REVENUE AND COST OF SALES

2017 Chinguetti production, net to the Group, averaged 199 bopd (including royalty barrels), a decrease of 29% from the 279 bopd averaged in 2016. The reduced volumes were a result of operational difficulties, relating to subsea valve integrity in late Q3 where production had reduced by 36% in comparison to Q2; notwithstanding the expected decline in production for the field, until its CoP on 31 December 2017.

Gross volumes lifted and sold during the year from the Chinguetti oil field were down by 36% to 1.4 million barrels over three cargo liftings (2016: 2.2 million barrels over four cargo liftings); whilst the reduction in gross volumes can be partly attributed to the extra lift in 2016, on average cargo volumes were down by 17% in 2017.

The achieved direct operating lifting cost per barrel increased in 2017 by $14.4 to $68.8 (2016: $54.4) due to reduced lifting volumes. Cost of sales for the Group in 2017 increased by $2.0 million (excluding the 2016 onerous contract provision) due largely to the reduction in inventory entitlement. Inventories at 31 December 2017 stood at 6k barrels (2016: 39k barrels).

Financial Review (cont.)

Year ended 31 December 2017

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

	2017	2016
Liftings (bbls)[1]	**92,056**	121,031
Revenue ($million)	**4.4**	4.8
Revenue / bbl ($)	**48.2**	39.8
Direct lifting cost ($million)[2]	**(6.3)**	(6.6)
Direct operating lifting cost / bbl ($)[2]	**(68.8)**	(54.4)

[1] Net Sterling production during the year totalled 72,697 (2016: 101,939)
[2] Excluding 2016 onerous contract provision

Loss for Year

The 2017 loss totalled $9.0 million (2016: loss $8.5 million).

	$ (million)
Loss for year 2016	**(8.5)**
Impairment of Ambilobe (2016)	3.8
Impairment of C-3 (2016)	3.5
Onerous contract provision (2016)	(3.7)
Decrease in revenue	(0.4)
Increase in cost of sales	(2.0)
Impairment of C-10 (2017)	(2.8)
Chinguetti cessation credit (2017)	0.9
Increase in net finance income	0.2
Loss for year 2017	**(9.0)**

During 2017, the Group fully impaired the C-10 block in Mauritania ($2.8 million).

Group cash general and administrative overhead decreased by 15% during the year to $3.9 million (2016: $4.6 million).

The continued reduction in the Group's administrative overhead is in keeping with the Board driven mandate for cash perseveration. In 2017 the Group's wages and salaries (excluding share-based payments) have reduced by 21% (see Note 8 on page 72). Relocation to a smaller office in October 2017 will yield further savings going into 2018.

A summary of these movements is provided below.

	2017 $ (million)	2016 $ (million)
Group administrative overhead (page 54)	**(2.4)**	(2.0)
Costs capitalised	**(0.1)**	(0.8)
Costs recharged to JV partners	**-**	(0.1)
Pre-licence expenditure	**(1.4)**	(1.8)
	(1.5)	(2.7)
Share based payment expense	**(0.1)**	0.1
Other non-cash expenditure	**0.1**	0.0
Group cash G&A expense	**(3.9)**	(4.6)

In 2017, a portion of the Group's staff costs and associated overheads have been expensed as pre-licence expenditure ($1.4 million), or capitalised ($66k) where they are directly assigned to capital projects. This totalled $1.5 million in the year (2016: $2.7 million).

The basic loss per share was $0.04 per share (2016: loss $0.04 per share).

ADJUSTED EBITDAX AND NET LOSS

Group adjusted EBITDAX (as defined within the definitions and glossary of terms on pages 88 - 90) loss totalled $5.9 million (2016: $3.1 million loss):

	2017 $ (million)	2016 $ (million)
Loss after tax (page 54)	**(9.0)**	(8.5)
Finance costs	**(0.5)**	(0.3)
Impairment	**2.8**	7.4
Pre-licence costs	**1.6**	2.0
Chinguetti cessation costs	**(0.9)**	(3.7)
Share-based payments	**(0.1)**	0.1
Total EBITDAX (Adjusted)	**(5.9)**	(3.1)

Net finance income (interest received less finance expenses) totalled $459k in the year (2016: $290k income).

Interest received increased by ca. 61% during the year to $1.1 million (2016: $683k) as a result of improving deposit rates and a proactive focus on treasury management.

Financial Review (cont.)

Year ended 31 December 2017

Finance expenses include; a non-cash finance expense of $707k (2016: $149k) relating to the accelerated unwinding of the Chinguetti decommissioning provision (see Note 9 on page 73 and Note 19 on page 80), exchange gains of $98k (2016: $231k losses) on GBP cash deposits reported in US dollars and other finance expenses of $21k (2016: $14k).

No dividend is proposed to be paid for the year ended 31 December 2017 (2016: $nil).

CASH FLOW

Net Group cash outflow generated from operating activities was $4.2 million (2016: $9.9 million outflow), a full reconciliation of which is provided in the Consolidated Statement of Cash Flows on page 57.

Net cash investments in oil and gas assets totalled $3.7 million (2016: $1.1 million) and are summarised below:

	2017 $ (million)	2016 $ (million)
Mauritania	**0.2**	1.0
Somaliland	**3.5**	-
Madagascar	**-**	0.1
	3.7	1.1

The investment in Somaliland relates to the April 2017 revised farm-out terms with Petrosoma, which reduced the staged contingent consideration payments due, as discussed in the Operations review on pages 10 and 11.

STATEMENT OF FINANCIAL POSITION

At year end, cash and cash equivalents totalled $81.4 million (2016: $88.1 million).

At the end of 2017, net assets/total equity stood at $69.3 million (2016: $78.4 million), and non-current assets totalled $21.1 million (2016: $18.9 million). Net current assets reduced to $48.2 million (2016: $74.0 million) due in part to the movement in decommissioning provision from non-current to current liabilities.

At the end of 2017 the Group's exposure to abandonment and decommissioning costs relating to the Chinguetti oil field totalled $32.5 million, based on settlement discussions with SMHPM (see Note 25 on page 87) being split between short-term provisions ($28.7 million) and trade payables ($3.8 million).

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 success of the Group depends on its ability to manage its 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 utilises a risk management system that identifies key business risks and measures to address 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, monitoring 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.

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

Category	Risk	Mitigation	Change
Financial, Commercial and Economics • Low commodity prices • Market volatility • Counterparty distress	• Continued lower oil & gas commodity prices and market volatility. • Difficulty in capital raising for new acquisitions and/or to fund development activities. • Counterparty default. • Cost escalation and budget overruns. • Licence extension uncertainty. • Fiscal stability. • Foreign currency risk. • Financial control of operated and non-operated assets. • Fraud and corruption / increased third party exposure.	• Group maintains a strong balance sheet and remains fully funded for its existing commitments. • Continually assess all existing assets and proposed new acquisitions in light of future capital requirements from a disciplined lifecycle investment perspective. • Regularly monitor and amend cost structure, investment strategy and tactics to include countercyclical investments and leverage low service costs for seismic and drilling. • Regularly review business plans, G&A expenses, ongoing strategy reviews, monthly reporting and regular Board meetings. • The Group holds the majority of its cash in US dollars, the predominant currency used in oil and gas operations. • Regularly engage with partners to influence cost-effective use of capital, operating and decommissioning expenditures. • Engagement with shareholders to inform investment decisions (including representatives on the Board).	▶

Business Risk (cont.)

External • Country risk • Climate change • Legal compliance • Brexit	• The Group's assets and M&A activities 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 (to Q1 2018) have been or are affected by country-specific situations. • The regulation of the energy industry to address climate change is increasingly international in scope and application. The Group's activity focuses on finding and producing carbon based fuels often with long investment and production lifecycles. • Legal compliance, regulatory or litigation risk. • The Group's headquarters are located in the UK, which continues to negotiate its exit from the European Union.	• 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 jurisdictional risk. • New investments are considered in the light of changing environmental regulations, fiscal volatility and geopolitical dynamics. • The Company accords the highest importance to corporate governance matters and upholding the highest ethical standards. • Activities are subject to various different jurisdictional laws, customs, fiscal and administrative regulations. • The Company employs suitably experienced and qualified staff and, when required, external advisors to ensure full compliance. Legal risk assessment and due diligence (where appropriate) is undertaken for all counterparties the Company deals with. • The Group's exploration activities are located outside of the UK and the EU and should be relatively unaffected by Brexit.	▶
Strategic • Concentration of portfolio • Competition	• Group's remaining asset (Somaliland) is concentrated on early stage frontier and basin exploration & production within the African continent. • Reduction in Industry interest to promote/carry early stage exploration assets – making it more difficult to farm-out the Group's early stage exploration assets. • Competitors have significantly greater financial and technical resources.	• The Board has actively mandated diversifying the current portfolio risk by acquiring appraisal, development and/or producing assets, using existing financial resources of the Group and additional capital (as required). • Highly selective in choosing where and when to deploy its business development, M&A resources and New Ventures focus.	▲
Operational • Exploration, production and decommission-ing risk • Operator and partner risk	• Exploration activities may not result in a commercial discovery. Producing wells may lead to a financial loss. • For some assets, the Group is dependent on other operators for the performance of E&P activities, due lack of control. • Counterparty misalignment. • Operations under-insured.	• Diversify and manage risk across a portfolio of assets. Apply the Group's experience, expertise and appropriate technology to minimise risk, through the asset lifecycle. • The Group carefully considers the technical, HSSE and financial capabilities of operators and potential partners during any JV farm-out or new opportunity acquisition.	▼

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

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 HSSE, corporate responsibility, business integrity, community responsibility and employees.

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

It is a priority 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 considered 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 Corporate Social Responsibility with any of these stakeholders.

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 the Senior independent non-executive Director.

The Strategic Report was approved by the Board of Directors on 21 March 2018 and signed on its behalf by:

Eskil Jersing
Chief Executive Officer

STERLING ENERGY PLC

Corporate Governance

Year ended 31 December 2017

Board of Directors

Eskil Jersing, Chief Executive Officer, aged 54
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).

Eskil Jersing tendered his resignation on 21 December 2017 and will depart the Company in Q2 2018.

Michael Kroupeev, non-executive Chairman, aged 51
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 studying Plasma physics and gaining 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 55
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 Chief Executive Officer of Columbus Energy Resources PLC, a Managing Partner of MENA Gulf Investments and a non-executive Director of Tulip Oil.

Ilya Belyaev, non-executive Director, aged 36

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.

STATEMENT OF CORPORATE GOVERNANCE

The Company adopts proper standards of corporate governance and following a recent review of Corporate governance the Board has decided to adopt the principles of best practice as set out in the Corporate Governance Code for Small and Mid-Sized Quoted Companies 2013 (the 'QCA Code'), so far as it is appropriate for the size and nature of the Group and the constitution of the Board.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board Composition, Operation and Independence

As at March 2018, 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 tendered his resignation and will be leaving the Company in Q2 2018, once a suitable replacement has been appointed. The non-executive Chairman and non-executive Director are shareholder representatives. 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 47.

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, senior management and staff, and taking on debt and approval of financial statements. Other matters are delegated to the Committees of the Board and senior management, 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 and staff 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.

Board of Directors (cont.)

Meetings and Attendance

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

	Board Meetings	Audit Committee[1]	Remuneration Committee	Nominations Committee
Number of meetings in year	**13**	**2**	**2**	**0**
Eskil Jersing (resigned 21 December 2017)	13	-	-	0
Michael Kroupeev	13	-	-	0
Leo Koot (appointed 20 January 2017)	13	2	2	0
Ilya Belyaev (appointed 20 January 2017)	13	2	2	0

[1] 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.

Induction and Training

New Directors, on their appointment to the Board, are briefed by the Board and management on the activities of the Group, its key business and financial risks, the Terms of Reference of the Board 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 QCA Code and corporate governance best practice, 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. Aspects of performance include attendance and active 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 19 - 23 and also on page 42.

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. The process seeks to arrive at a position where, initially, the Audit Committee and then the Board, is satisfied with the overall fairness, balance and clarity of the document which 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 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 lies around the key assumptions and estimates or judgments 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, 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 $81.4 million as at 31 December 2017.

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 Audit Committee met during the year to further 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 71.

The Committee notes that it is considered 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 shareholders support the re-appointment of BDO LLP at the 2018 AGM.

Leo Koot
Chairman of the Audit Committee
21 March 2018

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 a 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

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

- appointment of non-executive Chairman;
- appointment of non-executive Directors;
- developed a suitable strategy to replace the senior executive following the resignation of Eskil Jersing on 21 December 2017; and
- review of skills/experience on the board.

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 is responsible for the annual performance evaluation of Directors.

Michael Kroupeev
Chairman of the Nominations Committee
21 March 2018

MEMBERS
This Committee currently comprises:
- Michael Kroupeev (Chairman)
- Eskil Jersing
- Leo Koot
- Ilya Belyaev

Remuneration Committee Report

The Committee advised on the following matters:

- the 2017 review of achievement of corporate objectives/key performance indicators ('KPIs') and recommended the employees be rewarded for the Chinguetti exit and Odewayne reduction of financial commitments;
- the 2017 non-executive Directors remuneration structure;
- the organisational structure and remuneration philosophy to ensure adequate capability requirements for the Board approved strategic mandate;
- change of control provisions;
- a capital restructuring of the Company to allow an LTIP program to be introduced for its staff and Directors when considered appropriate; and
- proposed basic salary uplift for 2018 to reflect general inflation and merit awards for staff and executive management.

Going into 2018, the committee is satisfied with the management team delivering on the liability and capital commitment reductions in both the Chinguetti and Odewayne assets. With regards the continued M&A mandate for transformational growth origination, due diligence and subsequent delivery to the Group; this continues to be challenging in the current market. Despite being unsuccessful in executing on any specific project, the Committee is satisfied with the quality of the technical due diligence and economic analyses undertaken in 2017.

The Committee, when reviewing base salaries for staff and the executive Director, 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 level for the executive Director was as follows:

Director	2017 salary	2016 salary	% change
Eskil Jersing	£277,800	£277,800	0%
Alastair Beardsall	n/a	£100,000	n/a

The non-executive fees are determined by the Board with no Director voting on his own remuneration. For 2017 the fees for each non-executive individual are provided on page 36.

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 2017 these objectives included M&A execution and certain asset/liability exposure targets; and
- up to 50% may be awarded for exceptional personal performance; exceptional is performance above and beyond that expected under the individual's job description. This element includes a subjective assessment of performance as opposed to operating on a sliding scale.

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

Director	2017 bonus	2016 bonus	% change
Eskil Jersing	£50,249	£13,890	262%
Alastair Beardsall	n/a	£0	n/a

Amounts in 2017 for Eskil Jersing include a Chinguetti termination bonus of £35k, awarded and accrued at year end, which remains unpaid as at 21 March 2018.

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 23 on pages 85 and 86. 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 23. 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 continues to assess 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.

Managing leadership transition and the selective disciplined pursuit of new business opportunities, are the main performance criteria on which the Company's executive team and employees will be judged in 2018. When a suitable replacement for Eskil Jersing has been secured, the Board and the executive team will further shape the Company's detailed growth plans. The committee will then align the bonus program with the deliverables.

I believe Sterling Energy to have a great future and I am committed to help the Company navigate the leadership changes and the present exciting industry environment. I will continue to maintain an open and constructive dialogue with all stakeholders in remuneration matters.

Leo Koot
Chairman of the Remuneration Committee
21 March 2018

Remuneration Committee Report (cont.)

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 other individuals such as Chief Executive, HR Manager and external advisers 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 Company's executive remuneration programmes or pension arrangements. The Committee has not directly 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 benchmarked data;
- 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 and other benefits such as private medical cover and life assurance. Share options have not been awarded under the All Staff LTIP since 2014. 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 Board uses peer group data to determine the level of fees for the non-executive Directors.
Performance related bonuses	To incentivise and reward, on an annual basis, the performance of individuals and the Group on both financial and non-financial metrics.	Objectives/KPIs are set, prior to the year under review, to align near-term goals with the longer term sustainable future of the Group. At the end of each year the Committee considers if the KPIs have been achieved in addition to individual performance and contribution to the Group. The maximum level of performance related bonus for executive Directors is capped at 100% of annual salary; non-executive Directors do not participate in the bonus scheme.
All Staff LTIP, 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 23. The maximum value to which options may be granted in any one year is capped, the cap is based upon the individual's role and responsibilities, for the executive Directors the cap is 100% of annual base salary.
Pension provision	To provide competitive retirement benefits commensurate with schemes offered by peer companies.	The Group operates a number of defined contribution pension schemes pursuant to which it contributes 10% of pensionable salary per eligible member. Scheme membership and contribution is linked to the member's base salary (see above).
Other benefits	To provide competitive cost-effective benefits through leveraging the Group's size and scale.	The Group subscribes to a number of benefits for employees and Directors which include life assurance, income protection; subsidised fitness centre membership and private medical insurance, some of these benefits are linked to base salary.

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

Remuneration Committee Report (cont.)

The principles and criteria used in the remuneration of executive personnel do not differ materially from those listed above bar the award of LTIPs. 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.

No Director currently has a notice period greater than 6 months and their service contracts contain no provision for pre-determined compensation on termination, which exceeds 6 months salary and benefits in kind.

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 2018:

Eskil Jersing, Chief Executive Officer, will receive a base salary, effective 1 January 2018, 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 pro rata award under the performance related bonus scheme will be based on achievement of certain corporate KPIs and individual performance, the principles of the bonus scheme are set out on page 35. 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.

Following the remuneration policy set out above the Directors have determined the 2018 fees for the non-executive Directors to be set at £102,800 for Michael Kroupeev (non-executive Chairman from 19 January 2017), £51,400 for Leo Koot and £37,008 for Ilya Belyaev.

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 2017 salary review was implemented on 1 January 2018 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	21 September 2015	£277,800	6 months

Non-executive Directors do not have service contracts, but instead each has a letter of appointment setting out the terms and conditions of their appointment, 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	£102,800
Leo Koot	19 January 2017	19 January 2017	£51,400
Ilya Belyaev	19 January 2017	19 January 2017	£37,008

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 to a relationship agreement with the Company in May 2016, 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 10p each	21 March 2018	31 December 2017	31 December 2016
Eskil Jersing [1] (resigned 21 December 2017)	-	-	-
Michael Kroupeev [2]	64,815,517	64,815,517	64,815,517
Leo Koot [3] (appointed 19 January 2017)	-	-	n/a
Ilya Belyaev [4] (appointed 19 January 2017)	-	-	n/a

[1] Executive Director.

[2] 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.

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

[4] 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 $23k in 2017 (2016: $24k).

Remuneration Committee Report (cont.)

Aggregate Remuneration

The single figure of total remuneration paid to Directors in 2017 and 2016 is summarised below (audited):

2017 Remuneration	Fees and basic salary £	Bonus £	Defined contribution pension £	Benefits in kind £	Single figure remuneration Total 2017 £
Executive Directors:					
Eskil Jersing [1/2] (resigned 21 December 2017)	305,580	15,249	-	9,922	**330,751**
Non-executive Directors:					
Michael Kroupeev	100,000	-	-	-	**100,000**
Leo Koot (appointed 19 January 2017)	47,564	-	-	-	**47,564**
Ilya Belyaev (appointed 19 January 2017)	34,246	-	-	-	**34,246**
Aggregate remuneration 2017 (£)	487,390	15,249	-	9,922	**512,561**
Aggregate remuneration 2017 (US$)	628,165	19,653	-	12,788	**660,606**

2016 Remuneration	Fees and basic salary £	Bonus £	Defined contribution pension £	Benefits in kind £	Single figure remuneration Total 2016 £
Executive Directors:					
Eskil Jersing [3]	286,945	13,890	18,635	9,411	**328,881**
Alastair Beardsall [4] (resigned 11 May 2016)	45,834	-	-	3,956	**49,790**
Non-executive Directors:					
Michael Kroupeev (appointed 11 May 2016)	23,113	-	-	-	**23,113**
Keith Henry (resigned 13 October 2016)	28,291	-	-	-	**28,291**
Nicholas Clayton (resigned 13 October 2016)	55,754	-	-	-	**55,754**
Malcolm Pattinson (resigned 13 October 2016)	28,291	-	-	-	**28,291**
Aggregate remuneration 2016 (£)	468,228	13,890	18,635	13,367	**514,120**
Aggregate remuneration 2016 (US$)	634,054	18,809	25,234	18,101	**696,198**

[1] Excludes bonus amount of £35k awarded and accrued at year-end, which remains unpaid as at 21 March 2018.

[2] Fees and basic salary include £28k pension contributions paid as cash.

[3] Fees and basic salary include £9k pension contributions paid as cash.

[4] Fees and basic salary include £4k pension contributions paid as cash.

Fees and Basic Salary

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

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

The basic salary is used to determine the level of pension contributions. The level of fees for the non-executive Directors is set by the 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 35 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 2017 KPIs and noted that some of the key objectives had been achieved and accordingly an executive bonus was awarded to the executive Director in 2017. As a comparison, in 2016 the Remuneration Committee noted that it had met some of its key objectives and accordingly awarded a limited executive bonus to the executive Director. The Company considers the KPIs to be commercially sensitive as they reflect the Company's commercial strategy; in general the KPIs are focused on growth initiatives and managing the Companies financial exposure to its existing assets. The KPIs for 2017 were similar to those adopted in 2016. 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.

Remuneration Committee Report (cont.)

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 (%)
2017	Eskil Jersing [1]	330,751	0.6%	5%	-
2016	Eskil Jersing	328,881	13.3%	4%	-
2015	Alastair Beardsall [2] / Eskil Jersing	290,184	32.0%	-	-
2014	Alastair Beardsall [2]	219,801	(51.3%)	-	-
2013	Angus MacAskill [3] / Alastair Beardsall [2]	451,417	52.4%	-	-
2012	Angus MacAskill	296,169	(18.9%)	-	-

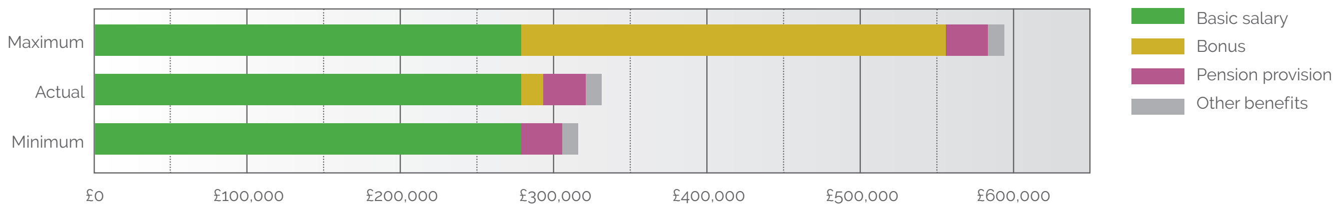
[1] Excludes bonus amount of £35k awarded and accrued at year-end, which remains unpaid as at 21 March 2018.
[2] Part-time.
[3] Includes £75k paid as compensation for loss of office.

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

The annual percentage change in CEO single figure remuneration for years 2012 to 2017 compares with that of all employees: (21.6%), (23.9%), (20.5%), 8.5%, (19.8%) and 11.1% respectively.

The graphs below show the value of the executive Director packages for 2017 together with minimum and maximum remuneration attainable:

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
2017	1,481,600	-
2016	1,890,314	-

Communications with Shareholders

The Board is directly accountable to the Company's shareholders. 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 Kroupeev and Ilya Belyaev on the Board as shareholder representatives, this has allowed for substantive and direct alignment between the Board and the shareholder group as a whole. 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.sterlingenergyplc.com) on which press releases, corporate presentations and the Report and Financial Statements are available to view. Additionally this Report and Financial Statement contains extensive information about the Group's activities.

Enquiries from individual shareholders 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 appraised of all feedback provided by such meetings.

The Annual General Meeting provides an opportunity for communication with all shareholders and the Board encourages the shareholders to attend and welcomes their participation. The Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the Annual General Meeting, to be held on 25 April 2018, can be found in the notice of the meeting on the Company's website.

Internal Controls

The Directors acknowledge their responsibility for establishing and maintaining the Group and the Company's systems of internal control including financial, operational and compliance controls and risk management. 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.

The Audit Committee, on an annual basis, reviews the need for an internal audit function. Given the nature of the Company's business and assets, the current internal control procedures in place and the size of the Company, the Board are satisfied that an internal audit function is unnecessary at this time.

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 2017:

	2017 $000	2016 $000
Madagascar: Ambilobe [1]	-	156
Mauritania: Chinguetti [2]	**1,158**	1,158
Mauritania: C-3 [3]	-	370
Mauritania: C-10 [3]	**224**	248
Somaliland: Odewayne [4]	**75**	75
	1,457	2,007

[1] Payments made by Pura Vida (Sterling Energy (UK) Limited pays its pro rata share of cost).

[2] Payments above made by Petronas (Sterling Energy plc pays its share of cost). Excluded from the above are payments made to SMHPM under the terms of the Chinguetti Funding Agreement, relating to Chinguetti field operating costs and decommissioning, totalling $5.9 million in 2017 (2016: $7.5 million).

[3] Gross payments made by Tullow (SEML pays its share of cost).

[4] 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 2017.

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 and the Middle East. The significant developments during 2017 and the other activities of the Group, as well as the future strategy and prospects for the Group, are reviewed in detail in the Chairman's Statement and the Strategic Report section of this report.

The Group operates through overseas branches and subsidiary undertakings as appropriate to the fiscal environment. Subsidiary undertakings of the Group are set out in Note 14 to the financial statements.

The Group uses a number of KPIs to assess the business performance against strategy, in 2017 these included; 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 $9.0 million (2016: loss $8.5 million). This leaves an accumulated Group retained earnings of $41.3 million (2016: deficit $449.3 million) to be carried forward. The Directors do not recommend the payment of a dividend (2016: $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 10 and 11. The financial position of the Group and Company, its cash flows and liquidity position are described in the Financial Review on pages 15 - 18. In addition, Note 22 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 17 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 23. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Directors' Report (cont.)

DIRECTORS

The Directors who served during the year were as follows:
Mr. Eskil Jersing (resigned 21 December 2017)
Mr. Michael Kroupeev
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 pages 26 and 27.

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 Companies Acts and related legislation. The powers of Directors are described within this report.

SIGNIFICANT 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 10 pence each of the Company at 21 March 2018:

	Number	%
Waterford Finance & Investment Ltd	64,815,517	29.45
Zion SPC - Access Fund SP	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 19 - 23.

FINANCIAL INSTRUMENTS

Information about the use of financial instruments, the Group's policy and objectives for financial risk management is given in Note 22 to the financial statements.

AUDITORS

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

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

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

BDO LLP has expressed its willingness to continue in office as Auditors and a resolution to appoint BDO will be proposed at the forthcoming Annual General Meeting to be held on 25 April 2018.

Eskil Jersing
Chief Executive Officer
21 March 2018

Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ('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 AIM.

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 Group and 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION

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

DISCLOSURE OF AUDIT INFORMATION

In the case of each person who are Directors of the Company at the date when this report is approved:

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

For and on behalf of the Board.

Eskil Jersing
Chief Executive Officer
21 March 2018

STERLING ENERGY PLC

Group Accounts

Year ended 31 December 2017

Independent Auditors' Report

to the members of Sterling Energy plc

OPINION

We have audited the financial statements of Sterling Energy Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2017 which comprise the consolidated and parent company statements of financial position, the consolidated statement of profit or loss and other comprehensive income, the consolidated and the parent company's statements of changes in equity, the consolidated and the parent company's statements of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements 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.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2017 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

USE OF OUR REPORT

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.

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

MATTER

Chinguetti's Decommissioning Provision Settlement
As of 31 December 2017, Management was in ongoing discussions with Société Mauritanienne des Hydrocarbures et de Patrimoine Minier ("SMHPM"), Mauritania's National Oil Company, and the Mauritanian Government to negotiate a funding settlement for the decommissioning costs of Chinguetti, an offshore oil field in Mauritania in which the group has an interest of circa 9.5% of cumulative production via a Funding Agreement (Note 19). Chinguetti is the only offshore oil field in Mauritania therefore there is no precedent for the abandonment and decommissioning process. By reaching an agreement the group would reduce its exposure to uncertain future costs. An agreement was reached on 26 January 2018 with the Mauritanian Government and SMHPM via a Deed of Termination, which provides for a payment by the group to the Government of Mauritania and SMHPM of a fixed sum to settle any and all claims under the Funding Agreement, including the Group's obligation to pay for its share of A&D costs and outstanding 2018 operational expenditures (Note 25). Given the uncertainty regarding the abandonment and decommissioning costs there was an audit risk over the completeness and presentation of liabilities on the balance sheet. Given the timing of reaching a settlement, Management consider the final settlement to be their best estimate of all remaining liabilities in relation to the Chinguetti asset at 31 December 2017.
Our Response
We have verified documentation to support that the negotiation regarding a settlement was at an advanced stage as at 31 December 2017 and it is reasonable to use the agreement settlement as a proxy for all liabilities in relation to the Chinguetti asset. The termination agreement was inspected to identify any clauses which could indicate that the total amount due does not include all costs related to the Chinguetti operations and decommissioning. We verified that: • The Deed of Termination provides for a payment by Sterling Energy Plc to the Government of Mauritania and SMHPM of a fixed amount of $32.6 million to settle any and all claims under the Funding Agreement, Sterling's obligation to pay for its share of A&D costs and outstanding 2018 operational expenditures. • As per our review of the terms included in the Deed of Termination, the Group has no residual exposure to the A&D costs. We verified the $32.6 million final settlement paid through to bank statements on 26 January 2018. We considered the appropriateness of the disclosure of the liability as a current liability in light of the termination agreement and relevant accounting standards.
Key Observations
The amount recorded as a liability in the financial statements is in line with the termination agreement and the disclosures relating to this are consistent with the information we obtained during the course of our audit.

OUR APPLICATION OF MATERIALITY

Group materiality FY2017	Group materiality FY2016	Bases for materiality
$1.42 million	$2.23 million	2% of total assets

Company materiality FY2017	Company materiality FY2016	Bases for materiality
$1.34 million	$2.12 million	2% of total assets capped at 95% of Group materiality

Independent Auditors' Report (cont.)

to the members of Sterling Energy plc

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Our determination of materiality has remained unchanged and the significant movement is due to exclusion of the Chinguetti's decommissioning provision cash settlement, reducing gross assets by $32.6 million. We consider total assets to be the most significant determinant of the group's financial performance on the basis that the group's principal activity is the development of oil and gas exploration assets and it is the value of assets that is of greatest interest to the user of the financial statements.

Whilst materiality for the financial statements as a whole was $1.42 million, each significant component of the group was audited to a lower level of materiality, which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes used during the audit.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% (2016: 75%) of the above materiality levels.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of $71k (2016: $111k). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our group audit scope focused on the group's principal operating entities, Sterling Energy Plc and Sterling Northwest Africa Holdings Limited. We have identified both entities as significant components for the purposes of our financial statement audit, based on their relative share of total assets. We have performed a full scope audit for these components, having performed substantive procedures over 99% of total assets.

The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures, together with additional substantive testing over the risk areas detailed above where applicable to that component.

All audit work (full scope audit or review work) was conducted by BDO LLP.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 provisions of the Companies Act 2006 had the company been fully listed.

MATTER ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so. The directors have voluntarily agreed to prepare a remuneration report in accordance with the provisions of the Companies Act that would have applied if the company had been fully listed, and have asked us to report on this..

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:
www.frc.org.uk/auditorsresponsibilities
This description forms part of our auditor's report.

Scott McNaughton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
21 March 2018

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

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

	Note	**31 December 2017 $000**	31 December 2016 $000
Revenue	4	**4,433**	4,815
Cost of sales	6	**(7,917)**	(2,262)
Gross (loss)/profit		**(3,484)**	2,553
Other administrative expenses		**(2,379)**	(2,045)
Impairment of oil and gas exploration assets	5	**(2,834)**	(7,375)
Pre-licence costs		**(1,628)**	(1,951)
Chinguetti cessation credit	7	**866**	-
Total administrative expenses		**(5,975)**	(11,371)
Loss from operations	5	**(9,459)**	(8,818)
Finance income	9	**1,089**	683
Finance expense	9	**(630)**	(394)
Loss before tax		**(9,000)**	(8,529)
Tax	10	**-**	-
Loss for the year attributable to the owners of the parent		**(9,000)**	(8,529)
Other comprehensive (expense)/income - items to be reclassified to the income statement in subsequent periods			
Currency translation adjustments		**(20)**	50
Total other comprehensive (expense)/income for the year		**(20)**	50
Total comprehensive expense for the year attributable to the owners of the parent		**(9,020)**	(8,479)
Basic loss per share (US cents)	11	**(4.09)**	(3.88)
Diluted loss per share (US cents)	11	**(4.09)**	(3.88)

Consolidated Statement of Financial Position

Year ended 31 December 2017

	Note	31 December 2017 $000	31 December 2016 $000
Non-current assets			
Intangible exploration and evaluation assets	12	**21,041**	18,846
Property, plant and equipment	13	**14**	17
		21,055	18,863
Current assets			
Inventories		**363**	1,948
Trade and other receivables	15	**868**	6,540
Cash and cash equivalents	16	**81,365**	88,058
		82,596	96,546
Total assets		**103,651**	115,409
Equity			
Share capital	17/18	**28,143**	149,014
Share premium	18	**-**	378,863
Currency translation reserve		**(189)**	(169)
Retained earnings/(deficit)	18	**41,343**	(449,318)
Total equity		**69,297**	78,390
Non-current liabilities			
Long-term provisions	19	**-**	14,472
		-	14,472
Current liabilities			
Short-term provisions	19	**28,659**	21,184
Trade and other payables	20	**5,695**	1,363
		34,354	22,547
Total liabilities		**34,354**	37,019
Total equity and liabilities		**103,651**	115,409

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 21 March 2018.

Signed on behalf of the Board of Directors.

Eskil Jersing
Chief Executive Officer
21 March 2018

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

	Note	Share capital	Share premium	Currency translation reserve	Retained earnings [1]	Total
		$000	$000	$000	$000	$000
At 1 January 2016		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
At 31 December 2016		149,014	378,863	(169)	(449,318)	78,390
Loss for the year		-	-	-	(9,000)	(9,000)
Currency translation adjustments		-	-	(20)	-	(20)
Total comprehensive expense for the year attributable to the owners of the parent		-	-	(20)	(9,000)	(9,020)
Capital reduction	18	(120,871)	(378,863)	-	499,734	-
Share option credit for the year		-	-	-	(73)	(73)
At 31 December 2017		**28,143**	**-**	**(189)**	**41,343**	**69,297**

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

Consolidated Statement of Cash Flows

Year ended 31 December 2017

	Note	2017 $000	2016 $000
Operating activities			
Loss before tax		**(9,000)**	(8,529)
Depreciation, depletion & amortisation	13	**10**	32
Impairment expense	5	**2,834**	7,375
Chinguetti cessation credit	7	**(866)**	-
Onerous provision		**-**	(3,700)
Finance income and gains		**(1,089)**	(683)
Finance expense and losses		**609**	380
Share-based payment charge		**(73)**	75
Decommissioning costs	19	**(125)**	(1,088)
Operating cash flow prior to working capital movements		**(7,700)**	(6,138)
Decrease/(increase) in inventories		**1,585**	(628)
Decrease/(increase) in trade and other receivables		**5,672**	(5,990)
Increase/(decrease) in trade and other payables		**4,332**	(1,377)
(Decrease)/increase in provisions		**(8,041)**	4,200
		(4,152)	(9,933)
Cash outflow from continuing operations		**(4,152)**	(9,923)
Cash outflow from discontinued operations		**-**	(10)
Net cash flow used in operating activities		**(4,152)**	(9,933)
Investing activities			
Interest received		**1,089**	683
Purchase of property, plant and equipment	13	**(7)**	(15)
Exploration and evaluation costs	12	**(3,690)**	(1,147)
Net cash used in investing activities		**(2,608)**	(479)
Net decrease in cash and cash equivalents		**(6,760)**	(10,412)
Cash and cash equivalents at beginning of year		**88,058**	98,653
Effect of foreign exchange rate changes		**67**	(183)
Cash and cash equivalents at end of year	16	**81,365**	88,058

Company Statement of Financial Position

Year ended 31 December 2017

	Note	31 December 2017 $000	31 December 2016 $000
Non-current assets			
Property, plant and equipment	13	-	-
Investments	14	**20,140**	29,148
		20,140	29,148
Current assets			
Inventories		**363**	1,948
Trade and other receivables	15	**26,421**	24,686
Cash and cash equivalents	16	**81,362**	88,054
		108,146	114,688
Total assets		**128,286**	143,836
Equity			
Share capital	17/18	**28,143**	149,014
Share premium	18	-	378,863
Retained earnings/(deficit)	18	**33,444**	(449,921)
Total equity		**61,587**	77,956
Non-current liabilities			
Long-term provisions	19	-	14,472
		-	14,472
Current liabilities			
Short-term provisions	19	**28,659**	16,984
Trade and other payables	20	**38,040**	34,424
		66,699	51,408
Total liabilities		**66,699**	65,880
Total equity and liabilities		**128,286**	143,836

The loss for the financial year within the Company accounts of Sterling Energy plc was $16.3 million (2016: $1.9 million profit). As provided by s408 of the Companies Act 2006, no individual statement of comprehensive income and expense is provided in respect of the Company.

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 21 March 2018.

Signed on behalf of the Board of Directors

Eskil Jersing
Chief Executive Officer
21 March 2018

Company Statement of Changes in Equity

Year ended 31 December 2017

	Note	Share capital	Share premium	Retained earnings [1]	Total
		$000	$000	$000	$000
At 1 January 2016		149,014	378,863	(451,885)	75,992
Total comprehensive expense for the year		-	-	1,891	1,891
Share option charge for the year		-	-	73	73
At 31 December 2016		149,014	378,863	(449,921)	77,956
Total comprehensive income for the year		-	-	(16,296)	(16,296)
Capital reduction	18	(120,871)	(378,863)	499,734	-
Share option credit for the year				(73)	(73)
At 31 December 2017		**28,143**	**-**	**33,444**	**61,587**

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

Company Statement of Cash Flows

Year ended 31 December 2017

	Note	2017 $000	2016 $000
Operating activities			
(Loss)/profit before tax		(16,296)	1,891
Chinguetti cessation credit	7	(866)	-
Onerous provision		-	(3,700)
Impairment of investment	14	9,008	-
Finance income and gains		(1,089)	(683)
Finance expense and losses		707	406
Decommissioning costs	19	(125)	(1,088)
Operating cash flow prior to working capital movements		(8,661)	(3,174)
Decrease/(increase) in inventories		1,585	(628)
Increase in trade and other receivables		(1,735)	(4,208)
Increase/(decrease) in trade and other payables		3,792	(1,883)
Decrease in provisions		(2,797)	-
Net cash flow used in operating activities		(7,816)	(9,893)
Investing activities			
Interest received		1,089	683
Net cash generated from/(used in) investing activities		1,089	683
Net decrease in cash and cash equivalents		(6,727)	(9,210)
Cash and cash equivalents at beginning of year		88,054	97,483
Effect of foreign exchange rate changes		35	(219)
Cash and cash equivalents at end of year	16	81,362	88,054

Notes to the Financial Statements

Year ended 31 December 2017

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 High Holborn House, 52-54 High Holborn, London WC1V 6RL. 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 9	Financial Instruments	1 January 2018	Endorsed
IFRS 15	Revenue from Contracts with Customers	1 January 2018	Endorsed
IFRS 16	Leases	1 January 2019	Endorsed

IFRS 9 replaces IAS 39 (Financial instruments: Recognition and Measurement). The Directors have looked into the following areas of the standard:

- how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items; and
- a new model for recognising provisions based on expected credit losses.

Given the CoP in Chinguetti, no potential credit losses have been identified.

IFRS 9 Expected Credit Losses impairment approach will be assessed to intercompany balances, no significant additional provision has been identified.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. In 2018 the Group will have immaterial revenue-generating activities given the CoP in Chinguetti. The Directors have considered the impact of application of the new standard and do not consider that implementation will have a significant impact.

Under IFRS 16 the revised standard requires lessees to account for all leases under a single balance sheet model recognising both the rights to the asset and the liability arising under the lease. The Directors have considered the impact of application of the new standard on the Group's lease commitments (see Note 21) and do not consider that implementation will have a significant impact.

c) Going Concern

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

d) Basis of Consolidation

(i) Subsidiaries

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

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

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

(ii) Transactions eliminated on consolidation

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

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) Joint Arrangements

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.

The Groups interests in joint arrangements are detailed in Note 12.

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 profit or loss 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 E&E assets. The assessment of what constitutes an individual E&E asset is based on technical criteria but essentially either a single licence area or contiguous licence areas with consistent geological features are designated as individual E&E assets. Costs relating to the exploration and evaluation of oil and gas interests are carried forward until the existence, or otherwise, of commercial reserves have been determined.

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

Impairment

In accordance with IFRS 6 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 recognised in the profit or loss within the Statement of Comprehensive Income. 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) 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) 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.

i) 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.

j) 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.

k) 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.

l) Investments (Company)
Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. Investments in subsidiaries are assessed for impairment in line with the requirements of IAS 36 and where evidence of non-recoverability is identified an appropriate impairment is accounted for in the profit or loss.

m) Operating Leases

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

n) 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 investments, with an original maturity of between 2 and 12 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.

o) 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.

p) 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.

q) 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.

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

s) Segment Reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers have been identified as the Board of Directors.

The operating results of each geographical segment 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 activities and the United Kingdom office is an administrative cost centre.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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. Where impairments have been booked against the underlying exploration assets, the investments in subsidiaries have been written down to reflect their recoverable value. Evaluation of impairments on such investments involves significant management judgement and may differ from actual results.

During the year the Company recognised impairments on investments in subsidiaries totalling $9.0 million (see Note 14). The impairment related to the exit from the Ambilobe and C-10 blocks, with the remaining investment disclosed at 31 December 2017, being underpinned by the Odewayne exploration block in Somaliland.

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 14.

Impairment of Assets
Management is required to assess oil and gas assets for indicators of impairment and has considered the economic value of individual E&E assets. The carrying value of oil and gas assets is disclosed in Note 12. The carrying value of related investments in the Company Statement of Financial Position is disclosed in Note 14.

E&E 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.

During the year the Group recognised impairments totalling $2.8 million in accordance with IAS 36 "Impairment of Assets". This related to the full impairment of the C-10 block, the decision being based on a risked assessment of the block. Whilst the block was deemed technically prospective, there was insufficient commercial justification to entering Phase 3 (3 year term), with a minimum work obligation of 2 wells, therefore providing strong commercial rational to exit the block.

During 2016 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.

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, schedule and the discount rate applied. Decommissioning obligations for the Chinguetti field at 31 December 2017 are based on settlement discussions with the Government of Mauritania and SMHPM relating to termination of the Funding Agreement. Details of these can be found in Note 19 on page 80 and Note 25 on page 87.

3. OPERATING SEGMENTS

Africa is the Groups sole operating segment. The UK corporate office is a technical and administrative cost centre. The operating results of each segment are regularly reviewed by the Board of Directors 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 table's present revenue, profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2017 and for the year ended 31 December 2016.

		Africa		Total	
	Note	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Statement of comprehensive income					
Revenue [1]	4	**4,433**	4,815	**4,433**	4,815
Cost of sales	6	**(7,917)**	(2,262)	**(7,917)**	(2,262)
Gross (loss)/profit		**(3,484)**	2,553	**(3,484)**	2,553
Impairment of E&E assets	12	**(2,834)**	(7,375)	**(2,834)**	(7,375)
Pre-licence costs		**(1,628)**	(1,951)	**(1,628)**	(1,951)
Chinguetti cessation costs	7	**866**	-	**866**	-
Segment result		**(7,080)**	(6,773)	**(7,080)**	(6,773)
Unallocated corporate expenses				**(2,379)**	(2,045)
Loss from operations				**(9,459)**	(8,818)
Finance income				**1,089**	683
Finance expense				**(630)**	(394)
Loss before tax				**(9,000)**	(8,529)
Tax				**-**	-
Loss attributable to owners of the parent				**(9,000)**	(8,529)

[1] Revenue from continuing operations (Mauritania, Africa) includes amounts of $4.1 million (100% external) from one single customer (2016: $4.6 million).

Unallocated corporate expenses (general and administrative overheads) include amounts of a corporate nature and not specifically attributable to a reportable segment.

	Corporate		Africa		Total	
	2017 $000	2016 $000	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Other segment information						
Capital additions:						
Property, plant and equipment	**15**	15	**-**	-	**15**	15
Exploration and evaluation	**-**	-	**5,029**	1,147	**5,029**	1,147
Depreciation, depletion & amortisation	**(10)**	(32)	**-**	-	**(10)**	(32)
Impairment expense	**-**	-	**(2,834)**	(7,375)	**(2,834)**	(7,375)
Segment assets and liabilities						
Non-current assets [1]	**14**	17	**21,041**	18,846	**21,055**	18,863
Segment assets [2]	**81,772**	88,570	**824**	7,976	**82,596**	96,546
Segment liabilities [3]	**(484)**	(560)	**(33,870)**	(36,459)	**(34,354)**	(37,019)

[1] Segment non-current assets include $nil million in Mauritania (2016: $1.4 million) and $21.0 million in Somaliland (2016: $17.5 million).

[2] Corporate segment assets include $81.4 million cash and cash equivalents (2016: $88.1 million) and $406k other receivables (2016: $511k). Carrying amounts of segment assets exclude investments in subsidiaries.

[3] Africa segment liabilities includes short and long-term provision of $28.7 million (2016: $35.7 million) and $5.2 million other payables (2016: $803k). Carrying amounts of segment liabilities exclude intra-group financing.

4. REVENUE

	2017 $000	2016 $000
Revenue from the sale of oil and gas	**4,143**	4,555
Royalty income	**290**	260
Total operating revenue	**4,433**	4,815

5. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Note	2017 $000	2016 $000
Staff costs	8	**2,351**	2,980
Share-based payments	8	**(73)**	73
Impairment of E&E assets	12	**2,834**	7,375
Depreciation of other non-current assets	13	**10**	32
An analysis of auditor's remuneration is as follows:			
Fees payable to the Group's auditors for the audit of the Group's annual accounts		**34**	43
Audit of the Company's subsidiaries pursuant to legislation		**50**	50
Audit related assurance services		**-**	-
Total audit fees		**84**	93

See Note 2 for details on the above impairment.

6. COST OF SALES

	2017 $000	2016 $000
Operating costs	**6,332**	6,590
Over/(under) lift of product entitlement	**1,585**	(628)
Onerous contract provision	**-**	(3,700)
	7,917	2,262

7. CHINGUETTI CESSATION CREDIT

	2017 $000	2016 $000
Reassessment of decommissioning and closure costs	**866**	-
	866	-

The Deed of Termination includes settlement of all claims under the Funding Agreement (see Note 25 on page 87) giving rise to the reassessment of accrued costs.

8. EMPLOYEE INFORMATION

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

	Group		Company	
	2017	2016	**2017**	2016
Africa	**4**	5	**-**	-
Corporate support staff	**5**	9	**-**	-
Non-executive	**3**	3	**3**	3
	12	17	**3**	3

Group and Company employee costs during the year amounted to:

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Wages and salaries	**1,943**	2,314	**237**	183
Social security costs	**246**	298	**29**	21
Other pension costs	**104**	182	**-**	-
Compensation payments	**58**	186	**-**	-
Share-based payments	**(73)**	73	**-**	-
	2,278	3,053	**266**	204

Key management personnel include Directors who have been paid $661k (2016: $696k). See Remuneration Committee Report (pages 32 - 40) and Note 24 (page 87) for additional detail.

A portion of the Group's staff costs and associated overheads are expensed as pre-licence expenditure or capitalised where they are directly attributable to ongoing capital projects. In 2017 the amount expensed as pre-licence or capitalised amounted to $1.5 million (2016: $2.7 million).

9. FINANCE INCOME AND FINANCE EXPENSE

	2017 $000	2016 $000
Finance income:		
Interest revenue on short-term deposits	1,089	683
	1,089	683
Finance expense:		
Bank charges	21	14
Unwinding of discount on decommissioning provision	707	149
Exchange differences	(98)	231
	630	394

10. TAXATION

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

	2017 $000	2016 $000
Loss before tax	(9,000)	(8,529)
Tax on loss on ordinary activities at standard UK corporation tax rate of 19.25% (2016: 20.00%)	(1,733)	(1,706)
Effects of:		
Expenses not deductible for tax purposes	487	618
Capital allowances in excess of depreciation	(449)	(600)
Adjustment for tax losses	1,695	1,688
Tax charge for the year	-	-

Deferred Tax

At the reporting date the Group had an unrecognised deferred tax asset of $19.1 million (2016: $17.8 million) relating primarily to unused tax losses and unutilised capital allowances. No deferred tax asset has been recognised due to the uncertainty of future profit streams against which these losses could be utilised. At the reporting date the Company had an unrecognised deferred tax asset of $15.0 million (2016: $14.1 million) relating primarily to unused losses and unutilised capital allowances.

11. EARNINGS PER SHARE

	Basic		Diluted	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Loss for the year	**(9,000)**	(8,529)	**(9,000)**	(8,529)
Weighted average number of ordinary shares in issue during the year	**220,053,520**	220,053,520	**220,053,520**	220,053,520
Dilutive effect of share options outstanding	**-**	-	**-**	-
Fully diluted average number of ordinary shares during the year	**220,053,520**	220,053,520	**220,053,520**	220,053,520
EPS (US cents)	**(4.09)**	(3.88)	**(4.09)**	(3.88)

The number of potentially dilutive ordinary shares in respect of All staff and NED LTIPs outstanding is nil as at the year end (2016: 2,287,800) (see Note 23 on pages 85 and 86).

12. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	Group $000
Net book value at 1 January 2016	25,074
Additions during the year	1,147
Impairment for the year	(7,375)
Net book value at 31 December 2016	18,846
Additions during the year	5,029
Impairment for the year	(2,834)
Net book value at 31 December 2017	**21,041**

Included within additions are accruals of $1.3 million relating to C-10.

Impairment for 2017 refers to the full impairment of the C-10 asset (2016: Ambilobe and C-3). See Note 2 (Impairment of assets) for details.

Group intangible assets at the year end 2017:
Odewayne PSA , Somaliland: SE(EA)L 34%, Genel Energy 50%, Petrosoma 16%

Classified as a joint arrangement in accordance with IFRS 11.

13. PROPERTY, PLANT AND EQUIPMENT

Group	Oil and Gas assets $000	Computer and office equipment $000	Total $000
Cost			
At 1 January 2016	185,802	191	185,993
Additions during the year	-	15	15
At 31 December 2016	185,802	206	186,008
Additions during the year	-	7	7
Disposals during the year	(185,802)	(59)	(185,861)
At 31 December 2017	**-**	**154**	**154**
Accumulated depreciation and impairment			
At 1 January 2016	(185,802)	(157)	(185,959)
Charge for the year	-	(32)	(32)
At 31 December 2016	(185,802)	(189)	(185,991)
Charge for the year	-	(10)	(10)
Disposals during the year	185,802	59	185,861
At 31 December 2017	**-**	**(140)**	**(140)**
Net book value at 31 December 2017	**-**	**14**	**14**
Net book value at 31 December 2016	-	17	17
Net book value at 31 December 2015	-	34	34

Company	Oil and Gas assets $000	Computer and office equipment $000	Total $000
Cost			
At 1 January 2016	185,802	-	185,802
At 31 December 2016	185,802	-	185,802
Disposals during the year	(185,802)	-	(185,802)
At 31 December 2017	**-**	**-**	**-**
Accumulated depreciation and impairment			
At 1 January 2016	(185,802)	-	(185,802)
At 31 December 2016	(185,802)	-	(185,802)
Disposals during the year	185,802	-	185,802
At 31 December 2017	**-**	**-**	**-**
Net book value at 31 December 2017	**-**	**-**	**-**
Net book value at 31 December 2016	-	-	-
Net book value at 31 December 2015	-	-	-

14. INVESTMENT IN SUBSIDIARIES

	Company $000
Cost	
At 1 January 2016	29,113
Additions during the year	35
At 31 December 2016	29,148
Impairment of investment in subsidiary	(9,008)
At 31 December 2017	**20,140**

See Note 2 (Company – Investment) for details on the above impairment assessment methodology.

The subsidiary undertakings at 31 December 2017 are as follows (these undertakings are included on consolidation):

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

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

[2] Held directly by Sterling Energy Overseas Limited

[3] Held directly by Sterling Northwest Africa Holdings Limited

[4] Held directly by Sterling Energy Holdings Limited

[5] Registered address - 52-54 High Holborn, London, WC1V 6RL

[6] Registered address - 12 Castle Street, St Helier, Jersey, JE2 3RT

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Trade receivables	**661**	2,249	**466**	2,146
Amounts owed from subsidiary undertakings	**-**	-	**25,909**	22,475
Other receivables	**52**	4,089	**13**	17
Prepayments and accrued income	**155**	202	**33**	48
	868	6,540	**26,421**	24,686

Trade and other receivables, neither past due nor impaired, consist of current receivables that the Group views as recoverable in the short term.

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

Transactions between subsidiaries are non-interest bearing and repayable on demand.

16. CASH IN BANK AND SHORT-TERM DEPOSITS

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Cash at bank available on demand	**10,234**	1,554	**10,234**	1,554
Short-term deposits	**71,128**	86,500	**71,128**	86,500
Cash on hand	**3**	4	**-**	-
	81,365	88,058	**81,362**	88,054

Group/Company	Term	2017 $000	2016 $000
Julius Baer	6 months	**20,000**	-
Royal Bank of Scotland (RBS)	3 months	**10,000**	-
Development Bank of Singapore (DBS)	2 and 3 months	**40,000**	6,500
HSBC	Overnight and 90 Day notice	**1,128**	40,000
Standard Chartered (Jersey)	12 months	**-**	40,000
		71,128	86,500

At 31 December 2017, all short-term deposits mature within 90 days.

17. SHARE CAPITAL

	2017 $000	2016 $000
Authorised, called up, allotted and fully paid		
220,053,520 ordinary shares of 10p (2016: 220,053,520 ordinary shares of 40p)	**28,143**	149,014

18. RESERVES

On 14 June 2017 the Company completed the capital reduction as described in the circular published on 30 March 2017. The nominal value of each of the ordinary shares in the capital of Sterling (the 'Ordinary Shares') was reduced from 40p to 10p resulting in a reduction to the share capital of $120.9 million. The share premium account balance of $378.9 million has been cancelled.

Reserves within equity are as follows:

Share Capital
Amounts subscribed for share capital at nominal value.

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

Retained Earnings/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.

19. SHORT AND LONG-TERM PROVISIONS

Short-term provisions are detailed in the table below:

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Decommissioning provision (a)	**28,659**	16,984	**28,659**	16,984
Odewayne consideration	**-**	4,000	**-**	-
Other provisions	**-**	200	**-**	-
	28,659	21,184	**28,659**	16,984

At 31 December 2016 the Odewayne consideration provision was recognised due to the possibility of certain operational milestones being met in 2017. In April 2017, the Company agreed to revised farm-out terms, to reduce the staged contingent consideration payments due Petrosoma and reduce SE(EA)L interest in the Odewayne asset by 6%.

The farm-out agreement was amended such that the parties cancelled the $8.0 million contingent consideration in return for: (i) a payment by SE(EA)L to Petrosoma of $3.5 million; and (ii) a transfer from SE(EA)L to Petrosoma of a 6% interest in the PSA.

	2017 $000	2016 $000
a) Decommissioning provisions Group/Company		
At 1 January	**16,984**	-
Transferred from long term provision	**15,641**	18,072
Transferred to payables	**(3,841)**	-
Used	**(125)**	(1,088)
	28,659	16,984

Long-term provisions are detailed in the table below:

	2017 $000	2016 $000
Decommissioning provisions Group/Company		
At 1 January	**14,472**	32,395
Increase in decommissioning provision	**462**	-
Unwinding of discount	**707**	149
Transferred to short term provision	**(15,641)**	(18,072)
	-	14,472

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 (see Note 25 on page 87).

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Trade payables	**4,052**	118	**3,899**	3
Amounts owed to subsidiary undertakings	**-**	-	**34,053**	33,470
Accruals	**1,643**	1,245	**88**	951
	5,695	1,363	**38,040**	34,424

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

Transactions between subsidiaries are non-interest bearing and repayable on demand.

21. OPERATING LEASES AND CAPITAL COMMITMENTS

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Minimum lease payments under operating leases recognised as an expense in the year	**5,226**	4,737	**4,794**	4,308

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

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Within one year	**233**	1,745	**-**	1,387
In the second to fifth year inclusive	**223**	-	**-**	-
	456	1,745	**-**	1,387

The outstanding Group commitments in 2017 relate to the lease of the office premises.

In 2016 operating lease payments represent the Group's share of rentals for the Berge Helene in Mauritania, a BWO operated FPSO vessel and rentals payable for its office properties.

22. 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 earnings 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 2017 and 31 December 2016.

	Carrying amount/Fair value	
Group	**2017 $000**	2016 $000
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	**81,365**	88,058
Trade and other receivables	**713**	6,338
Total	**82,078**	94,396
Financial liabilities at amortised cost		
Trade and other payables	**5,695**	1,363
Total	**5,695**	1,363

	Carrying amount/Fair value	
Company	**2017 $000**	2016 $000
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	**81,362**	88,054
Trade and other receivables	**26,388**	24,638
Total	**107,750**	112,692
Financial liabilities at amortised cost		
Trade and other payables	**38,040**	34,424
Total	**38,040**	34,424

Financial Risk Management Objectives

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

Interest Rate Risk Management

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

Interest Rate Sensitivity Analysis

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

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

	Group Increase		Company Increase	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Cash and cash equivalents	**814**	881	**814**	881

Foreign Currency Risk

The 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 $1.288/£1.00 (2016: $1.354/£1.00) or the year end spot rate of $1.351/£1.00 (2016: $ 1.230/£1.00), depending on its nature and timing. The Group does not enter into derivative transactions to manage its foreign currency. Foreign currency risk is immaterial to the Group and Company – see the following table:

Financial Assets

	Group		Company	
Cash and cash equivalents	**2017 $000**	2016 $000	**2017 $000**	2016 $000
Cash and cash equivalents held in US$	**80,365**	87,646	**80,364**	87,641
Cash and cash equivalents held in GBP	**1,000**	412	**998**	413
	81,365	88,058	**81,362**	88,054

Trade and other receivables	Group 2017 $000	Group 2016 $000	Company 2017 $000	Company 2016 $000
Trade and other receivables held in US$	**544**	6,241	**21,113**	23,005
Trade and other receivables held in GBP	**169**	97	**5,275**	1,633
	713	6,338	**26,388**	24,638

Financial Liabilities

Trade and other payables	Group 2017 $000	Group 2016 $000	Company 2017 $000	Company 2016 $000
Trade and other payables held in US$	**5,182**	1,011	**31,378**	28,058
Trade and other payables held in GBP	**513**	352	**6,662**	6,366
	5,695	1,363	**38,040**	34,424

Credit Risk Management

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 98.7% (2016: 99.5%) of its cash in US dollars. At the year end the Group held the majority of its balances with AA- Standard & Poor's or equivalent rated institutions. The Group continues to proactively 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 2017 is nil % (2016: nil %).

	Less than six months $000	Six months to one year $000	One to six years $000	Total $000	Interest $000	Principal $000
Group						
Trade and other payables (2017)	**5,325**	**-**	**-**	**5,325**	**-**	**-**
Trade and other payables (2016)	65	-	-	65	-	-
Company						
Trade and other payables (2017)	**3,889**	**34,053**	**-**	**37,942**	**-**	**-**
Trade and other payables (2016)	2	33,470	-	33,472	-	-

23. SHARE-BASED PAYMENTS

The Group recognised a total income, within administration costs, in respect of share-based payments under equity-settled share option plans of $73k (2016: $73k expense). The Company recognised a total income, within administration costs, in respect of share-based payments under equity-settled share option plans of $nil (2016: $nil).

All Staff LTIP
In accordance with the approved All Staff LTIP, the Group had 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:

	2017 Number of share options	**2017 Exercise price (pence)**	2016 Number of share options	2016 Exercise price (pence)
Outstanding at the beginning of the year	**2,153,800**	**40**	6,116,500	40
Lapsed/forfeited during the period	**(2,153,800)**	**40**	(3,962,700)	40
Outstanding at the end of the year	**-**	**40**	2,153,800	40
Exercisable at the end of the year	**-**	**-**	-	-

There have been no options granted under the plan since 2014.

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:

	2017 Number of share options	**2017 Exercise price (pence)**	2016 Number of share options	2016 Exercise price (pence)
Outstanding at the beginning of the year	**134,000**	**40**	1,069,500	42
Lapsed/forfeited during the period	**(134,000)**	**40**	(935,500)	42
Outstanding at the end of the year	**-**	**40**	134,000	40
Exercisable at the end of the year	**-**	**-**	-	-

There have been no options granted under the plan since 2014.

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

NED LTIP

In accordance with the approved NED LTIP, the Group had 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:

	2017 Number of share options	**2017 Exercise price (pence)**	2016 Number of share options	2016 Exercise price (pence)
Outstanding at the beginning of the year	**-**	**40**	309,450	40
Lapsed/forfeited during the period	**-**	**40**	(309,450)	40
Outstanding at the end of the year	**-**	**40**	-	40
Exercisable at the end of the year	**-**	**40**	-	40

All options were forfeited by the non-executive Directors on leaving the Group in 2016.
There have been no options granted under the plan since 2012.

24. RELATED PARTY TRANSACTIONS

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

	Group		Company	
	2017 $000	2016 $000	**2017 $000**	2016 $000
Short-term employee benefits	**708**	671	**237**	183
Defined contribution pension	**-**	25	**-**	-
Share-based payments	**-**	(47)	**-**	-
	708	649	**237**	183

Further information on Directors' remuneration is detailed in the Remuneration Committee Report, on pages 32 – 40.

The Company's subsidiaries are listed in Note 14. The following table provides the balances which are outstanding with subsidiary undertakings at the balance sheet date:

	2017 $000	2016 $000
Amounts owed from subsidiary undertakings	**25,909**	22,475
Amounts owed to subsidiary undertakings	**(34,053)**	(33,470)
	(8,144)	(10,995)

25. SUBSEQUENT EVENTS

Mauritania - termination of the Chinguetti Funding Agreement.

On the 26 January 2018 it was announced that the Company, the Government of Mauritania and SMHPM agreed to terminate the Funding Agreement ('Deed of Termination').

The Deed of Termination provided for a payment (made on 26 January 2018) by Sterling to the Government of Mauritania and SMHPM of $32.6 million to settle any and all claims under the Funding Agreement, including Sterling's obligation to pay for its share of A&D costs and outstanding 2018 operational expenditures.

As at 31 December 2017 short-term provisions amounted to $28.7 million with trade payables of $3.8 million, being the amount due to SMHPM. The residual amount relating to operational expenditures will be expensed in 2018.

Definitions and Glossary of Terms

$	US dollars
Companies Act or Companies Act 2006	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 "proven AND probable AND possible"
A&D	abandonment and decommissioning
AIM	AIM, a SME Growth 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
City Code	The City Code on Takeovers and Mergers
Company	Sterling Energy plc
CoP	cessation of production
CSOP	Company Share Option Plan (HMRC approved share option scheme)
Directors	the Directors of the Company
D&P	development and production assets
E&E	exploration and evaluation assets
E&P	exploration and production
EBITDAX (Adjusted)	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 of the United Kingdom
FPSO	Floating, Production, Storage and Offloading vessel
G&A	general and administrative

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
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Index	FTSE 350 Index
Jacka	Jacka Resources Somaliland Limited
JV	joint venture
k	thousands
km	kilometre(s)
km^2	square kilometre(s)
KPIs	key performance indicators
lead	indication of a potential exploration prospect
London Stock Exchange or LSE	London Stock Exchange Plc
LTIP	long-term incentive plan
M&A	merger and acquisition
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
OPEC	Organisation of the Petroleum Exporting Countries
OPU	Oil Protection Unit
Ordinary Shares	ordinary shares of 10 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

Definitions and Glossary of Terms (cont.)

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
QCA Code	Corporate Governance Code for Small and Mid-Size Quoted Companies 2012
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	10p ordinary shares
Shareholders	ordinary shareholders of 10p 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 Oil	Tullow Mauritania Limited
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland
Waterford Finance and Investment	Waterford 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

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