STERLING ENERGY PLC

Report and Financial Statements

2018

www.sterlingenergyplc.com

STERLING ENERGY PLC

Report and Financial Statements

Year ended 31 December 2018

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 emerging markets including, Africa and the Middle East, although the Board would consider other regions for material opportunities. The Group has a high potential exploration asset in Somaliland and an active strategy to deliver shareholder value through disciplined, exploration and production projects; leveraging the Company's experience, with an emphasis on securing near term cash flow generative opportunities.

Overview

Year ended 31 December 2018

2018 Summary

OPERATIONS

Throughout 2018: Odewayne block, Somaliland - Sterling continued to support the Operator in progressing the technical understanding of the block

January 2018: Chinguetti, Mauritania - cessation of production ('CoP') and negotiated termination of the Funding Agreement ('Deed of Termination')

CORPORATE

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

June 2018: Board and Management appointment of David Marshall as CEO

October 2018: Appointment of GMP FirstEnergy as the Company's co-broker

FINANCIAL

Cash resources net to the Group at 31 December 2018 of $46.3 million (2017: $81.4 million)

The Group remains debt free and fully funded for all commitments

Adjusted EBITDAX[1]: loss for the Group of $1.5 million (2017: $5.9 million loss)

Ongoing focus on capital discipline, cash general and administrative overheads ('G&A') expenses reduced by 25% to $3.0 million and is forecast to be ca. 15% lower in 2019

Proactive focus on treasury management, with interest received totaling $1.0 million (2017: $1.1 million)

POST YEAR END

Odewayne block, Somaliland; Operating Committee Meeting ('OCM') held early March where the work program for 2019 was finalised by the Joint Venture ('JV') partners, including the reprocessing of 1,000km of 2D seismic to Pre-Stack Time Migration[1] ('PSTM')

[1]defined within the definitions and glossary of terms on pages 82 – 84

Chairman's Statement

"The market conditions remained unstable throughout 2018 with the oil price continuing to be volatile; Brent peaking at $86/bbl in October and sliding down to nearer $50/bbl three months later. Uncertainty is high and material deals require more time to evaluate and execute."

Our team is working hard screening a number of opportunities. Expectation is that from these efforts will materialise a value creating deal in the near term.

The Somaliland acreage remains very attractive, with costs carried by our partner during the current phase of the licence through to drilling in the subsequent period. The Operator continues the processing and interpretation of the data gathered throughout the Third Exploration Period and we are engaging closely with the process and the results. We see this as an exciting and potentially material exploration opportunity and look forward to the possibility of drilling over the next few years.

FINANCIAL

In 2018, business costs were further reduced by continued overhead initiatives and a focus on treasury management. The Group had cash resources of $46.3 million at the end of 2018 and we remain free of debt with our work programme for 2019 fully funded.

BOARD

In June 2018 the Company announced the appointment of David Marshall as the Chief Executive Officer and Director of the Company. David has 35 years' experience in oil and gas production and development specialising in technical solutions for accessing production from stranded assets.

OUTLOOK FOR 2019 AND BEYOND

The outlook for 2019 is exciting. Post Chinguetti the Company is pursuing opportunities in our focus areas, utilising our technical expertise. Should market conditions worsen, we will preserve our capabilities, strengths and cash position to weather any storm.

I would like to thank all our stakeholders for their continuing support and all of our management and staff for their diligent efforts during 2018.

Michael Kroupeev
Chairman
22 March 2019

Chief Executive's Review

> "Sterling retains a strong position on the AIM listed oil and gas sector with a strong cash platform of $46.3 million and no debt or other liabilities."

MARKET LANDSCAPE

Commodity prices in 2018 saw an oil price between the $50-86 per barrel range. Commodity prices were very volatile, particularly in Q4 2018 when prices averaged $68 per barrel. The beginning of 2019 has already seen a steady rise in crude prices, with crude prices up ca. 23% from January 1st to mid-March.

Majors are stepping back from large scale projects, investing more capital into projects with shorter payback timeframes. There is a clear appetite in the market for buying and selling existing production, however we have seen early signs that exploration projects are coming into focus once again.

Markets and the news cycle have been dominated by Britain's imminent withdrawal from the European Union in March 2019. Though the Company sees no direct impact from BREXIT, equity markets are likely to be volatile during the period preceding BREXIT and possibly thereafter. More recently Russia continues to cut production and Venezuelan and Iranian exports fall due to the impact of sanctions.

The Company is well financed and is positioned to take advantage of acquisition opportunities during these volatile market conditions.

OPERATIONS

During 2018 work on the Odewayne block in Somaliland was focused on undertaking a highly focused and rigorous processing effort, with the primary technical objective of improving the deeper subsurface image; as a part of this, Sterling finalised the processing to PSTM of three test 2D seismic lines and shared the results with the JV. In 2019 we will continue to support the Operator and look forward to the results from the reprocessing. The costs associated with current period (Third Period) and the Fourth Period are fully carried by Genel Energy, hence the minimal capital investment shown within the accounts.

In January 2018, Sterling completed the termination of its Funding Agreement for the Chinguetti oil field in Mauritania, crystallising the liability exposure. The completion of the termination process was the final step in the reorganisation of the Group and now allows us to concentrate on our corporate strategy of securing a material M&A transaction.

Activity has doubled on opportunity and asset screening and we are gaining deal traction due to the renewed focus and simplicity of the Group as mentioned above. Many smaller companies with viable developments but low cash reserves are looking for merger opportunities, giving them access to cash that is currently not available from capital markets.

CORPORATE

Sterling retains a strong position on the AIM listed oil and gas sector with a strong cash platform of $46.3 million and no debt or other liabilities.

The Company has continued to reduce G&A and focus on robust treasury management, in line with the Board mandate for cash preservation to maximise our ability to deploy capital into existing and new assets. In 2018 cash G&A expenses reduced by 25% in comparison to 2017. As we forecast into 2019 the Company hopes to achieve further G&A savings of ca. 15% whilst increasing interest received by ca. 15%.

In 2018 the Company appointed GMP FirstEnergy as joint corporate broker, and legal M&A specialists Pinsent Masons, as their expertise in the Oil and Gas sector will benefit the continued drive to a material transaction.

We have a clear strategy and can move quickly and decisively for the right opportunity, leveraging our cash balance and technical capabilities of the Sterling team to good effect.

David Marshall
Chief Executive Officer
22 March 2019

STERLING ENERGY PLC

Strategic Report

Year ended 31 December 2018

Operations Review

Since late 2015, the Company implemented 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 22,840km^2, 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, through the 6th deed of amendment (as mentioned on page 12) and its minimum work obligation was met in 2017 when 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. The minimum work obligation during the optional Fourth Period of the PSA (also extended by 2 years) 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 early 2018, following encouraging results from an integrated geoscience review in late 2017 of the basic post-stack processed 2D dataset provided by the Operator Genel Energy, Sterling undertook a highly focused and rigorous processing effort, independent of the Operator. The first phase deliverables were a full PSTM dataset, consisting of 3 lines of ca. 235km and were received in May 2018. These reprocessed lines showed significant improvements in subsurface imaging and were shared with the JV partners in order to assist the decisions on forward work programs.

In parallel to Sterling's efforts, the Operator undertook a number of studies to support the interpretation of the 2D seismic dataset. This included the integration of the 2D seismic data with the potentials field data in the form of a 2D gravity modeling study, alongside an updated review of the regional geology of the Odewayne basin. These studies have led to the development of a number of geological models that have been used to interpret the seismic data and help support the likely presence of a sedimentary basin. Following this work, the JV partners have agreed that reprocessing of the seismic data is needed to further improve the understanding of the prospectivity of the Odewayne Basin.

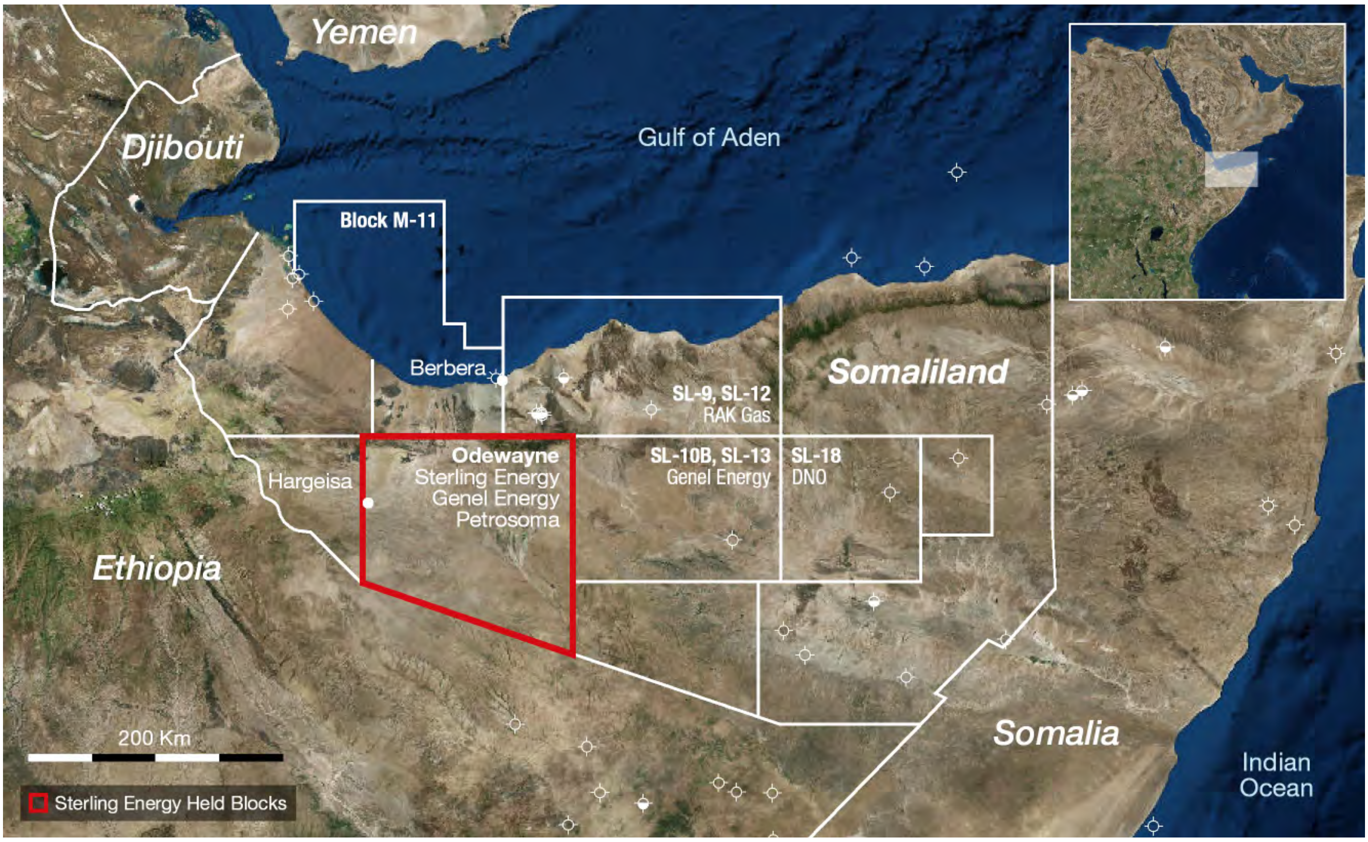
OUTLOOK

2019 will see the reprocessing of the entire 2D seismic dataset that was acquired in 2017. Processing will be to PSTM (with the contingent option to include Pre-Stack Depth Migration) and is expected to begin in Q2 2019. Following receipt of the reprocessed data, these will be interpreted with the objective of identifying a number of leads for further investigation. Alongside the seismic reprocessing, contingent activity includes a surface seep study focused on areas highlighted by the seismic interpretation as most likely to be situated above migration pathways from hydrocarbon kitchens.

It is anticipated that the above work carried out in 2019 will allow the JV to develop a lead portfolio for the licence that will form the basis for future work. This future work could include infill 2D seismic data acquisition over the most prospective areas with a view to maturing a number of prospects to drill-ready status. Such infill seismic would be acquired in 2020 or 2021 ahead of a decision to enter the next exploration period (Fourth Period), which includes the commitment to drill an exploration well.

Asset Summary

Somaliland – Odewayne



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	22,840km^2	Petrosoma Limited	16%

Exploration term
Current Period 3: To 2 November 2018 (see licence status)
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 the Third Period of the exploration term. The Group’s costs associated with the Third and Fourth period work programmes are fully carried by Genel Energy.

The Third Period expiry, as described in the 6th Amendment to the PSC, is currently extended by 2 years, as are all subsequent periods. Current expiry date of the Third Period is therefore February 2021.

Financial Review

Year ended 31 December 2018

SELECTED FINANCIAL DATA

		2018	2017
Revenue	$million	**0.5**	4.4
Adjusted EBITDAX	$million	**(1.5)**	(5.9)
Loss after tax	$million	**(2.0)**	(9.0)
Year end cash net to the Group	$million	**46.3**	81.4
Debt	$million	**-**	-
Year end share price	Pence	**10.4**	13.8

INCOME STATEMENT

During 2018 there was one lift from the Chinguetti field of 9,222 bbls (net to the Company) (2017: 92,056 bbls, from three liftings) resulting in Group turnover of $534k (2017: $4.4 million).

Cost of sales totalled $515k (2017: $7.9 million).

Group cash G&A decreased by 25% during the year to $3.0 million (2017: $3.9 million). The continued reduction in the Group's administrative overhead is in keeping with the Board driven KPI for cash preservation.

	2018 $ (million)	2017 $ (million)
Group administrative overhead (page 50)	**(1.5)**	(2.4)
Costs capitalised/recharged	**(0.0)**	(0.1)
Pre-licence expenditure	**(1.4)**	(1.4)
	(1.4)	(1.5)
Share based payment expense	**-**	(0.1)
Other non-cash expenditure	**0.0**	0.1
Group cash G&A expense	**(3.0)**	(3.9)

In 2018, a portion of the Group's staff costs and associated overheads have been expensed as pre-licence expenditure ($1.4 million), or capitalised/recharged ($39k) where they are directly assigned to capital projects or recharged. This totalled $1.4 million in the year (2017: $1.5 million).

Other non-cash expenditure ($10k) relates to office asset depreciation.

Interest received during the year was $1.0 million (2017: $1.1 million). Net finance income (finance income less finance expenses) totalled $1.0 million in the year (2017: $459k).

The loss for the year was $2.0 million (2017: loss $9.0 million):

	$ (million)
Loss for year 2017	(9.0)
Decrease in revenue	(3.9)
Decrease in cost of sales	7.4
Decrease in G&A and pre licence	1.0
Increase in net finance income	0.6
Impairment of C-10 (2017)	2.8
Chinguetti cessation credit (2017)	(0.9)
Loss for year 2018	**(2.0)**

ADJUSTED EBITDAX AND NET LOSS

Group adjusted EBITDAX loss totalled $1.5 million (2017: $5.9 million loss):

	2018 $ (million)	2017 $ (million)
Loss after tax (page 50)	**(2.0)**	(9.0)
Finance costs	**(1.0)**	(0.5)
Pre-licence costs	**1.5**	1.6
Impairment	-	2.8
Chinguetti cessation costs	-	(0.9)
Share-based payments	-	(0.1)
Total EBITDAX (Adjusted)	**(1.5)**	(5.9)

The basic loss per share was $0.01 per share (2017: loss $0.04 per share).

No dividend is proposed to be paid for the year ended 31 December 2018 (2017: $nil).

Financial Review (cont.)

Year ended 31 December 2018

STATEMENT OF FINANCIAL POSITION

At the end of 2018, net assets/total equity stood at $67.3 million (2017: $69.3 million). Non-current assets relating to the Odewayne block totalled $21.1 million (2017: $21.0 million). Net current assets reduced to $46.2 million (2017: $48.2 million).

At the end of 2018, cash and cash equivalents totalled $46.3 million (2017: $81.4 million), this reduction primarily due to payments of; $32.5 million relating to the termination of the Chinguetti Funding Agreement and $1.3 million covering the minimum work obligation on the C-10 block (Mauritania).

IFRS 9 (Financial Instruments) was adopted on 1 January 2018 and required the consideration of the risk associated with the recoverability of intercompany loans between the Company and its subsidiary companies. This has resulted in an impairment allowance in the accounts of the company and is further described in Note 1.

CASH FLOW

Net Group cash used in operating activities was $34.7 million (2017: $4.2 million outflow), primarily due to the termination of the Chinguetti Funding Agreement. A full reconciliation of which is provided in the Consolidated Statement of Cash Flows on page 53.

Cash investments in oil and gas assets are summarised below:

	2018 $ (million)	2017 $ (million)
Mauritania	**1.3**	0.2
Somaliland	**0.1**	3.5
	1.4	3.7

Minimal cash investments on the Odewayne Block in Somaliland during the year due to the Group's interest being fully carried by Genel Energy, for its share of the costs during the Third and Fourth Periods of the PSA.

Total net decrease in cash and cash equivalents in the year was $35.0 million (2017: $6.8 million).

ACCOUNTING STANDARDS

The Group has reported its 2018 and 2017 full year accounts under International Financial Reporting Standards ('IFRS'), as adopted by the European Union.

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. In achieving its long-term success, the Group is exposed to a number of risks and uncertainties which could have a material impact on the Company's performance. Key to mitigating the risks faced by the Company is ensuring Sterling has the correct Board and senior management team in place who regularly review the business, approve the annual work programme and budget as well as consider monthly management reporting, financial operating procedures, Health, safety, security and environment ('HSSE') and other important factors. 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.

During 2018 the rating of Financial, Commercial and Economic risks reduced following the Chinguetti exit which reduced the Company's residual exposure to A&D costs in light of the cessation of production from the Chinguetti oil field. Furthermore, the termination of the Chinguetti funding agreement resulted in no further exposure for the Company to future operational risk and/or cost overruns creating certainty for the Company as it entered 2018. The Company's strategic risk and operational risks remained the same with no change in the Company's portfolio.

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

Business Risk (cont.)

Category	Risk	Mitigation	Change
Financial, Commercial and Economic • Low commodity prices • Market volatility • Counterparty distress	• Continued lower oil and gas commodity prices and market volatility. • Difficulty in capital raising for new acquisitions and/or to fund development activities. • Licence extension uncertainty. Licences, permits or approvals may be difficult to obtain and sustain. • Fiscal stability. • Foreign currency risk.	• Group maintains a strong balance sheet and remains fully funded for its existing commitments. • Management continually assess all existing assets and proposed new acquisitions in light of future capital requirements from a disciplined lifecycle investment perspective. • The Group holds the majority of its cash in US dollars, the predominant currency used in oil and gas operations.	▼
External • Country risk • Climate change • Legal compliance • Brexit	• The Group's assets are located in a non-OECD country. Governments, regulations, and the security environment may adversely change, including the use of tax claims, real or not. The Group's assets in Somaliland 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. • Complex Legal and Regulatory Compliance or litigation risk. • The Group's headquarters are located in the UK, with continuing uncertainty surrounding Brexit. • Failure to recruit and retain key personnel and/or engage in adequate succession planning. • Human error or deliberate negative action.	• The Board monitors political, regulatory and HSSE changes and engages 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 operates to high 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. The Company continues to monitor the situation regarding Brexit and in particular reviews foreign exchange rates and interest rates frequently and receives updates from relevant government bodies to prepare for a no-deal Brexit should this be the case.	▶

Strategic • Concentration of portfolio • Competition	• Group's remaining asset (Somaliland) is concentrated on early stage frontier and basin exploration and 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. • Concentration of shareholder base. • Failure to negotiate optimal contract terms. • Inadequate management processes. • Financial control of non-operated assets. • Fraud, Bribery and corruption/increased third party exposure. • In appropriate or poorly conceived corporate strategy and failure to deliver on such strategy including failure to access new opportunities.	• The Board is actively seeking to diversify the current portfolio risk by acquiring appraisal, development and/or producing assets, using existing financial resources of the Group and additional capital (as required). • The Board is pursuing an M&A strategy and conducts detailed due diligence prior to engagement with any prospective transaction. • Ongoing engagement with shareholders to inform investment decisions (including representatives on the Board). • Key documentation and contract terms are considered by the Board to ensure the best possible outcomes are achieved. • Management regularly monitor and amend cost structure, investment strategy and treasury policy to include countercyclical investments. • The Board meets regularly to review the business plan, G&A expenses, strategy and monthly reporting.	▶
Operational • Exploration and production risk • Operator and partner risk	• Exploration activities may not result in a commercial discovery. • The Group is dependent on other operators for the performance of E&P activities, due lack of control. This may result in delay in conducting exploration work programmes. • HSSE incident or non-compliance under local rules and/or laws.	• Management aims to diversify and manage risk across a portfolio of assets. Applying 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

INTERNAL CONTROL

The Directors are responsible for establishing and maintaining the Group and the Company's systems of internal control including financial 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 expenditure. All major expenditures require either senior management or Board approval at the appropriate stages of each transaction. A system of regular reporting of 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.

Business Risk (cont.)

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.

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	
Core competency of the Group	• Every individual to be aware of his/her responsibility towards providing a safe and secure working environment; • Managed through staff training and procedures to reduce HSSE risks as low as reasonably practical; • Appropriate emergency response systems are in place to reduce and mitigate the impact and losses of any incident; and • Ensure compliance with all relevant laws, regulations and industry standards.
JV partners	• The Group maximises its influence with JV partners to share its HSSE and social responsibility values; and • Contractors are required to demonstrate and deliver a credible HSSE and social responsibility programme.
Environmental	• The Group is committed to minimising its impact on the environment in both field operations and within its offices; and • 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	
Conducting 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; and • In pursuing its business objectives, it undertakes not to compromise its Corporate Social Responsibility with any of these stakeholders.

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

Community Responsibility	
Committed to being a good partner in the communities in which we operate	• Engagement and dialogue with local stakeholders to ensure that, as far as possible, projects benefit both the Group and the communities in which the project is located.

Employees	
Workplace free of discrimination	• All employees are afforded equal opportunities and are rewarded on merit and ability; • All employees are given contracts with clear and fair terms; and • Staff offered access to relevant training and encouraged to join professional bodies to enhance their knowledge, competencies, career development and opportunities for progression.
Culture of openness	• High standards of conduct, accountability and propriety; and • Employees can report legitimate concerns without fear of penalty or punishment.

Whistleblowing Policy	
Empowers employees to be proactive	• Employees able to make anonymous reports directly to the Senior independent non-executive Director; and • Employees encouraged 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 Strategic Report was approved by the Board of Directors on 22 March 2019 and signed on its behalf by:

David Marshall
Chief Executive Officer

STERLING ENERGY PLC

Corporate Governance

Year ended 31 December 2018

Board of Directors

DAVID MARSHALL
CHIEF EXECUTIVE OFFICER
AGED 60

David joined Sterling Energy in June 2018. He has 35 years' experience in oil and gas production and development specialising in technical solutions for accessing production from stranded assets.

He has held managerial positions in onshore oil and gas drilling and production operations in Tunisia and Turkmenistan, and offshore in the North Sea, Gulf of Mexico, Gabon, the Middle East, Egypt and Holland. More recently David served as CEO of DEO Petroleum Limited, prior to its acquisition by Parkmead. He subsequently worked for Enquest in Egypt prior to becoming Chairman of Arenite Petroleum and Director of Boreas Resources.

David holds a Master's Degree in Petroleum Engineering from Heriot Watt University and a Bachelor of Science Honours Degree in Civil Engineering from Glasgow University.

MICHAEL KROUPEEV
NON-EXECUTIVE CHAIRMAN
AGED 52

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 the Chairman of the Nominations Committee.

Michael has 25 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 at the London Business school 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, former Soviet Union and the Middle East. Michael also served as a Director of Sibir Energy Plc from 1998 till 2000.

LEO KOOT
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR
AGED 56

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 29 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 Chairman of Tulip Oil.

ILYA BELYAEV
NON-EXECUTIVE DIRECTOR
AGED 37

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 Board recognises that good standards of corporate governance help the Company to achieve its strategic goals and is vital for the success of the Company. The Company adopts proper standards of corporate governance and follows the principles of best practice set out in the Quoted Companies Alliance Governance Code (2018) (the 'QCA Code'), as far as is appropriate for the size and nature of the Company and the Group.

The Company's strategy and business model is set out in detail in the Strategic Report on pages 10 – 21 of this document.

Corporate Culture

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.

The Directors are mindful of the industry that the business operates in and of the impact of the Company's business on its employees, contractors, the environment and on the wider community. In particular, the importance of delivering success in a safe environment is not undermined.

Board composition

As at 22 March 2019, the Board currently comprises Michael Kroupeev, the non-executive Chairman, David Marshall, CEO, Leo Koot, Senior Independent non-executive Director and Ilya Belyaev, non-executive Director. The Board consider Leo to be independent. Leo was appointed in 2017, his tenure is not concurrent with management and there are no other factors which the Board consider may compromise his independence. As a representative of a major shareholder, the Board do not consider Ilya to be independent.

Michael has over 25 years' experience in the oil and gas sector having established Waterford Finance and Investment Limited in 1995 which specialises in financing oil, gas and other energy related projects in emerging markets. Leo also has significant experience in the energy sector as well as technical expertise. In addition to their sector experience, both Michael and Leo have held a number of directorships of energy companies listed on AIM. As a private equity specialist Ilya brings specific finance and transactional skills to the Board. David was appointed to the Board in June 2018 with a mandate to use his technical understanding of the industry to identify and execute on a transformational M&A led growth strategy for the Company.

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.

Following the resignation of Eskil Jersing on 21 December 2017 the Nominations Committee carefully considered the balance of skills and experience remaining on the Board and which skills would be needed to replace the CEO. The Nominations Committee identified that further M&A generation and execution skills were required to achieve the Company's strategy and to complement the existing transactional skills of existing Board members. A search process was conducted which resulted in the appointment of David Marshall in June 2018, who the Board believe has the necessary skillset to deliver the Company's long-term strategy. In particular David has considerable experience in seeking out and executing on M&A opportunities.

Board composition is reviewed by the Nominations Committee which met twice during the year to consider the balance of skills, personal qualities and diversity, as well as a focus on succession planning of the CEO.

Functioning of the Board

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 43.

Each Director takes their continuing professional development seriously and undertakes training from relevant professional and industry bodies in the form of attending seminars, conferences and continual updates of knowledge and industry practice. Each Director and the employees of the Company are required to undertake Anti-Bribery and Corruption training on an annual basis.

The Company's Nomad provides regular updates to Board members in the areas of governance and AIM Regulations. The Directors have access to the Company's other advisers as required including the Company Secretary, legal advisers and auditors and have the authority to obtain external advice as deemed necessary.

In January 2018 the Nominations Committee appointed Preng & Associates, an executive search agency, to advise the Nominations Committee and the Board in respect of the replacement of Eskil Jersing.

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.

Conflicts of interest

Whilst conflicts should be avoided, the Board acknowledges that instances arise where this is not always possible. In such circumstances, Directors are required to notify the Chairman before the conflict arises and the details are recorded in the minutes. If a Director notifies the Board of such an interest, they may be, if requested by the Chairman, excluded from any related discussion and will always be excluded from any formal decision. This was only required in one instance in 2018 in which a Director recused himself from any discussions pertaining to a particular M&A transaction which he had an interest in.

Evaluation of the Board's performance

Performance evaluation takes place informally 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. No formal Board performance evaluation took place during 2018.

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.

Statement of Corporate Governance (cont.)

Meetings and time commitment of the Board

The Board and each of the Board Committees are provided with timely and accurate information sufficiently ahead of each Board and Committee meeting to enable Board and Committee members to have sufficient time to review and analyse the information provided. The Board meets monthly and the Committees meet on a less regular basis, with the Audit Committee meeting at least twice a year, the Remuneration Committee meeting at least once a year and the Nominations Committee meeting as required. In addition, as required, the Board holds conference calls to discuss urgent matters.

The Chief Executive is a full-time position. Non-executive Directors are expected to commit sufficient time to ensure they are fully briefed in the Company's affairs, have reviewed the Board papers provided ahead of meetings as well as attending Board meetings. Non-executive Directors are also required to attend ad-hoc calls of the Board as well as other Company business when required and liaise with the executive Director and other members of the team between Board meetings as needed. The time commitments of each of the Directors was discussed with each Director prior to appointment and each Director was required to confirm they had sufficient time to fulfil the role before accepting the appointment.

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	14	3	2	2
David Marshall (appointed 6 June 2018)	6	-	-	2
Eskil Jersing (notice period ended 21 June 2018)	8	-	-	2
Michael Kroupeev	14	-	-	2
Leo Koot	14	3	2	2
Ilya Belyaev	14	3	2	2

[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.

Location of Corporate Governance Disclosures

The Company has elected to follow the recommendations of the QCA Code for the presentation of its Corporate Governance disclosures. Accordingly, the Company's Corporate Governance Statement contained on its website at www.sterlingenergyplc.com sets out against each of the 10 Principles of the QCA Code where the disclosures relating to each principle are located.

Michael Kroupeev
Chairman
22 March 2019

Audit Committee Report

MEMBERS

This Committee currently comprises:

- Leo Koot (Chairman)
- Ilya Belyaev

The Audit Committee met three times during the year. 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.

SUMMARY OF RESPONSIBILITIES

- 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;
- reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- 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 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.

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, as well as considering significant issues throughout the year. The Committee reviewed and was satisfied that the judgments exercised by management contained within the Report and Financial Statements are reasonable.

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. 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. The Committee has recommended to the Board that shareholders support the re-appointment of BDO LLP at the 2019 AGM.

Further disclosure relating to the Auditors is set out with the Directors Report on pages 40 – 42.

Details of fees payable to the Auditors are set out in Note 5.

Leo Koot
Chairman of the Audit Committee
22 March 2019

Nominations Committee

MEMBERS

This Committee currently comprises:

- Michael Kroupeev (Chairman)
- David Marshall
- Leo Koot
- Ilya Belyaev

The Nominations Committee met twice at the beginning of the year to develop a suitable strategy to replace the CEO, Eskil Jersing.

The Nominations Committee initially reviewed the skills and experience remaining on the Board and considered, in light of the Company's strategy, what particular skillset would be required from a new appointment. Having reviewed the balance of skills on the Board the Committee liaised with the Company's Nominated Adviser and was advised by Preng & Associates in relation to the search for a replacement CEO. From a short list of potential candidates, interviews were conducted with Board members present prior to a final offer being made to David Marshall on the recommendation of the Committee.

In addition to the replacement of the CEO, the Nominations Committee also considered the composition of the Board generally, reviewing the skills and experience of the Board as a whole.

The Chairman of the Nominations Committee is responsible for the annual performance evaluation of Directors.

Michael Kroupeev

Chairman of the Nominations Committee

22 March 2019

Remuneration Committee Report

MEMBERS

This Committee currently comprises:

- Leo Koot (Chairman)
- Ilya Belyaev

The Remuneration Committee met twice during the year. The Company Secretary acted as secretary to the Committee and the Chairman of the Board attended Committee meetings where appropriate.

SUMMARY OF RESPONSIBILITIES

- agreeing a policy for the remuneration of the Chairman, executive Director and other senior executives;
- within the agreed policy, determining individual remuneration packages for the Chairman, executive Director and senior employees;
- agreeing the policy on terms and conditions to be included in service agreements for the Chairman, executive Director, 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.

During 2018 the Committee advised on the following matters:

- the 2018 review of achievement of corporate objectives/key performance indicators ('KPIs') and recommended the Executive Directors and employees be rewarded for achieving some of the KPIs set by the Remuneration Committee and partially achieving others;
- the 2018 non-executive Directors remuneration structure;
- the remuneration policy to ensure alignment of the executive Director and senior team with the Board approved strategic mandate; and
- working with the Nominations Committee to formulate a remuneration package for the new CEO within the terms of the Remuneration Policy.

Looking ahead to 2019 the Committee believes that the executive Director supported by the senior management team have the appropriate structure to deliver the Company strategy of M&A led transformational growth initiatives. As in the previous year, with regards the continued M&A mandate, 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 2018.

At the end of 2017 Eskil Jersing tendered his resignation as CEO. The report reflects Eskil's remuneration until his termination date of 21 June 2018 and David Marshall's remuneration from the date of appointment on 6 June 2018.

The Committee appointed Preng & Associates, an executive search agency, to assist in the recruitment of David Marshall. The Committee received external legal advice in relation to the appointment of David Marshall and the termination of Eskil Jersing's contract.

This report will explain how the Company's remuneration policy was implemented in 2018 and how it will be applied for 2019.

Leo Koot
Chairman of the Remuneration Committee
22 March 2019

Remuneration Committee Report (cont.)

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 and following year end the Board resolved to terminate the existing scheme. 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 Director accepting appointments as non-executive Directors of other companies; however, if he accepts more than two such appointments, they are required to deduct such fees for those appointments from their Company executive remuneration.

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 the 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 Committee has not directly engaged the services of any remuneration consultants during the year.

Details of individual components of executive and non-executive remuneration are:

Base Salary	
Purpose and link to strategy	To be the foundation of the Directors remuneration packages and 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.
Operation	• Base salary is reviewed annually taking into account the Directors' performance, individual responsibilities and experience. • The Committee uses comparator data where possible, collected from published accounts and industry surveys of peer companies to determine the base salary for the executive Director. • The Committee also considers matters of retention, motivation and economic climate as well as the challenges facing the business. • 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	
Purpose and link to strategy	To incentivise and reward, on an annual basis, the performance of individuals and the Group on both financial and non-financial metrics.
Operation	• Objectives/KPIs are set, prior to the year under review, to align near-term goals with the longer-term sustainable future of the Group. Individual performance is also considered when awarding a bonus. • KPIs are relevant to the award, stretched and designed to enhance shareholder value and to promote the long-term success of the Company. • 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 the executive Director is capped at 100% of annual salary. • Bonuses are paid in cash after the end of the financial year to which they relate unless the element of the bonus is directly linked to a specific KPI which is achieved during the year whereupon an interim bonus may be paid at the discretion of Board, as advised by the Remuneration Committee. • The bonus is non-contractual and is discretionary. • Non-executive Directors do not participate in the bonus scheme.

Pension provision	
Purpose and link to strategy	To provide competitive retirement benefits commensurate with schemes offered by peer companies.
Operation	• The Group operates a defined contribution pension scheme pursuant to which it contributes 10% of pensionable salary per eligible member to the individual Director's personal pension plan as chosen by the individual Director. • Scheme membership and contribution is linked to the member's base salary. • The Company operates no defined benefit schemes. • Non-executive Directors are not eligible to receive pension contributions.

Benefits	
Purpose and link to strategy	To provide competitive cost-effective benefits to assist in attracting and retaining appropriate Directors required to deliver the Group's strategy.
Operation	• The Group subscribes to a number of benefits for employees and Directors which include life assurance, travel insurance, income protection, subsidised fitness centre membership and private medical insurance (or associated cash plan which is subject to an annual limit). • The Group maintains Directors' and Officers' liability insurance cover and provides the Directors with an indemnity, the level of which is reviewed annually. • Where appropriate some of these benefits are linked to base salary.

Remuneration Committee Report (cont.)

LTIP AND HMRC APPROVED SHARE OPTION SCHEMES

The Committee awarded no options under the All Staff LTIP or HMRC Approved schemes during the year and all awards under these existing Schemes lapsed in 2017. Following year end, the Board terminated these schemes. Towards the end of 2018 the Remuneration Committee worked to establish a new HMRC approved Company Share Option Plan ('CSOP'). No awards have been made under this new plan to-date.

OTHER MATTERS

No Director currently has a notice period greater than 3 months and the service contract of the executive Director contains no provision for pre-determined compensation on termination, which exceeds 3 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.

REPORT ON REMUNERATION

The table below reports single figure remuneration of the Directors:

2018 Remuneration	Fees and basic salary £	Bonus £	Defined contribution pension £	Benefits in kind £	**Single figure remuneration Total 2018 £**
Executive Directors:					
David Marshall (appointed 6 June 2018) [1]	113,846	-	11,385	2,951	**128,182**
Eskil Jersing (notice period ended 21 June 2018) [2]	135,338	60,000	-	5,029	**200,368**
Non-executive Directors:					
Michael Kroupeev	102,800	-	-	-	**102,800**
Leo Koot	51,400	-	-	-	**51,400**
Ilya Belyaev	37,008	-	-	-	**37,008**
Aggregate remuneration 2018 (£)	440,392	60,000	11,385	7,980	**519,757**
Aggregate remuneration 2018 (US$)	587,916	80,099	15,198	10,654	**693,867**

2017 Remuneration	Fees and basic salary £	Bonus £	Defined contribution pension £	Benefits in kind £	**Single figure remuneration Total 2017 £**
Executive Directors:					
Eskil Jersing [3/4]	305,580	15,249	-	9,922	**330,751**
Non-executive Directors:					
Michael Kroupeev	100,000	-	-	-	**100,000**
Leo Koot	47,564	-	-	-	**47,564**
Ilya Belyaev	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**

1 Excludes bonus amount of £26k awarded and accrued at year-end, which was paid on 26 February 2019.
2 Fees and basic salary include £13k pension contributions paid as cash.
3 Excludes bonus amount of £35k awarded and accrued at 2017 year-end, which was paid on 4th May 2018.
4 Fees and basic salary include £28k pension contributions paid as cash.

REMUNERATION OF THE EXECUTIVE DIRECTORS

Base Salary

David Marshall was appointed to the position of CEO on 6 June 2018 on an annual base salary of £200,000. He received a 10% pension contribution and other benefits as set out above.

Eskil Jersing resigned in December 2017 and left the Company on 21 June 2018. He received a 10% non-contributory pension contribution paid directly to him and other benefits as set out above.

Bonus

In respect of David Marshall, the Committee agreed that the annual bonus opportunity would be up to 100 per cent of base salary pro-rated to the Directors length of service in the period and the Committee set new KPIs for H2 2018 relating to his performance. The Committee considers the specifics of the KPIs to be commercially sensitive as they reflect the Company's ongoing commercial strategy however generally they focus on M&A led transformational growth initiatives and preservation of the Group's cash position. The Committee assessed that this target had been partially achieved and accordingly awarded a bonus of £26k to the Executive Director.

Remuneration Committee Report (cont.)

In respect of Eskil Jersing, the Committee agreed that his annual bonus opportunity would be up to 100 per cent of base salary pro-rated to the Director's length of service in the period. The following objectives were agreed for 1H 2018:

i) To secure a commercially acceptable exit for the Company in respect of its Chinguetti asset: The Committee agreed that this target had been achieved and £35k of the bonus paid to Eskil Jersing related to this element and was awarded and accrued at year end 2017 but only paid following the Company's position being finalised in January 2018;
ii) The second KPI is considered commercially sensitive but related to the Company's M&A led growth initiatives: The Committee agreed that this target had not been achieved in full however they noted a significant contribution from the executive Director and accordingly a £25k bonus was allocated to this element.

Service Agreement

The Service Agreement of the executive Director is for a 12 month period, which may be extended and contains a contractual notice period of 3 months.

The Director's service contract (and letters of appointment for the non-executive Directors) are available to view at the Company's registered office and prior to each Annual General Meeting at the venue of the meeting.

Eskil Jersing received no payment for loss of office during the period.

REMUNERATION OF THE NON-EXECUTIVE DIRECTORS

No individual Directors were involved in the determination of their own remuneration. The Chairman and non-executive Directors are not entitled to participate in the Company's executive remuneration programmes or pension arrangements.

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

Non-executive Director fees were last increased in January 2018 and no further increase will be made for 2019.

Save for the fees outlined above, the non-executive Directors are not entitled to a bonus or any other benefits or arrangements.

No fees were paid to the non-executive Directors for membership of any Board committee or for attending Board committee meetings.

RELATIONSHIP AGREEMENT

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').

IMPLEMENTATION OF EXECUTIVE DIRECTOR (DAVID MARSHALL) REMUNERATION POLICY FOR 2019

Base Salary	£200,000
Annual Bonus	**Opportunity** • 100% **KPI's** • Linked to preservation of Group's cash position • M&A growth led initiatives
CSOP share options	Up to £30,000 (to be awarded)
Pension	10% paid into a defined contribution scheme of the Directors choice
Benefits	Full range of Company benefits as detailed in Remuneration Policy above

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 $19k in 2018 (2017: $23k).

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 (%)
2018	David Marshall [1] / Eskil Jersing [2]	328,550	(0.7%)	24%	-
2017	Eskil Jersing [2]	330,751	0.6%	5%	-
2016	Eskil Jersing	328,881	13.3%	4%	-
2015	Alastair Beardsall [3] / Eskil Jersing	290,184	32.0%	-	-
2014	Alastair Beardsall [3]	219,801	(51.3%)	-	-
2013	Angus MacAskill [4] / Alastair Beardsall [3]	451,417	52.4%	-	-

[1] Excludes bonus amount of £26k awarded and accrued at year-end, which was paid on 26 February 2019.

[2] Excludes bonus amount of £35k awarded and accrued in 2017, paid on 4 May 2018 and included with the 2018 remuneration figure.

[3] Part-time.

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

Remuneration Committee Report (cont.)

The annual percentage change in CEO single figure remuneration for years 2013 to 2018 compares with that of all employees: 8.5%, (19.8%), 11.1%, (6.0%), (21.6%) and (21.8%) respectively.

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

	Total Group remuneration (£)	Total distribution to shareholders
2018	1,349,059	-
2017	1,658,901	-

DIRECTORS AND THEIR INTERESTS (AUDITED)

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

Ordinary shares of 10p each	22 March 2019	31 December 2018	31 December 2017
David Marshall (appointed 6 June 2018) [1]	-	-	-
Eskil Jersing (notice period ended 21 June 2018) [1]	-	-	-
Michael Kroupeev [2]	64,815,517	64,815,517	64,815,517
Leo Koot [3]	-	-	-
Ilya Belyaev [4]	-	-	-

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.

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 2018:

	2018 $000	2017 $000
Mauritania - Chinguetti [1]	**-**	1,158
Mauritania - C-10 [2]	**-**	224
Somaliland - Odewayne [3]	**75**	75
	75	1,457

1 Payments above made by Petronas (Sterling Energy plc pays its share of cost). Excluded from the table above are payments made to SMHPM under the terms of the deed of termination relating to the Chinguetti Funding Agreement, totalling $32.6 million in 2018 (2017: $5.9 million).

2 Gross payments made by Tullow (SEML pays its share of cost).

3 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 2018.

PRINCIPLE ACTIVITY AND BUSINESS REVIEW

The principal activity of the Group and Company throughout the year was the exploration of oil and gas with a primary geographic focus on Africa and the Middle East, with an extension of the area for material opportunities. The significant developments during 2018 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 13 to the financial statements.

The Group uses a number of KPIs to assess the business performance against strategy, in 2018 these included; M&A led growth initiatives, managing the Group's financial exposure to its existing assets and the continued reduction in the Group's administrative overhead.

RESULTS AND DIVIDENDS

The Group loss for the financial year was $2.0 million (2017: loss $9.0 million). This leaves an accumulated Group retained earnings of $39.4 million (2017: retained earnings of $41.3 million) to be carried forward. The Directors do not recommend the payment of a dividend (2017: $nil).

DIRECTORS LIABILITIES

Qualifying third-party indemnity provisions for the benefit of all of the Directors were in force throughout the financial year and they remained in force as at the date of approval of the Annual Report as described in the Remuneration Committee report pages 31 – 38.

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 14 – 16. In addition, Note 21 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 16 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. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

DIRECTORS

The Directors who served during the year were as follows:

Mr. David Marshall (appointed 6 June 2018)
Mr. Eskil Jersing (notice period ended 21 June 2018)
Mr. Michael Kroupeev
Mr. Leo Koot
Mr. Ilya Belyaev

Biographical details of serving Directors can be found in the Board of Directors section of this report on pages 24 and 25.

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 22 March 2019:

	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
Credit Suisse	14,994,104	6.81

Directors' Report (cont.)

BUSINESS RISK

A summary of the principle and general business risks can be found within the Strategic Report on pages 17 – 21.

FINANCIAL INSTRUMENTS

Information about the use of financial instruments, the Group's policy and objectives for financial risk management is given in Note 21 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 2019.

David Marshall
Chief Executive Officer
22 March 2019

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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

David Marshall
Chief Executive Officer
22 March 2019

STERLING ENERGY PLC

Group Accounts

Year ended 31 December 2018

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 2018 which comprise the consolidated and parent company statements of financial position, the consolidated statement of comprehensive income, the consolidated and the parent company statement of changes in equity, the consolidated and the parent company statement 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 2018 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 and the Parent Company 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.

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

Carrying Value of Exploration Assets
As at 31 December 2018, the carrying value of Odewayne was $21.1 million (2017: $21.0 million), as disclosed in Note 11 to the financial statements. The Company holds a 34% interest in the Odewayne Block, fully carried by Genel Energy Somaliland Limited ('Genel') for its shares of the costs of all exploration activities during the Third and Fourth Periods of the production sharing agreement. The Third Period has been extended to 2 November 2019 and has a minimum work obligation of 500km of 2D seismic. The Fourth Period has also been extended to May 2020 and has a minimum work obligation of 1,000km of 2D seismic and one exploration well. Management performed an impairment indicator review in accordance with accounting standards to assess whether there were any indicators of impairment for the exploration assets and whether impairment was appropriate. Following this assessment, the Board concluded that no impairment was required. Given the inherent judgement involved in the assessment of the carrying value of the exploration assets, we considered the carrying value of exploration assets to be a significant risk for our audit.
Our Response
• We considered Management's assessment of the indicators of impairment and we confirmed there is an ongoing expectation that exploration in the licence areas will continue. We have also reviewed the licence agreement and the Participation. • We made enquires at appropriate management levels of possible commitments and contingent liabilities and none were noted. • Contracts were reviewed to ensure that the group is being carried until the Fourth Period by Genel, and that Genel are contractually committed to develop the prospect until then. Odewayne licence extension to 2020 was also verified. There is no evidence to suggest that either party is planning to abandon the asset. • We have reviewed management reports, OCM, TCM minutes and public announcements to understand the future prospects of the asset and the desire to further develop the asset. The latest information is inconclusive with regards to future commerciality, however, due to the early stages of the venture and the need to carry out future interpretation of the seismic data, this is not seen as an indicator of impairment. • We reviewed the FY19 budgets and work programmes to confirm the group's intention to continue to fund exploration activity on this licence. • We considered the adequacy of the disclosures made in the financial statements to ensure that this was consistent with both the conclusions from our audit testing and accounting standards.
Our Findings
We found management's assessment that there were no indicators of impairment at the reporting date to be appropriate. We found the disclosures in the financial statements to be relevant and informative.

OUR APPLICATION OF MATERIALITY

	2018	2017	Bases for materiality
Group Materiality	$1.36m	$1.42m	2% of total assets
Company materiality	$1.02m	$1.34m	2% of total assets capped at 75% of Group materiality

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.

Independent Auditors' Report (cont.)

to the members of Sterling Energy plc

Our basis for determination of materiality has remained unchanged. 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 $1.36 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% (2017: 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 $27k (2017: $71k). We also agreed to report differences below these thresholds that, in our view, warranted reporting 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.

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.

MATTERS 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 43, 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.

AUDITOR'S RESPONSIBILITIES 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:
www.frc.org.uk/auditorsresponsibilities
This description forms part of our auditor's report.

USE OF OUR REPORT

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scott McNaughton
Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
22 March 2019

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 2018

	Note	31 December 2018 $000	31 December 2017 $000
Revenue	4	**534**	4,433
Cost of sales	6	**(515)**	(7,917)
Gross profit/(loss)		**19**	(3,484)
Other administrative expenses		**(1,546)**	(2,379)
Pre-licence costs		**(1,453)**	(1,628)
Impairment of oil and gas exploration assets		**-**	(2,834)
Chinguetti cessation credit		**-**	866
Total administrative expenses		**(2,999)**	(5,975)
Loss from operations	5	**(2,980)**	(9,459)
Finance income	8	**1,044**	1,089
Finance expense	8	**(20)**	(630)
Loss before tax		**(1,956)**	(9,000)
Tax	9	**-**	-
Loss for the year attributable to the owners of the parent		**(1,956)**	(9,000)
Other comprehensive expense - items to be reclassified to the income statement in subsequent periods			
Currency translation adjustments		**(12)**	(20)
Total other comprehensive expense for the year		**(12)**	(20)
Total comprehensive expense for the year attributable to the owners of the parent		**(1,968)**	(9,020)
Basic and diluted loss per share (US cents)	10	**(0.9)**	(4.09)

Consolidated Statement of Financial Position

Year ended 31 December 2018

	Note	**31 December 2018 $000**	31 December 2017 $000
Non-current assets			
Intangible exploration and evaluation assets	11	**21,093**	21,041
Property, plant and equipment	12	**8**	14
		21,101	21,055
Current assets			
Inventories		**-**	363
Trade and other receivables	14	**390**	868
Cash and cash equivalents	15	**46,312**	81,365
		46,702	82,596
Total assets		**67,803**	103,651
Equity			
Share capital	16/17	**28,143**	28,143
Currency translation reserve		**(201)**	(189)
Retained earnings	17	**39,387**	41,343
Total equity		**67,329**	69,297
Current liabilities			
Short-term provisions	18	**-**	28,659
Trade and other payables	19	**474**	5,695
		474	34,354
Total liabilities		**474**	34,354
Total equity and liabilities		**67,803**	103,651

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 22 March 2019.

Signed on behalf of the Board of Directors.

David Marshall
Chief Executive Officer
22 March 2019

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Note	Share capital	Share premium	Currency translation reserve	Retained earnings [1]	Total
		$000	$000	$000	$000	$000
At 1 January 2017		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	17	(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
Loss for the year		-	-	-	(1,956)	(1,956)
Currency translation adjustments		-	-	(12)	-	(12)
Total comprehensive expense for the year attributable to the owners of the parent		-	-	(12)	(1,956)	(1,968)
At 31 December 2018		**28,143**	**-**	**(201)**	**39,387**	**67,329**

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

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Note	**2018 $000**	2017 $000
Operating activities			
Loss before tax		**(1,956)**	(9,000)
Depreciation, depletion & amortisation	12	**10**	10
Impairment expense		**-**	2,834
Chinguetti cessation credit		**-**	(866)
Finance income and gains		**(1,044)**	(1,089)
Finance expense and losses		**12**	609
Share-based payment charge		**-**	(73)
Decommissioning costs paid	18/19	**(32,500)**	(125)
Operating cash flow prior to working capital movements		**(35,478)**	(7,700)
Decrease in inventories		**363**	1,585
Decrease in trade and other receivables		**478**	5,672
(Decrease)/increase in trade and other payables		**(41)**	4,332
Decrease in provisions	18	**-**	(8,041)
Net cash flow used in operating activities		**(34,678)**	(4,152)
Investing activities			
Interest received	8	**1,044**	1,089
Purchase of property, plant and equipment	12	**(4)**	(7)
Exploration and evaluation costs	11	**(1,391)**	(3,690)
Net cash used in investing activities		**(351)**	(2,608)
Net decrease in cash and cash equivalents		**(35,029)**	(6,760)
Cash and cash equivalents at beginning of year		**81,365**	88,058
Effect of foreign exchange rate changes		**(24)**	67
Cash and cash equivalents at end of year	15	**46,312**	81,365

Company Statement of Financial Position

Year ended 31 December 2018

	Note	**31 December 2018 $000**	31 December 2017 $000
Non-current assets			
Investments	13	**20,140**	20,140
		20,140	20,140
Current assets			
Inventories		**-**	363
Trade and other receivables	14	**19,414**	26,421
Cash and cash equivalents	15	**46,310**	81,362
		65,724	108,146
Total assets		**85,864**	128,286
Equity			
Share capital	16/17	**28,143**	28,143
Retained earnings	17	**24,780**	33,444
Total equity		**52,923**	61,587
Current liabilities			
Short-term provisions	18	**-**	28,659
Trade and other payables	19	**32,941**	38,040
		32,941	66,699
Total liabilities		**32,941**	66,699
Total equity and liabilities		**85,864**	128,286

The profit for the financial year within the Company accounts of Sterling Energy plc was $336k (2017: $16.3 million loss). As provided by s408 of the Companies Act 2006, no individual statement of comprehensive income and expense is provided in respect of the Company.

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 22 March 2019.

Signed on behalf of the Board of Directors

David Marshall
Chief Executive Officer
22 March 2019

Company Statement of Changes in Equity

Year ended 31 December 2018

	Note	Share capital $000	Share premium $000	Retained earnings [1] $000	Total $000
At 1 January 2017		149,014	378,863	(449,921)	77,956
Total comprehensive expense for the year		-	-	(16,296)	(16,296)
Capital reduction	17	(120,871)	(378,863)	499,734	-
Share option credit for the year		-	-	(73)	(73)
At 31 December 2017 previously stated		28,143	-	33,444	61,587
Changes in accounting policy - IFRS 9		-	-	(9,000)	(9,000)
At 1 January 2018 as restated	21	28,143	-	24,444	52,587
Total comprehensive income for the year		-	-	336	336
At 31 December 2018		**28,143**	**-**	**24,780**	**52,923**

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

Company Statement of Cash Flows

Year ended 31 December 2018

	Note	2018 $000	2017 $000
Operating activities			
Profit/(loss) before tax		**336**	(16,296)
Chinguetti cessation credit		**-**	(866)
Impairment of investment		**-**	9,008
Finance income and gains		**(1,044)**	(1,089)
Finance expense and losses		**10**	707
Decommissioning costs paid	18/19	**(32,500)**	(125)
Operating cash flow prior to working capital movements		**(33,198)**	(8,661)
Decrease in inventories		**363**	1,585
Increase in trade and other receivables		**(1,992)**	(1,735)
(Decrease)/increase in trade and other payables		**(1,258)**	3,792
Decrease in provisions	18	**-**	(2,797)
Net cash flow used in operating activities		**(36,085)**	(7,816)
Investing activities			
Interest received	8	**1,044**	1,089
Net cash generated from investing activities		**1,044**	1,089
Net decrease in cash and cash equivalents		**(35,041)**	(6,727)
Cash and cash equivalents at beginning of year		**81,362**	88,054
Effect of foreign exchange rate changes		**(11)**	35
Cash and cash equivalents at end of year	15	**46,310**	81,362

Notes to the Financial Statements

Year ended 31 December 2018

1. ACCOUNTING POLICIES

a) General Information

Sterling Energy plc is a public company limited by shares, 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 Cash and cash equivalents, revenues and expenditure are transacted. The functional currency of the Company is US dollars.

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 except that the Company financial statements do not include a Statement of Comprehensive Income as permitted by s408 of the Companies Act 2006. They have also been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

IFRS 15 replaced IAS 18 'Revenue' and IAS 11 'Construction Contracts' for accounting periods commencing on or after 1 January 2018. 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. Sales under IAS 18, were recognised when risk and rewards of ownership were passed to the customer, which was typically at the point of physical lifting. Under the control model explained above, there has been no change to the timing of revenue recognition. Therefore, no transition adjustments were required and comparatives have not been restated.

Sterling Energy plc adopted IFRS 9 Financial Instruments on 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement ('IAS 39').

On 1 January 2018, the Group:

- Identified the business model used to manage its financial assets and classified its financial instruments into the appropriate IFRS 9 category;
- Applied the 'expected credit loss' ('ECL') model to financial assets classified as measured at amortised cost.

Management's assessment of the impact of IFRS 9 has focused on the change in IFRS 9 around expected credit losses on intercompany balances.

The adoption of IFRS 9 has impacted the Company as a result of the existing incurred loss approach under IAS 39 being replaced by the forward looking expected credit loss model approach of IFRS 9. The expected credit loss model is required to be applied to the intercompany loan receivable (Note 14), which are classified as held at amortised cost.

The transition method requires a retrospective application for the first time adoption of IFRS 9, however the standard has allowed an exemption to not restate the comparative information with differences being recorded in opening retained earnings. These changes have been processed at the date of initial application (1 January 2018), and presented in the statement of changes in equity for the year ended 31 December 2018.

Notes to the Financial Statements

Year ended 31 December 2018

The increase in credit loss allowance resulted in a reduction to opening reserves, at 1 January 2018, as follows:

	As previously reported $million	Adoption of IFRS 9 $million	As restated $million
Accounts affected - As at 1 January 2018			
Amounts due from subsidiaries	25.9	(9.0)	16.9
Trade and other receivables	26.4	(9.0)	17.4
Retained earnings	33.4	(9.0)	24.4

The increase in the credit loss allowance is a result of the application of the expected credit loss model. This is a result of the existing incurred loss approach under IAS 39 being replaced by the forward-looking expected credit loss model approach of IFRS 9 which requires the parent to make an allowance for lifetime expected credit losses. No loss allowance had previously been recognised, as no loss event had previously occurred.

The loan to the subsidiary companies, Sterling Energy (UK) Limited and Sterling Energy (East Africa) Limited, is classified as repayable on demand. IFRS 9 requires consideration of the expected credit risk associated with the loan. As the subsidiary companies does not have any liquid assets to sell to repay the loan, should it be recalled, the conclusion reached was that the loan should be categorised as credit impaired.

As part of the assessment of expected credit losses of the intercompany loan receivable, the Directors have assessed the cash flows associated with a number of different recovery scenarios. This included consideration of include the exploration project risk, country risk, the expected future oil prices, the value of the potential reserves, the ability to sell the project, and the ability to find a new farm-out partner.

The credit loss allowance was assessed at the date of initial application of IFRS 9, being 1 January 2018, and again at 31 December 2018. There was no change in the expected credit loss allowance at the year end.

(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 status
IFRS 16	Leases	1 January 2019	Endorsed
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	Endorsed

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. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease. The Directors have considered the impact of application of the new standard on the Group's lease commitments (see Note 20) and do not consider that implementation will have a significant impact. The Group has identified its lease arrangements as at 31 December 2018 and there is no impact of this new Standard as a result of the short-term nature of its current leases. Certain leases that are less than 12 months and leases of low-value assets are exempt from the requirements and may continue to be treated as an operating lease. The Group plans to adopt IFRS 16 effective 1 January 2019, using the modified retrospective approach, and apply several of the practical expedients available such as low-value and short-term exemptions. Management will continue to assess the impact of this Standard if new leases are executed during 2019.

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 Odewayne PSA is classified as a joint arrangement within the Group (see Note 11).

Notes to the Financial Statements

Year ended 31 December 2018

f) Revenue

Sales of oil and gas are recognised, net of any sales taxes, upon transfer of title to the customer; typically, this is at the point of physical lifting. 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 Note 2 for detailed disclosure of the results of impairments and impairment reviews performed.

h) Property, plant and equipment assets other than oil and gas assets

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

Computer and office equipment depreciation – 33% straight line.

i) 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.

j) 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.

k) 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.

Notes to the Financial Statements

Year ended 31 December 2018

l) Operating Leases

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

m) Financial Instruments

There are no other categories of financial instrument other than those listed below:

Trade receivables and amounts due from subsidiaries

Trade receivables are recognised and carried at the original invoice amount less any provision for impairment. Other receivables and amounts due from subsidiaries are recognised and measured at nominal value less any provision for impairment.

The Group and Company applies the expected credit loss model in respect of trade receivables and amounts due from subsidiaries. The Group and Company track changes in credit risk, and recognise a loss allowance based on lifetime ECLs at each reporting date.

Cash and Cash Equivalents

Cash and cash equivalents comprise demand deposits, and other short-term investments, with an original maturity of between 3 and 6 months, 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.

n) Pension Costs

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

o) 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 ESTIMATES

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.

Judgements

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.

A full impairment review has not been performed in 2018 and thus no impairments were recognised during the year, by the Company.

As at 31 December 2018, Company investments in subsidiaries totalled $20.1 million (see Note 13), being underpinned by the Odewayne exploration block in Somaliland. After reviewing the feasibility of the asset detailed in the Operations review on pages 10 and 11, management did not note any impairment indicators that would result in a full impairment review to be undertaken.

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.

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.

The Directors judgement was that a full impairment review wasn't required and thus no impairments were recognised during the year, by the Group.

During 2017 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.

Notes to the Financial Statements

Year ended 31 December 2018

Discontinued Operations

During the year the Group ceased production activities in Mauritania. The results of these operations are included in the consolidated statement of comprehensive up to the date of disposal as part of the Group's continuing operations of investing in exploration and production activities within Africa. The production activities in Mauritania are not considered to meet any of the criteria to be classified as discontinued operations. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Estimates

Company – Application of the expected credit loss model prescribed by IFRS 9

The new standard IFRS 9, requires the Parent company to make assumptions when implementing the forward-looking expected credit loss model. This model is required to be used to assess the intercompany loan receivables from Sterling Energy (UK) Limited and Sterling Energy (East Africa) Limited for impairment.

Arriving at the expected credit loss allowance involved considering different scenarios for the recovery of the intercompany loan receivables, the possible credit losses that could arise and the probabilities for these scenarios. The following was considered; the exploration project risk, country risk, the expected future oil prices, the value of the potential reserves, the ability to sell the project, and the ability to find a new farm-out partner.

3. OPERATING SEGMENTS

Africa operations in 2018 focused on exploration and appraisal activities in Somaliland and production activities in Mauritania. The UK corporate office is a technical and administrative cost centre focused on new ventures. 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 2018 and for the year ended 31 December 2017.

		Corporate		Africa		Total	
		2018	2017	**2018**	2017	**2018**	2017
	Note	**$000**	$000	**$000**	$000	**$000**	$000
Statement of comprehensive income							
Revenue [1]	4	**-**	-	**534**	4,433	**534**	4,433
Cost of sales	6	**-**	-	**(515)**	(7,917)	**(515)**	(7,917)
Gross profit/(loss)		**-**	-	**19**	(3,484)	**19**	(3,484)
Other administrative expenses		**(1,546)**	(2,379)	**-**	-	**(1,546)**	(2,379)
Pre-licence costs		**(1,453)**	(1,628)	**-**	-	**(1,453)**	(1,628)
Impairment of E&E assets	11	**-**	-	**-**	(2,834)	**-**	(2,834)
Chinguetti cessation costs		**-**	-	**-**	866	**-**	866
(Loss)/profit from operations		**(2,999)**	(4,007)	**19**	(5,452)	**(2,980)**	(9,459)
Finance income		**1,044**	1,089	**-**	-	**1,044**	1,089
Finance expense		**(20)**	(630)	**-**	-	**(20)**	(630)
Segment (loss)/profit before tax		**(1,975)**	(3,548)	**19**	(5,452)	**(1,956)**	(9,000)
Segment assets and liabilities							
Non-current assets [2]		**8**	14	**21,093**	21,041	**21,101**	21,055
Segment assets [3]		**46,702**	81,772	**-**	824	**46,702**	82,596
Segment liabilities [4]		**(460)**	(484)	**(14)**	(33,870)	**(474)**	(34,354)

[1] Revenue from continuing operations (Mauritania, Africa) includes amounts of $537k (100% external) from one single customer (2017: $4.1 million).

[2] Segment non-current assets of $21.1 million in Somaliland (2017: $21.0 million).

[3] Corporate segment assets include $46.3 million cash and cash equivalents (2017: $81.4 million). Carrying amounts of segment assets exclude investments in subsidiaries.

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

Notes to the Financial Statements

Year ended 31 December 2018

4. REVENUE

	2018 $000	2017 $000
Revenue from the sale of oil and gas	**537**	4,143
Royalty (expense)/income	**(3)**	290
Total operating revenue	**534**	4,433

5. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Note	2018 $000	2017 $000
Staff costs	7	**1,976**	2,351
Share-based payments	7	**-**	(73)
Impairment of E&E assets		**-**	2,834
Depreciation of other non-current assets	12	**10**	10
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		**49**	34
Audit of the Company's subsidiaries pursuant to legislation		**7**	50
Total audit fees		**56**	84

6. COST OF SALES

	2018 $000	2017 $000
Operating costs	**152**	6,332
Over lift of product entitlement	**363**	1,585
	515	7,917

7. EMPLOYEE INFORMATION

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

	Group		Company	
	2018	2017	**2018**	2017
Africa	**1**	4	**-**	-
Corporate	**7**	5	**-**	-
Non-executive	**3**	3	**3**	3
	11	12	**3**	3

Group and Company employee costs during the year amounted to:

	Group		Company	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Wages and salaries	**1,667**	1,943	**255**	237
Social security costs	**211**	246	**29**	29
Other pension costs	**98**	104	**-**	-
Compensation payments	**-**	58	**-**	-
Share-based payments	**-**	(73)	**-**	-
	1,976	2,278	**284**	266

Key management personnel include Directors who have been paid $694k (2017: $661k). See Remuneration Committee Report (pages 31 – 38) and Note 22 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 2018 the amount expensed as pre-licence or capitalised amounted to $1.4 million (2017: $1.5 million).

Notes to the Financial Statements

Year ended 31 December 2018

8. FINANCE INCOME AND FINANCE EXPENSE

	2018 $000	2017 $000
Finance income:		
Interest revenue on short-term deposits	**1,044**	1,089
	1,044	1,089
Finance expense:		
Bank charges	**8**	21
Unwinding of discount on decommissioning provision	**-**	707
Exchange loss/(gain)	**12**	(98)
	20	630

9. TAXATION

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

	2018 $000	2017 $000
Loss before tax	**(1,956)**	(9,000)
Tax on loss on ordinary activities at standard UK corporation tax rate of 19% (2017: 19.25%)	**(372)**	(1,733)
Effects of:		
Expenses not deductible for tax purposes	**-**	487
Deferred tax movement on provisions not provided	**5**	-
Capital allowances in excess of depreciation	**(347)**	(449)
Adjustment for tax losses	**714**	1,695
Tax charge for the year	**-**	-

Deferred Tax

At the reporting date the Group had an unrecognised deferred tax asset of $19.2 million (2017: $19.1 million) relating primarily to unused tax losses and unutilised capital allowances. No deferred tax asset has been recognised due to the uncertainty of future profit streams against which these losses could be utilised. At the reporting date the Company had an unrecognised deferred tax asset of $14.8 million (2017: $15.0 million) relating primarily to unused losses and unutilised capital allowances.

10. LOSS PER SHARE (BASIC AND DILUTED)

	2018 $000	2017 $000
Loss for the year	**(1,956)**	(9,000)
Weighted average number of ordinary shares in issue during the year	**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
EPS (US cents)	**(0.9)**	(4.09)

11. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	Group $000
Net book value at 1 January 2017	18,846
Additions during the year	5,029
Impairment for the year	(2,834)
Net book value at 31 December 2017	21,041
Additions during the year	52
Net book value at 31 December 2018	**21,093**

Included within 2017 additions were accruals of $1.3 million relating to C-10. This amount was settled in 2018.

Group intangible assets at the year end 2018:
Odewayne PSA, Somaliland: SE(EA)L 34%, Genel Energy 50%, Petrosoma 16%

Classified as a joint arrangement in accordance with IFRS 11.

Notes to the Financial Statements

Year ended 31 December 2018

12. PROPERTY, PLANT AND EQUIPMENT

Group	Computer and office equipment $000
Cost	
At 1 January 2017	206
Additions during the year	7
Disposals during the year	(59)
At 31 December 2017	154
Additions during the year	4
Disposals during the year	(18)
At 31 December 2018	**140**
Accumulated depreciation and impairment	
At 1 January 2017	(189)
Additions during the year	(10)
Disposals during the year	59
At 31 December 2017	(140)
Charge for the year	(10)
Disposals during the year	18
At 31 December 2018	**(132)**
Net book value at 31 December 2018	**8**
Net book value at 31 December 2017	14
Net book value at 31 December 2016	17

13. INVESTMENT IN SUBSIDIARIES

	Company $000
Cost	
At 1 January 2017	29,148
Impairment of investment in subsidiary	(9,008)
At 31 December 2017	20,140
At 31 December 2018	**20,140**

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

The subsidiary undertakings at 31 December 2018 are as follows (these undertakings are included on consolidation):

	Country of incorporation	**Class of shares held**	**Type of ownership**	**Proportion of voting rights held 2018**	**Proportion of voting rights held 2017**	**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 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

Notes to the Financial Statements

Year ended 31 December 2018

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Trade receivables	**264**	661	**155**	466
Amounts owed from subsidiary undertakings	**-**	-	**19,233**	25,909
Other receivables	**37**	52	**12**	13
Prepayments and accrued income	**89**	155	**14**	33
	390	868	**19,414**	26,421

Trade and other receivables, not credit impaired, consist of current receivables that the Group views as recoverable in the short term.

Credit loss allowances for amounts owed from subsidiary undertakings amount to $9.0 million.

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.

See Note 1 for details (Financial instruments - Trade receivables).

15. CASH IN BANK AND SHORT-TERM DEPOSITS

	Group		Company	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Cash at bank available on demand	**1,810**	10,234	**1,810**	10,234
Short-term deposits	**44,500**	71,128	**44,500**	71,128
Cash on hand	**2**	3	**-**	-
	46,312	81,365	**46,310**	81,362

Group and Company	**Term**	**Interest rate %**	**2018 $000**	2017 $000
Development Bank of Singapore (DBS)	3-6 months	2.45 - 2.83	**24,500**	40,000
Julius Baer	3 months	2.35 - 2.77	**20,000**	20,000
Royal Bank of Scotland (RBS)	3 months	-	**-**	10,000
HSBC	Overnight and 90 Day notice	-	**-**	1,128
			44,500	71,128

At 31 December 2018, all short-term deposits mature within 90 days and can be withdrawn without restriction.

Notes to the Financial Statements

Year ended 31 December 2018

16. SHARE CAPITAL

	2018 **$000**	2017 $000
Authorised, called up, allotted and fully paid		
220,053,520 ordinary shares of 10p (2017: 220,053,520 ordinary shares of 10p)	**28,143**	28,143

17. 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
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.

18. SHORT AND LONG-TERM PROVISIONS

Short-term - Decommissioning provisions

	2018 $000	2017 $000
Group/Company		
At 1 January	**28,659**	16,984
Transferred from long term provision	-	15,641
Transferred to payables	-	(3,841)
Used	**(28,659)**	(125)
At 31 December	-	28,659

Long-term - Decommissioning provisions

	2018 $000	2017 $000
Group/Company		
At 1 January	-	14,472
Increase in decommissioning provision	-	462
Unwinding of discount	-	707
Transferred to short term provision	-	(15,641)
At 31 December	-	-

Provisions used within the Group and Company amount to $28.7 million (Chinguetti decommissioning costs) and were settled during 2018.

Notes to the Financial Statements

Year ended 31 December 2018

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Trade payables	**142**	4,052	**47**	3,899
Amounts owed to subsidiary undertakings	**-**	-	**32,823**	34,053
Accruals	**332**	1,643	**71**	88
	474	5,695	**32,941**	38,040

Included within the 2017 trade payables for the Group and Company is the amount of $3.8 million (Chinguetti decommissioning costs) which were settled during 2018.

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.

20. OPERATING LEASES AND CAPITAL COMMITMENTS

	Group		Company	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Minimum lease payments under operating leases recognised as an expense in the year	**230**	5,226	**-**	4,794

The Group expense in 2018 relate to the lease of the office premises.

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

	Group		Company	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Within one year	**213**	233	**-**	-
In the second to fifth year inclusive	**-**	223	**-**	-
	213	456	**-**	-

The outstanding Group commitments in 2018 relate to the lease of the office premises.

21. 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 2018 and 31 December 2017.

	Carrying amount/Fair value	
Group	**2018 $000**	2017 $000
Financial assets at amortised cost		
Cash and cash equivalents	**46,312**	81,365
Trade and other receivables	**301**	713
Total	**46,613**	82,078
Financial liabilities at amortised cost		
Trade and other payables	**474**	5,695
Total	**474**	5,695

	Carrying amount/Fair value	
Company	**2018 $000**	2017 $000
Financial assets at amortised cost		
Cash and cash equivalents	**46,310**	81,362
Trade and other receivables	**19,400**	26,388
Total	**65,710**	107,750
Financial liabilities at amortised cost		
Trade and other payables	**32,941**	38,040
Total	**32,941**	38,040

Notes to the Financial Statements

Year ended 31 December 2018

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/lower and all other variables were held constant the Group's profits and equity would be impacted as follows:

	Increase		Decrease	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Cash and cash equivalents	**463**	814	**(463)**	(814)

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 $1.335/£1.00 (2017: $1.288/£1.00) or the year end spot rate of $1.277/£1.00 (2017: 1.351/£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

Cash and cash equivalents	Group 2018 $000	Group 2017 $000	Company 2018 $000	Company 2017 $000
Cash and cash equivalents held in US$	**45,618**	80,365	**45,617**	80,364
Cash and cash equivalents held in GBP	**694**	1,000	**693**	998
	46,312	81,365	**46,310**	81,362

Trade and other receivables	Group 2018 $000	Group 2017 $000	Company 2018 $000	Company 2017 $000
Trade and other receivables held in US$	**154**	544	**11,824**	21,113
Trade and other receivables held in GBP	**147**	169	**7,576**	5,275
	301	713	**19,400**	26,388

Financial Liabilities

Trade and other payables	Group 2018 $000	Group 2017 $000	Company 2018 $000	Company 2017 $000
Trade and other payables held in US$	**27**	5,182	**27,597**	31,378
Trade and other payables held in GBP	**447**	513	**5,344**	6,662
	474	5,695	**32,941**	38,040

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 98.5% (2017: 98.8%) 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.

Notes to the Financial Statements

Year ended 31 December 2018

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 allowance 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.

The Company is exposed to credit risk through amounts due from its subsidiary undertakings. Refer to Note 1 for details on the credit loss allowance made.

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 2018 is nil % (2017: 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 (2018)	**97**	**-**	**-**	**97**	**-**	**-**
Trade and other payables (2017)	5,325	-	-	5,325	-	-
Company						
Trade and other payables (2018)	**37**	**32,823**	**-**	**32,860**	**-**	**-**
Trade and other payables (2017)	3,889	34,053	-	37,942	-	-

22. RELATED PARTY TRANSACTIONS

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

	Group		Company	
	2018 $000	2017 $000	**2018 $000**	2017 $000
Short-term employee benefits	**631**	708	**255**	237
Defined contribution pension	**15**	-	**-**	-
	646	708	**255**	237

Further information on Directors' remuneration is detailed in the Remuneration Committee Report, on pages 31 – 38.

The Company's subsidiaries are listed in Note 13. The following table provides the balances which are outstanding with subsidiary undertakings at the balance sheet date:

	2018 $000	2017 $000
Amounts owed from subsidiary undertakings	**19,233**	25,909
Amounts owed to subsidiary undertakings	**(32,823)**	(34,053)
	(13,590)	(8,144)

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

23. SUBSEQUENT EVENTS

No significant subsequent events requiring disclosure or adjustment have occurred.

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
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
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
M&A	merger and acquisition
m	metre(s)
mcf	thousand cubic feet
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries
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
Petroleum system	geologic components and processes necessary to generate and store hydrocarbons, including a mature source rock, migration pathway, reservoir rock, trap and seal.
Petrosoma	Petrosoma Limited (JV partner in Somaliland)

Definitions and Glossary of Terms (cont.)

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
Pre Stack Time Migration	process by which seismic events are geometrically re-located in seismic travel time 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
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
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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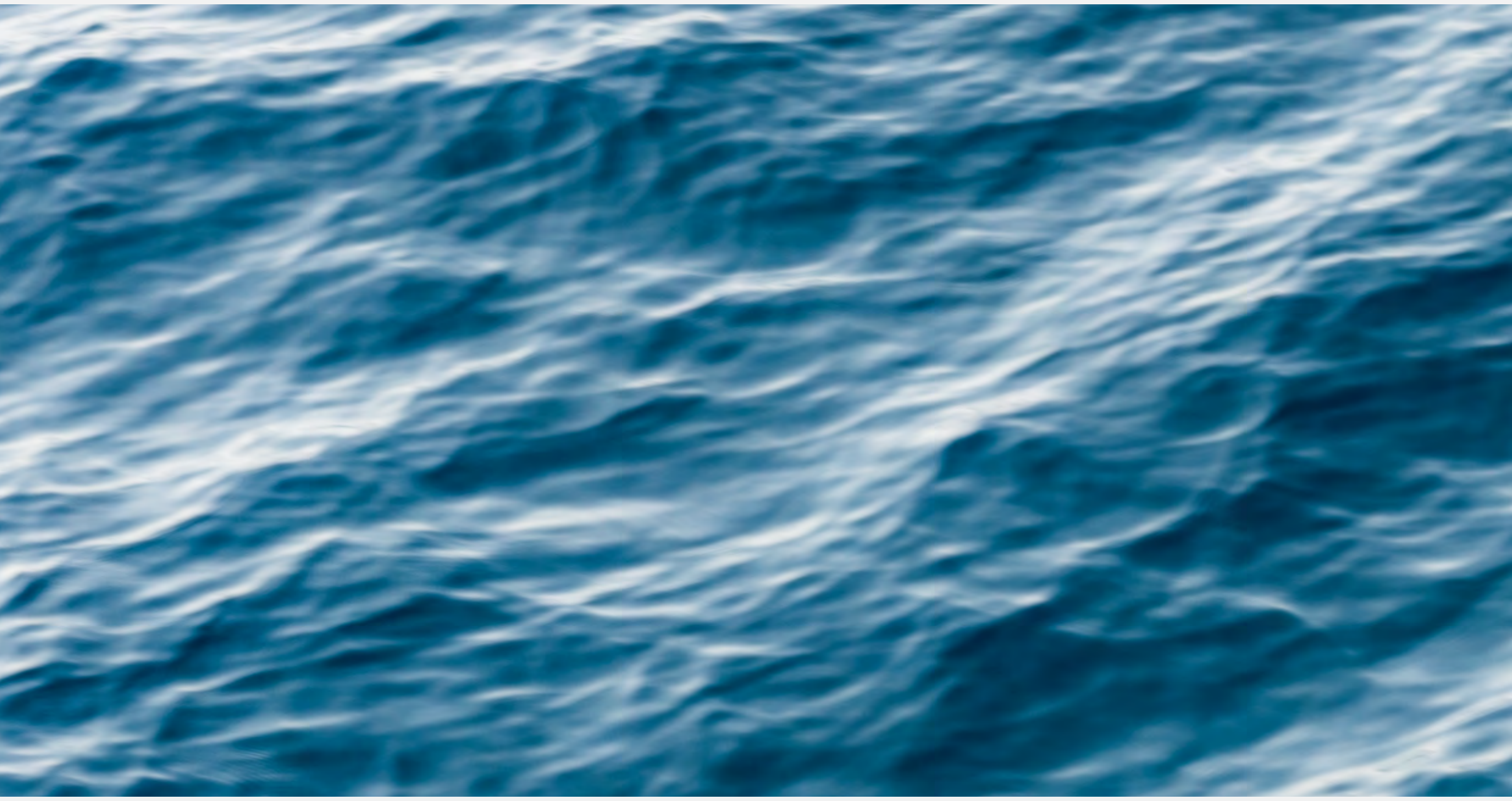

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