

COMPANY REGISTRATION NUMBER 1757721

**STERLING ENERGY PLC
REPORT AND FINANCIAL STATEMENTS**

31 DECEMBER 2012



STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

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

CONTENTS

CHAIRMAN'S STATEMENT.....	3
CHIEF EXECUTIVE'S REVIEW.....	5
OPERATIONS REVIEW	7
RESERVES SUMMARY	13
SCHEDULE OF INTERESTS.....	14
FINANCIAL REVIEW.....	15
CORPORATE RESPONSIBILITY.....	18
BOARD OF DIRECTORS	20
CORPORATE GOVERNANCE.....	22
REMUNERATION REPORT	27
DIRECTORS' REPORT	31
STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	37
INDEPENDENT AUDITORS' REPORT	38
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	40
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	41
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY.....	42
CONSOLIDATED STATEMENT OF CASH FLOWS	43
COMPANY STATEMENT OF FINANCIAL POSITION	44
COMPANY STATEMENT OF CHANGES IN EQUITY	45
COMPANY STATEMENT OF CASH FLOWS	45
NOTES TO THE FINANCIAL STATEMENTS.....	46
DEFINITIONS AND GLOSSARY OF TERMS.....	72
PROFESSIONAL ADVISERS.....	77
ANNUAL GENERAL MEETING	78

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

2012 SUMMARY

- Reached agreements for the prolongation of exploration licences in Madagascar and now awaiting ratification
- Completed exploration operations in the Sangaw North block in Kurdistan
- Received \$12.7 million of net cash flow from Chinguetti field operations during 2012 (2011 \$11.2 million)
- Cash resources at 31 December 2012 of \$120.3 million (2011 \$115.8 million)
- Company remains debt free

CHAIRMAN'S STATEMENT

Sterling remains well funded and is actively pursuing new opportunities to broaden our exploration portfolio. During 2012, we recruited several new sub-surface specialists to work under our Exploration Director who joined in November 2011, refreshment of our sub-surface team has increased the breadth and depth of our geological expertise and experience. The team has screened numerous new ventures, reviewing several in detail and, with the additional expertise of the finance and legal functions, undertaken due diligence on several highly ranked opportunities, the more attractive being presented to the board. However those projects supported by the board either failed to pass the higher levels of due diligence undertaken prior to execution of transaction documents, or were acquired by others who appeared to be able and willing to offer considerably larger consideration to the vendors. Some of the countries we have been actively looking at over the last 12 months have become very popular with entry prices for new ventures reaching new highs. Whilst we continue to focus on Africa and the Middle East, we are now looking at other geographical areas.

Our most recent news is the termination of the Sangaw North Production Sharing Agreement (PSC), bringing to an end our 5-year exploration program in the highly prospective area of Kurdistan. One of the primary advantages of the Sangaw North block was that it contained one very large prospect requiring one exploration well to determine if it was to be a potentially commercial accumulation. The downside we have now experienced is that after the disappointing results announced in 2011, in our judgment there was little potential remaining. Following the acquisition of more 2D seismic in 2012, Sterling with its joint venture partner Addax Petroleum, decided not to drill a further exploration well and to subsequently withdraw from the PSC. Whilst the outcome is disappointing, we believe the initial resource potential of the Sangaw North block, a view shared by Addax when they farmed-in and paid for our drilling costs, justified our own financial exposure in this project. Now we must look for similar 'risk-reward' opportunities, hopefully with a better outcome.

In Cameroon we have worked with Murphy Oil, who is now the operator of the Ntem block, to refine the preferred choice of prospects to a drill-ready status. We remain excited about the prospectivity of the Ntem block and look forward to resuming our exploration of the block with the drill-bit when the resolution of the border dispute has progressed to the satisfaction of both us and our partners.

In Madagascar we have made good progress with OMNIS, the state oil company, to re-phase the outstanding work commitments under the Ampasindava and Ambilobe licence agreements following the suspension of exploration activities after the change of government in March 2009. We believe the various parties involved in the roadmap towards democratic elections have agreed to reschedule the elections to later in 2013, which we expect to enable the resumption of operations in the country.

FINANCIAL

The Company had cash resources of \$120.3 million at the end of 2012. Our work programme for 2013 is fully funded and we have substantial funds available for new venture activity. We remain pleased that the revenue from Chinguetti field operations in Mauritania continued to provide positive cash flow during 2012 in excess of Sterling's administrative costs.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CHAIRMAN'S STATEMENT

OUTLOOK FOR 2013 AND BEYOND

We are optimistic that progress towards a resolution of the border dispute between Cameroon and Equatorial Guinea will be made in 2013 and we are ready to commence the drilling programme to evaluate the large prospects identified from 3D seismic. In Madagascar the roadmap for elections indicates a democratically elected government should be in place during 2013. We believe the Ntem and Ampasindava blocks contain significant potential value waiting to be tested with the drill-bit.

During 2013 our key objective is to add to our portfolio of assets. We will look both within and beyond our legacy areas for the right opportunity but remain focused on acquiring only those ventures which we believe will deliver real growth and value for our shareholders.

I would like to thank our shareholders for their continuing interest in Sterling and all our staff for their hard work during 2012.

Alastair Beardsall

Chairman
15 March 2013

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CHIEF EXECUTIVE'S REVIEW

Sterling is an oil and gas company currently focused on exploration in Africa and the Middle East. The Company's strategy continues to be to build shareholder value through participation in the exploration drilling of large exploration prospects whilst retaining a material working interest. The Company's existing portfolio consists principally of large working interests in high materiality exploration licences acquired early in the exploration of an area. The Company has then advanced understanding of the exploration play through the acquisition of data and the application of technical studies, and reduced the exploration risk to a level that is commercially viable for the drilling of exploration wells. When appropriate the Company has introduced partners, generally through a farm-down process, to pay some, or all, of Sterling's share of the costs of exploration drilling operations.

Following the completion of exploration activities in Kurdistan, the Company's exploration portfolio consists of highly prospective interests in two areas, Cameroon and Madagascar. With this concentrated portfolio, the drilling of exploration wells is infrequent and the outcome of success or failure in any one well will greatly affect the longer term value of the Company. Success in any one exploration well has the potential for very large returns for shareholders and, by farming-down a proportion of our working interest in exchange for a third party to cover our share of the costs, the down side of our financial exposure is limited.

In Kurdistan, the Company completed the exploration of the Sangaw North PSC area by acquiring and interpreting further 2D seismic data targeting the potential of a secondary prospect along the flank of the main structure, analogous to discoveries made in adjacent acreage to the south east. Sterling, along with our joint venture partner, concluded that the risked potential did not justify the cost exposure of an exploration well and elected to withdraw from the PSC. Although the outcome from our exploration activities in Kurdistan has been disappointing, this venture offered shareholders the potential of a very large addition in value in the success case, with the downside limited by the farming out of a portion of the Company's interest in return for a carry of costs through the drilling of the first exploration well.

In Cameroon, Sterling has conducted detailed interpretation of the reprocessed 3D seismic, completed in 2011, increasing the Company's confidence in the prospects previously identified within the licence area. A stacked series of submarine fans, each having, in the Company's best estimate, gross un-risked prospective recoverable resources of several hundred million barrels of oil, may offer the potential for multiple targets to be intersected by the first exploration well. While the overlapping maritime border claim between Equatorial Guinea and Cameroon has not yet been resolved, we believe that progress continues and that the joint venture partners, Sterling and Murphy Cameroon Ntem Oil Co. Ltd (Operator), are well placed for the drilling of a very high potential exploration well.

In Madagascar, significant progress has been made, in accordance with the 'roadmap' signed by the incumbent Government and their African neighbours in 2011, towards the holding of democratic elections scheduled to take place in 2013. Sterling has material interests in two high potential exploration licences, Ambilobe and Ampasindava, located in the deep water basins offshore north-west Madagascar. The Company has concluded discussions with OMNIS, the state agency managing the petroleum resources of Madagascar, concerning the scheduling of the exploration period in these licences, and expects that exploration activities will resume in both licences in 2013. On resumption, each licence will have the same remaining duration and obligations in the current exploration periods as existed in March 2009 when activities last took place. In Ampasindava, the large Sifaka prospect is now expected to be drilled during 2014 or 2015.

With the completion of exploration activities in Kurdistan, the Company's exploration portfolio has become more concentrated. Sterling's strategy includes the expansion of the existing portfolio through the addition of exploration assets offering material potential value to shareholders. During 2012, the Company strengthened its technical and commercial team, completed a preliminary screening of many exploration opportunities in sub-Saharan Africa, and evaluated a number in more detail. Through this process, the Company identified several attractive opportunities to complement its existing portfolio. However, a combination of more detailed due diligence that identified unacceptable commercial and legal risks, and more aggressive bidding terms by our peers, resulted in no new ventures being secured during the period. The Company continues to identify and evaluate a number

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CHIEF EXECUTIVE'S REVIEW

of interesting opportunities, and the expansion of the existing portfolio will be a key area of focus during 2013

The Company also has an economic interest, approximately equivalent to 8%, in production from the Chinguetti field in Mauritania and a minor royalty interest in the surrounding exploration acreage. Chinguetti is a mature field with no further development planned. Gross oil production during 2012 averaged approximately 6,256 barrels per day. Cash flow from our interests in Chinguetti currently covers the Company's administrative overhead costs and makes a contribution to the cost of operations. Whilst the cash flow from this project is significant, this asset is not material in comparison to the future potential of our other projects.

Sterling's exploration portfolio consists of highly prospective and material exploration projects in two emerging exploration areas, Cameroon and Madagascar. As both are progressing slower than we would like, due to external factors not controlled by Sterling, the planned exploration programme in existing assets during 2013 is relatively modest and consists of the acquisition of a site survey in the Ampasindava licence, in preparation for subsequent well drilling, and the acquisition of 2D seismic data across nearby leads. However, Sterling is ready to accelerate activities in both of these areas should the opportunity arise.

Sterling has a strong balance sheet with cash resources of \$120.3 million at 31 December 2012 and generates cash, from production, in excess of its administrative and overhead costs. The Company is confident that the external factors adversely influencing the existing exploration assets will be resolved in due course, and that it is well placed to build on the existing portfolio in a manner consistent with the Company's strategy, using its existing resources.

Angus MacAskill

Chief Executive Officer
15 March 2013

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

OPERATIONS REVIEW

CAMEROON

Ntem (WI 50%)

The Ntem concession area is a deep water block situated in the southern Douala/Rio Muni Basin and lies adjacent to the northern maritime border of the Rio Muni province of Equatorial Guinea. Water depths range from 400m to 2,000m across the block. During the first term of the concession over 2,100km of 2D and 1,500km² of 3D seismic data were acquired. Additional seismic and gravity data were purchased.

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

During 2012 Sterling interpreted the re-processed 3D seismic data, which provided significantly improved data quality and increased Sterling's confidence in the material exploration prospects previously identified in the block. The Company is in the process of working up a full prospect inventory for the block and considers that a stacked series of submarine fans, offering the potential for multiple targets being intersected by one exploration well, are ready to drill. Current work confirms the significant potential of these prospects, with each having gross un-risked prospective recoverable resources of several hundred million barrels.

In November 2011 Sterling completed a farm-out agreement with Murphy Cameroon Ntem Oil Co. Ltd (Murphy Oil), a wholly owned subsidiary of Murphy Oil Corporation under which Murphy Oil was assigned a 50% working interest in, and operatorship of, the Ntem concession. Sterling retains a 50% non-operated working interest. As consideration, Murphy Oil paid to Sterling a contribution towards past costs and is committed to fully fund joint operations in relation to the current phase of exploration.

Operations within the Ntem concession area are currently suspended under the force majeure provisions of the licence owing to an overlapping maritime border claim between Cameroon and Equatorial Guinea. The Company believes that both countries are actively working to resolve this issue and that the impact of the outcome will be either neutral or positive to the Company's position. However, it is possible that the resolution could take longer than expected and that the outcome could have a negative effect on the Company's position.

When force majeure is lifted, there will be 15 months remaining in the current exploration period which includes the drilling of one exploration well. Having introduced an experienced deep water operator, the Company is well placed for this operation when it occurs.

MADAGASCAR

Sterling's Ambilobe and Ampasindava blocks are located in the Majunga and Ambilobe deep water basins, respectively, offshore north-west Madagascar. Exploration activity in these blocks continues to be delayed due to the political situation in the country following a change of Government in March 2009. The Government of Madagascar has not been recognised by the African Union or by the United Nations but in September 2011, the political parties in Madagascar agreed a process, prepared by the Southern African Development Community, which involved establishment of a Transitional Government, and with the objective of holding democratic elections, which are expected to take place in 2013.

During 2012, discussions continued with OMNIS, the state regulator, and formal agreement was reached to prolong the current exploration period of both the Ambilobe and Ampasindava production sharing contracts with each licence having the same remaining duration and obligations in the current exploration periods as existed in March 2009, in effect, the exploration periods will have been suspended from March 2009 to when they resume. These agreements now await formal ratification by the Government.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

OPERATIONS REVIEW

Ampasindava (WI 30%)

The production sharing contract (PSC) for Ampasindava is in the third phase of the exploration period with a minimum work commitment of one exploration well. The large Sifaka prospect is ready to drill and has been independently estimated to contain gross un-risked best estimate prospective recoverable resources of 1.2 billion barrels (RISC Competent Persons Report, March 2008). ExxonMobil (WI 70%, Operator) and Sterling plan to drill this well once political stability is re-established.

Following the farm-in by ExxonMobil in 2005, Sterling's costs are carried up to a fixed amount. The cost to drill the Sifaka prospect is estimated to exceed the remaining carry and the Company has started a farm-out process to introduce an additional partner, and reduce its current working interest, to cover these costs. It is currently unlikely that an exploration well will commence drilling before mid-2014.

Ambilobe (WI 100% & Operator)

The PSC for Ambilobe is in the second phase of the exploration period. All work commitments have been fulfilled by completing geological and geophysical studies and acquiring approximately 1,000km of 2D seismic. A number of large Cretaceous and Tertiary leads have been identified, located in both shallow and deep waters, which will require additional seismic data to develop into potential drillable prospects. The Company has started a farm-out process to introduce a partner to carry the costs of the next stage of exploration which is likely to include the acquisition of additional seismic data to define the leads that have been identified.

KURDISTAN

Sangaw North PSC (Relinquished)

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

During 2012, Sterling completed its exploration of the Sangaw North block, having signed the Sangaw North Production Sharing Contract ("PSC") in November 2007, targeting high-impact exploration at moderate exploration risk, and in early 2013 the Company withdrew from the PSC.

In July 2008, Sterling entered into a farm-out agreement with Addax Petroleum Sangaw Limited (Addax) under which Addax paid Sterling's past costs, seismic acquisition costs, and costs for drilling the first exploration well on the block, excluding testing. Sterling retained a 53.33% interest in the PSC.

Following the acquisition of 325km of 2D seismic in November 2008, the Sangaw North-1 exploration well commenced drilling in early 2010, targeting major exploration potential in Triassic, Jurassic, and Cretaceous aged formations within a large anticline structure. Five flow tests were conducted with gas being produced, along with formation water, in all five of the flow tests at rates that were not commercial and the well was plugged and abandoned.

Having identified additional exploration potential, the joint venture partners entered the second sub-period of the exploration phase of the PSC in November 2011. The Company completed acquisition of a further 117km of 2D seismic data in mid-2012. Interpretation of the new 2D seismic data indicated that the risked potential of a secondary prospect along the flank of the main structure, analogous to the recent discoveries made in adjacent acreage to the south east of the Sangaw North PSC area, did not justify the cost exposure of an exploration well. A farm-out process was conducted which did not result in any offers of participation, indicating the wider industry concurred with the Company's view.

Under the terms of the PSC, the joint venture partners were required to notify the Kurdistan Regional Government of Iraq (KRG) on or before 31 January 2013 whether the partnership intended to drill a further exploration well on the Sangaw North block. On 29 January 2013, Sterling notified the KRG of the joint venture partnership decision not to drill a second exploration well in the contract area and the PSC automatically terminated on that date. The work commitments under the PSC have been satisfied.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

OPERATIONS REVIEW

MAURITANIA

Chinguetti (Economic Interest via Funding and Royalty Agreements)

Sterling has economic interests in the Chinguetti field through a funding agreement with Societe Mauritanienne Des Hydrocarbures, Mauritania's national oil company, and a royalty agreement with Premier Oil

Gross production during 2012 averaged 6,256 bopd (2011 7,250 bopd) and the average production net to Sterling, from the Company's economic interests, during 2012 was 523 bopd (2011 629 bopd) Production in the first half of the year was reduced by a shutdown of 17 days due to a hydrate blockage in the gas pipeline connecting Banda to Chinguetti and a further shutdown of 9 days due to a failure in the subsea instrumentation controlling the operations of the gas well in the Banda field Gross production during the month of December 2012 averaged 6,911 bopd (December 2011 6,800 bopd)

Sterling estimates that at the end of 2012, Chinguetti held a remaining 6.9 million barrels of gross proved and probable reserves (2P) that could be accessed with the existing wells, with Sterling's net 2P reserves, from with the Company's economic interests, of 0.475 million barrels (2011 0.664 million barrels)

No in-fill drilling or work-over activity took place on the Chinguetti field during 2012 Planned shutdowns were conducted over a total of 4 days in the second half of 2012 for maintenance of the floating production and storage facility and subsea equipment

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

In November 2012, the Banda field, located in PSC-A and operated by Tullow Oil Plc, was declared commercial and it is planned that the field will supply gas to a new local power station, subject to completion of a Gas Sales Agreement

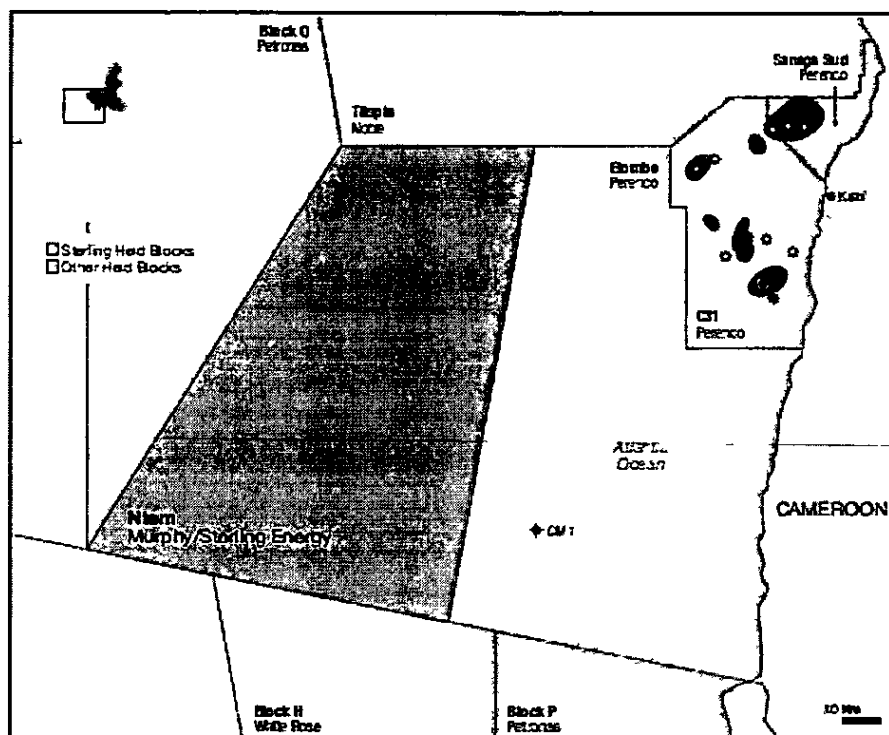
Tullow Oil Plc plans to drill an exploration well in the C-10 contract area in the second half of 2013

Philip Frank
Exploration Director

15 March 2013

**STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
OPERATIONS REVIEW**

CAMEROON – NTEM



Contract Summary

Contract type	Concession								
Contract signed	14 March 2001								
Contract effective date	3 September 2002								
Contract area	2,319 km ²								
Participants									
Cameroon Ntem Oil Co Ltd (Operator)	50%								
Sterling	50%								
Licence term remaining	In force majeure, minimum work and financial obligations are suspended								
Current work period	15 months to run after the lifting of force majeure								
Minimum work commitment	Drill 1 exploration well								
a) Production Bonuses	<table> <tr> <th>Average Production Rate</th><th>Bonus</th></tr> <tr> <td>50,000 bopd</td><td>\$1 million</td></tr> <tr> <td>100,000 bopd</td><td>\$5 Million</td></tr> </table>	Average Production Rate	Bonus	50,000 bopd	\$1 million	100,000 bopd	\$5 Million		
Average Production Rate	Bonus								
50,000 bopd	\$1 million								
100,000 bopd	\$5 Million								
b) Proportional Royalty	<table> <tr> <th>Annual Production Rate</th><th>State Entitlement</th></tr> <tr> <td>0-50,000 bopd</td><td>4 0%</td></tr> <tr> <td>50,000 -100,000 bopd</td><td>6 0%</td></tr> <tr> <td>>100,000 bopd</td><td>10 0%</td></tr> </table>	Annual Production Rate	State Entitlement	0-50,000 bopd	4 0%	50,000 -100,000 bopd	6 0%	>100,000 bopd	10 0%
Annual Production Rate	State Entitlement								
0-50,000 bopd	4 0%								
50,000 -100,000 bopd	6 0%								
>100,000 bopd	10 0%								
c) Corporation Tax	40% (on net profits)								
d) Additional Petroleum Duty (APD), is calculated as a percentage of the profit subject to corporation tax and is paid in addition to the corporation tax. R factor is defined as the ratio of 'Accrued Net Income' and 'Accrued Investments'									
R< 1.5, APD= 0%									
1.5<R<2.5, APD= 10 0%									
R>2.5, APD= 20 0%									

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

f) Production concession duration is 25 years, renewable for 10 years

Overview

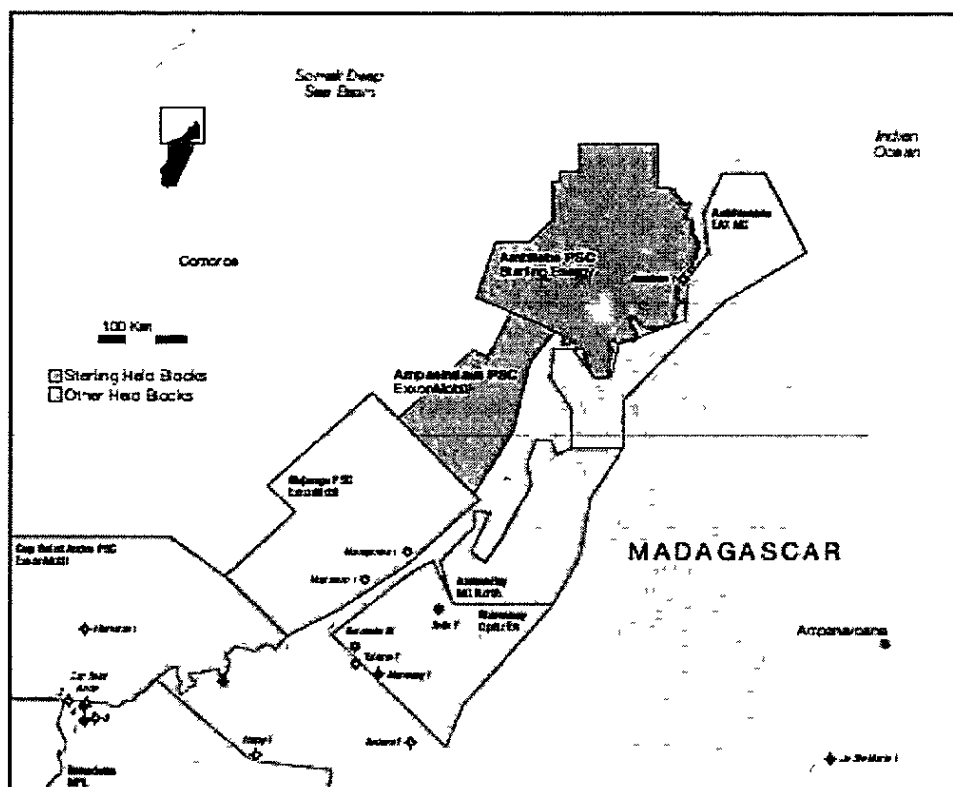
The Ntem concession is a deep water block situated in the southern Douala/Rio Muni Basin and lies adjacent to the northern maritime border of the Rio Muni province of Equatorial Guinea. Water depths range from 400m to 2,000m across the block.

During the first term of the concession over 2,100km of 2D and 1,500km² of 3D seismic data were acquired. Additional seismic and gravity data were also purchased. This large block is undrilled and is well placed with respect to both Tertiary and Upper Cretaceous plays.

The Ntem concession is currently in force majeure as a result of overlapping maritime border claims between Cameroon and Equatorial Guinea. Both countries are actively working to resolve this issue. When force majeure is lifted, there will be 15 months remaining in the current exploration period. The work commitment in this period is 1 exploration well.

In November 2011, Murphy Cameroon Ntem Oil Co Ltd (Murphy Oil), a wholly owned subsidiary of Murphy Oil Corporation, farmed into the block becoming a 50% working interest partner in, and operator of the Ntem Concession. Sterling retains a 50% non-operated working interest and Sterling's share of costs for the remainder of the current exploration period will be paid by Murphy Oil.

MADAGASCAR



Contract Summary

Contract type	PSC
Contract signed	15 July 2004
Effective start date	28 November 2004
Contract area	17,650 km ²
Participants	
Sterling (Operator)	100%
Exploration term	8 year period with possible 2 year extension
Phase 2	Phase 2 prolongation awaiting ratification
Phase 2 work commitment	Completed
Production term	25 year period with possible 5-10 year extension

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

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

In July 2005 Sterling farmed out 70% interest to ExxonMobil 550km of new 2D seismic data were purchased and more than 5,500km of 2D data were reprocessed A number of large leads in Cretaceous and Tertiary plays have been identified which will require additional seismic data to evaluate as potential drillable prospects

In May 2008, Phase 2 of the exploration period was extended by 1 year. In early 2009, ExxonMobil withdrew from the PSC and their interest reverted to Sterling.

Prolongation of Phase 2 of the licence has been agreed with OMNIS and awaits Government ratification

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2012 OPERATIONS REVIEW

AMPASINDAVA

Contract Summary

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

Participants	
ExxonMobil (Operator)	70%
Sterling	30%

Exploration term	8 year period with possible 2 year extension
------------------	--

Phase 3	Phase 3 prolongation awaits ratification
---------	--

Phase 3 work commitment	Drill 1 exploration well
-------------------------	--------------------------

Production term	25 year period with possible 5-10 year extension
-----------------	--

In late 2007 the Sifaka prospect was selected as the first prospect for drilling and a site-survey was undertaken in 2008. In November 2008 the joint venture partners elected to enter Phase 3 of the exploration period which has a firm well commitment.

The Sifaka Prospect is located in the inboard portion of the Ampasindava block, in water depths of 500m to 1,800m. Sifaka is mapped as a very large, simple structure with the main reservoir target, Jurassic deep water turbidite sandstones, expected to be encountered at approximately 3,000m below the seabed.

RISC (Competent Persons Report, March 2008) has estimated the gross (100%) un-risked prospective recoverable resources for the Sifaka prospect as follows:

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

The drilling of the Sifaka prospect could be the first exploration well to test the deep water potential of Madagascar.

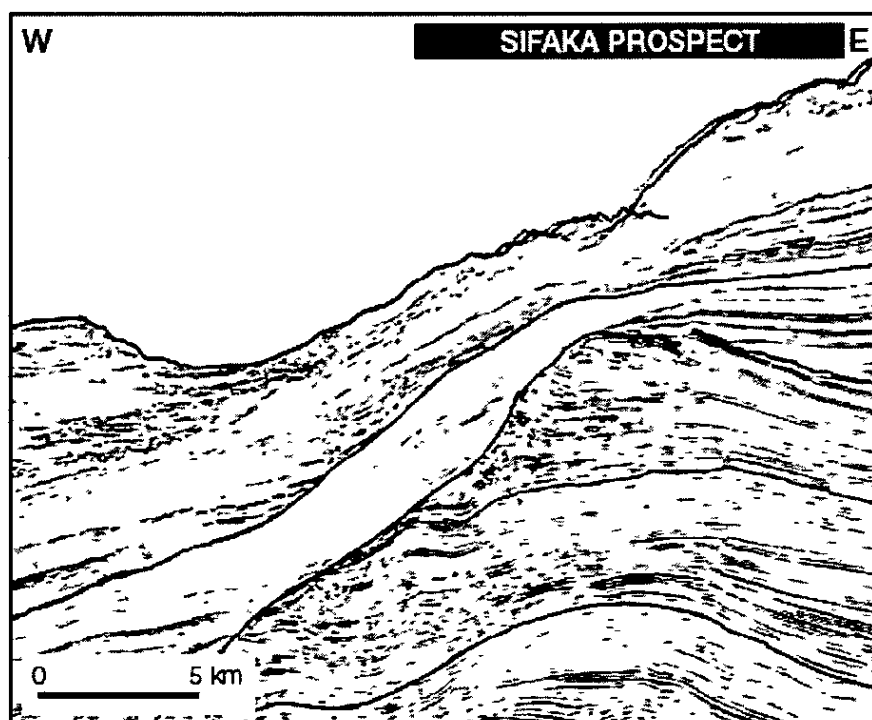
Prolongation of Phase 3 of the licence has been agreed with OMNIS and awaits Government ratification.

Sterling estimates that ExxonMobil's remaining carry at the beginning of 2012 is approximately \$34 million towards the gross cost of drilling.

Overview

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

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



Seismic data courtesy of TGS-NOPEC

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
RESERVES SUMMARY

	2012 Oil (000 boe)	2012 Gas (mcf)	2012 Reserves (000 boe)	2011 Oil (000 boe)	2011 Gas (mcf)	2011 Reserves (000 boe)
Volumes of Proven plus Probable Reserves						
At 1st January	664	-	664	421	-	421
Revision - Chinguetti	-	-	-	472	-	472
Production	(189)	-	(189)	(229)	-	(229)
At 31st December ¹⁻³	<u>475</u>	<u>-</u>	<u>475</u>	<u>664</u>	<u>-</u>	<u>664</u>

Notes

- ¹ The reserves stated are for Sterling's net interests in the Chinguetti field only and are based on Sterling's own assessment of reserves, as at 31 December 2012. Sterling's interest in the Chinguetti field is through its Funding Agreement and Royalty Agreements. Sterling does not have a direct equity participation in the Chinguetti field. The assessment was made in accordance with the definitions as set out on page 75.
- ² Sterling has not booked reserves relating to other Mauritanian discoveries, on the basis that there are no approved development plans for these discoveries.
- ³ In accordance with the guidelines of the AIM Market of the London Stock Exchange, Dr Philip Frank, Ph D Geology (1977), Exploration Director of Sterling Energy Plc, who has been involved in the oil industry for over 30 years, is the qualified person that has reviewed the assessment of reserves set out above.

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
SCHEDULE OF INTERESTS

	Location	Size (km ²)	Licence Name	Sterling Working Interest %	Sterling Net Revenue Interest %	Operated/ Non-operated
Africa						
Mauntania	Offshore	110	PSC A	n a	Sliding scale royalty from 3% WI ¹	Non-operated
Mauntania	Offshore	403	PSC B	n a	Sliding scale royalty from 6% WI ¹	Non-operated
Mauntania	Offshore	10,725	PSC C-10	n a	Sliding scale royalty from 4% (average) WI ¹	Non-operated
Mauntania	Chinguetti	29	Funding Agreement with SMH & Royalty Agreement with Premier Oil	n a	Economic interest for approximately 8% of Chinguetti project	Non-operated
Cameroon	Southern Douala Basin	2,319	Ntem	50%		Non-operated
Madagascar	Offshore NW	17,650	Ambilobe ²	100%		Operator
Madagascar	Offshore NW	7,379	Ampasindava ²	30% ³		Non-operated

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

² The current exploration period was due to end in November 2010. Prolongation of the licences has been agreed with OMNIS, the State
oil company of Madagascar, and awaits Government ratification (pages 11 and 12)

³ Carried for defined \$ amount

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

FINANCIAL REVIEW

SELECTED FINANCIAL DATA

		2012	2011
Chinguetti production ¹	bopd	523	629
Year end 2P reserves ¹	000 boe	475	664
Revenue	\$million	22.5	19.1
EBITDA ¹	\$million	11.1	11.6
(Loss)/profit after tax	\$million	(12.9)	18.4
Net cash investment in oil & gas assets	\$million	4.4	1.7
Year end cash (including partner funds)	\$million	120.3	115.8
Year end debt ¹	\$million	-	-
Year end net cash (including partner funds)	\$million	120.3	115.8
Average realised oil price (net of hedges)	\$/bbl	102.6	108.5
Total cash operating costs (produced)	\$/bbl	50.8	34.0
Year end share price	Pence	39	40
Share price change ¹	%	(3)	(53)

¹ Key performance indicators

HIGHLIGHTS

- Group net loss of \$12.9 million in 2012 (2011 Profit \$18.4 million),
- Impairment of Sangaw North licence \$18.4 million following decision to relinquish,
- Cash balance at year end of \$120.3 million (2011 \$115.8 million),
- Average 2012 Chinguetti production 523 bopd (2011 629 bopd),
- Debt free throughout 2012

REVENUE AND COST OF SALES

2012 production averaged 523 bopd, including Royalty barrels, a decrease of 17% from the 629 bopd averaged in 2011. A large proportion of the decrease was due to isolated operational factors comprising a 17 day stoppage following a hydrate blockage and a 9 day stoppage following a failure of subsea instrumentation.

Currently, all of the Group's production is from the Chinguetti field and the Group's production was 536 bopd for the month of December 2012.

	2012	2011
Liftings (bbls) ¹	219,177	176,345
Revenue (\$million)	22.5	19.1
Revenue / bbl (\$)	102.6	108.5
Lifting cost (\$million)	(12.0)	(6.1)
Lifting cost / bbl (\$)	(54.9)	(34.7)

¹ Net Sterling production during the year totalled 191,583

Gross volumes lifted and sold during the year were up by 28% to 2.6 million barrels (2011 2.0 million barrels), due mainly to timing differences on liftings of oil stored in facilities at the Chinguetti field (2012 3 liftings, 2011 2 liftings).

The lifting cost per barrel has increased in 2012 by \$20.2 to \$54.9 (2011 \$34.7). \$9.8 of this increase relates to the increased per unit depletion of the Chinguetti asset (2011 \$nil) following the \$8.2 million impairment reversal in 2011 with the balance of the increase due to additional maintenance costs and the payment of accumulated environmental contributions since the commencement of production in 2006.

LOSS FOR YEAR

The 2012 loss totalled \$12.9 million (2011 profit \$18.4 million).

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

FINANCIAL REVIEW

	\$ (million)
Profit for year 2011	18.4
Increase in revenue	3.3
Increase in per unit depletion	(2.2)
Increase in operating costs	(3.8)
Decrease in G&A	0.9
Impairment of Sangaw North	(18.4)
Impairment reversal of Chinguetti (2011)	(8.2)
Other impairment reversals	0.3
Increase in pre-licence expenditure	(1.1)
Decrease in finance income & expense	(2.3)
Loss for year 2012	(12.9)

In December 2012, the Group fully impaired its Sangaw North exploration asset following a decision to formally relinquish the licence. The impairment of Sangaw North totalled \$18.4 million (total Group impairment expense \$18.1 million which include reversals of \$324k with respect to former assets in Gabon). The Group's direct operating costs increased by \$3.8 million and depletion increased by \$2.2 million following the reversal of prior year impairment losses in 2011.

Group administrative overhead decreased during the year to \$2.8 million (2011: \$3.7 million). Included within this charge is \$1.0 million (2011: \$1.9 million) relating to share-based payment charges.

A portion of the Group's staff costs and associated overheads are recharged to joint venture partners (\$512k), expensed as pre-licence expenditure (\$1.9 million), or capitalised (\$1.9 million) where they are directly attributable to on-going capital projects. In 2012 this portion amounted to \$4.3 million (2011: \$5.1 million).

A summary of these movements are provided below:

	2012 \$ (million)	2011 \$ (million)
Group administrative overhead (page 40)	(2.8)	(3.7)
Costs capitalised	(1.9)	(1.6)
Costs recharged to JV partners	(0.5)	(2.5)
Pre-licence expenditure	(1.9)	(1.1)
	(4.3)	(5.1)
Share based payment expense	1.0	1.9
Other non-cash expenditure	-	0.2
Group cash G&A expense	(6.1)	(6.9)

EBITDA AND NET LOSS

Group EBITDA (as defined within the Definitions and Glossary of Terms on page 73) totalled \$11.1 million (2011: \$11.6 million).

Net loss after tax totalled \$12.9 million (2011: profit \$18.4 million). The basic loss per share was \$0.06 per share (2011: profit \$0.08 per share).

Interest received and finance expenses were a net expense of \$165k (2011: net income \$2.2 million) reflecting foreign exchange gains of \$533k (2011: loss \$61k) on GBP cash balances held at 31 December 2012 which are reported in US Dollars, non-cash finance expenses of \$1.0 million (2011: income \$1.9 million) relate to the unwinding of the Chinguetti decommissioning provision (see note 8 on page 55), interest received totalled \$350k (2011: \$365k) and other finance expenses totalling \$38k.

No dividend is proposed to be paid for the year ended 31 December 2012 (2011: \$nil).

CASH FLOW

Net Group cash inflow generated from operating activities was \$7.8 million (2011: \$5.6 million).

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

FINANCIAL REVIEW

Net cash investments in oil and gas assets totalled \$4.4 million (2011 \$1.7 million) and are summarised below

	2012	2011
	\$ (million)	\$ (million)
Kurdistan	3.1	4.5
Madagascar	1.0	0.7
Cameroon	0.5	(3.5)
Gabon	(0.2)	-
	4.4	1.7

The net cash investments in oil and gas assets in Kurdistan during 2012 were subsequently fully impaired by the end of the period

STATEMENT OF FINANCIAL POSITION

At the year end, cash and cash equivalents totalled \$120.3 million (2011 \$115.8 million) of which unrestricted funds of \$1.7 million (2011 \$1.0 million) were held on behalf of partners, leaving a cash balance of \$118.7 million (2011 \$114.8 million) available for Sterling's own use at 31 December 2012. At the end of 2012, net assets / total equity stood at \$104.6 million (2011 \$116.1 million), and non-current assets were \$16.7 million (2011 \$31.3 million). This decrease is as a result of the impairment of the Sangaw North licence. Net current assets increased to \$109.2 million (2011 \$105.1 million) due to the increased lifting revenues for 2012.

The Group's Chinguetti decommissioning provision increased during the year by \$1.0 million to \$21.1 million (2011 \$20.1 million) due to the unwinding of liability to its present value. The provision continues to reflect the Group's best estimate of this liability based on its estimate of the remaining economic field life.

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.

Andrew Smith

Financial Controller
15 March 2013

Angus MacAskill

Chief Executive Officer
15 March 2013

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CORPORATE RESPONSIBILITY

Sterling is committed to conducting its business in a responsible and sustainable way. Sterling recognises that it has corporate and social responsibilities to the local communities in the areas in which it operates, to its partners, to its employees and to its shareholders. In pursuing its business objectives it undertakes not to compromise its corporate or social responsibilities with any of these stakeholders.

BUSINESS INTEGRITY

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

Sterling is a member of TRACE International Inc., the anti-bribery association. The Directors have completed the TRACE training and assessment. The Company further reinforced its anti-bribery procedures, adopting amended policies and guidelines, following the enactment of the UK Bribery Act on 1 July 2011.

COMMUNITY RESPONSIBILITY

Sterling is committed to being a good partner in the communities in which the Company operates. Engagement and dialogue with our local communities is essential in ensuring, where possible, projects benefit both the Company and the communities in which the project is located. Throughout the year Sterling continued to employ local staff and contractors at both its Sulaymaniyah office and operations on the Sangaw North block.

EMPLOYEES

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

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

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

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

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2012 CORPORATE RESPONSIBILITY

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

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

BOARD OF DIRECTORS

Alastair Beardsall, executive Chairman, aged 59

Alastair joined Sterling in September 2009. He has been involved in the oil industry for over 30 years. For the first 12 years Alastair worked on international assignments with Schlumberger, the oil-field services Company. From 1992 he began working for independent exploration and production operators, with increasing responsibility for specific exploration, development and production ventures. Between September 2003 and October 2009, Alastair was Executive Chairman of Emerald Energy Plc during which time Emerald grew from a market capitalisation of less than £8 million to a size that allowed the Company to enter the FTSE 250 index in January 2009. In October 2009 Emerald was acquired by Sinochem Resources UK Limited, for £7.50 per share in a transaction that valued Emerald at £532 million.

Angus MacAskill, Chief Executive Officer, aged 53

Angus joined Sterling as Chief Executive Officer in November 2010. His career in the oil and gas industry started in 1981 with 5 years at Schlumberger on assignments in Africa. Angus joined Mobil Oil and, during 10 years with the company, held a number of production, reservoir engineering and managerial posts in UK and Norway. Since 1997, Angus has worked for a number of independent exploration and production companies, including Enterprise Oil and Elixir Petroleum, in commercial, managerial and executive positions of increasing responsibility. Angus joined Emerald Energy in 2006 as Chief Operating Officer and in December of that year was appointed Chief Executive Officer. During the following three years, the company experienced material growth following exploration successes in its assets in South America and the Middle East, prior to being acquired by Sinochem in 2009.

Philip Frank, Exploration Director, aged 60

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

Nicholas Clayton, non-executive Director, aged 49

Nicholas was appointed a non-executive Director of Sterling in October 2009. Nicholas is chairman of the Audit Committee and a member of the Remuneration and Nomination Committees. Nicholas has provided strategic and corporate finance advice to a number of public and private oil and gas companies since January 2007. Between August 2005 and December 2006 he was Global Co-Head of Oil and Gas Corporate Finance for Canaccord Adams. For the previous 5 years he held the position of Global Head of Oil and Gas Corporate Finance for Dresdner Kleinwort Benson, the investment bank, having previously been Global Head of Oil and Gas Research between 1997 and 2000. Nicholas began his career at BP having obtained a first class honours degree in Business Studies, sponsored by BP, from Portsmouth Polytechnic in 1985. Nicholas serves as a non-executive Director of Circle Oil Plc and provides strategic advice to Geopark, an AIM-listed Company operating in Chile and Argentina.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

BOARD OF DIRECTORS

Keith Henry, non-executive Director, aged 68

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

Malcolm Pattinson, non-executive Director, aged 69

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CORPORATE GOVERNANCE

APPLICATION OF UK CORPORATE GOVERNANCE CODE PRINCIPLES

The Directors are mindful of their duties and responsibilities to all Shareholders and of their statutory duties under the Companies Act, the core duty of which is to act in good faith and in a way most likely to promote the success of the Company for the benefit of its members as a whole. As an AIM listed company, the Company is not required to comply with the UK Corporate Governance Code, however, the Directors are committed to maintaining the highest standards of corporate governance. This statement describes how the Company has applied the main and supporting principles of corporate governance set out in the UK Corporate Governance Code published by the Financial Reporting Council in June 2010 ("Code")

During the year, the Company has adhered to the provisions set out in the Code with the exception of the matters referred to below

Provision D 1 3

Non-executive Directors ("NED") have been awarded share options under the non-executive Directors Long Term Incentive Plan ("NED LTIP"). The NED LTIP rules and option awards were approved by shareholders, as required under the Code, at the December 2009 extraordinary general meeting. Future NED LTIP awards will be awarded subject to approval by shareholders. Under the NED LTIP rules, shares acquired by the exercise of options were not required to be held for at least one year after the non-executive Director leaves the Board as required under the Code.

Amendments to the share options previously awarded under the NED LTIP and to the NED LTIP rules for any future awards, requiring shares acquired by the exercise of options to be held for at least one year after the non-executive Director leaves the Board, have been approved.

As of the date of publication of this Annual Report, the Company fully adheres to the provisions set out in the Code.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Board Composition, Operation and Independence

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

The Board is responsible to the Shareholders for the proper management of the Company. A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on page 37.

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

During the year share options have been issued to non-executive Directors under the NED LTIP (Keith Henry 103,150, Malcolm Pattinson 103,150 and Nicholas Clayton 103,150) subject to the approval by shareholders at the next Annual General Meeting. In the opinion of the Board the NED LTIP aligns the objectives of the non-executive Directors with those of Shareholders. The NED LTIP is not subject to performance conditions for independence reasons. The Board considers each of the non-executive Directors to be independent.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CORPORATE GOVERNANCE

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

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

Meetings and Attendance

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

	Board Meetings	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings in year	9	4	3	1
Alastair Beardsall	9	-	-	-
Nicholas Clayton	9	4	3	1
Keith Henry	9	4	3	1
Angus MacAskill	9	-	-	-
Malcolm Pattinson	9	4	3	1
Philip Frank	8	-	-	-

Induction and Training

New Directors, on their appointment to the Board, are briefed by the Board and management on the activities of the Group and its key business and financial risks, the Terms of Reference of the Board and its Committees, the list of Board reserved matters, and the latest financial information about the Group. The Chairman ensures that Directors update their skills, knowledge and familiarity with the Company to fulfil their roles on the Board and on Board Committees. On-going training is available as necessary and includes updates from the Company Secretary on changes to the AIM rules, the Code, requirements under the Companies Act and other regulatory matters. Directors may consult with the Company Secretary at any time on matters related to their role on the Board. All Directors have access to independent professional advice at the Company's expense.

Evaluation of the Board's Performance

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CORPORATE GOVERNANCE

Retirement and Re-election

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

SUB-COMMITTEES

The Board has appointed the following sub-committees

Audit Committee

This Committee currently comprises Nicholas Clayton, Keith Henry and Malcolm Pattinson, under the Chairmanship of Nicholas Clayton. It reviews the interim and annual financial statements, internal control matters and the scope and effectiveness of the external audit. The external auditors have unrestricted access to the Chairman of the Audit Committee. Audit Committee meetings are also attended by the external auditor where appropriate and, by invitation, the Chairman, Chief Executive Officer, other Directors and senior management.

Audit Committee Report for 2012

The Audit Committee met four times during the year. During these meetings the Audit Committee considered the following:

- the integrity of the financial statements and other formal announcements relating to the Group's financial performance and, in particular, reviewed the judgments that are contained within the financial statements,
- the Group's internal control and risk management policies and systems, and their effectiveness,
- Sterling's whistle blowing procedures to ensure that its employees are able to raise concerns, in confidence, about possible wrongdoing in financial reporting and other matters,
- the 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 monitor the situation,
- the Committee recommends that the Board presents the resolution to the shareholders at the 2013 AGM to reappoint BDO LLP as external auditors, and
- monitoring a policy on the engagement of the external auditors to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

Nominations Committee

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

Nominations Committee Report for 2012

The Nominations Committee met once during the year.

Keith Henry and Nicholas Clayton will retire by rotation and offer themselves for re-election at the AGM. Their biographical details, provided on pages 20 and 21, demonstrate the range of experience and skill which each bring to Sterling. The Nominations Committee and the Board considers that their performance continues to be effective and that each Director has the necessary commitment to fulfil their respective roles.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CORPORATE GOVERNANCE

Remuneration Committee

The Remuneration Committee met three times during the year

The members of the Committee are Keith Henry, Nicholas Clayton and Malcolm Pattinson under the Chairmanship of Keith Henry. Further details on the roles and responsibilities of the Remuneration Committee are described in greater detail in the Report on Directors' Remuneration, set out in pages 27 to 30

COMMUNICATIONS WITH SHAREHOLDERS

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

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

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

The Annual General Meeting provides an opportunity for communication with all Shareholders and the Board encourages the Shareholders to attend and welcomes their participation. The Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the Annual General Meeting to be held on 19 April 2013 can be found in the notice of the meeting, on pages 78 to 84.

INTERNAL CONTROLS

In September 1999 the Turnbull Guidance (Internal Control Guidance for Directors on the Combined Code) was published, and revised in October 2005.

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

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

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

CORPORATE GOVERNANCE

CONFLICTS OF INTEREST

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

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE ("EITI")

In accordance with the Transparency Criteria as set-out by the EITI, Sterling has made the following payments to Government bodies during the year ended 31 December 2012

	2012	2011
	\$000	\$000
Madagascar		
Ambilobe	191	
Ampasindava ¹	108	108
Kurdistan	5	105
Cameroon ²	26	26
Mauritania ³	599	14
	<u>929</u>	<u>253</u>

¹ Payments made by Exxon Mobil

² 2012 payment made by Murphy Oil Corporation

³ Included within payments made to SMH (Mauritania's national oil company ⁴) under the terms of the Chinguetti Funding Agreement totalled \$9.3 million in 2012 (2011: \$7.9 million). Payments made in 2012 include backdated environmental commission charges accrued from 2006 totalling approximately \$100k per year.

⁴ Relating to Chinguetti field operating costs and PSC obligations

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

REMUNERATION REPORT

REMUNERATION COMMITTEE

The Remuneration Committee is comprised of Keith Henry, Nicholas Clayton and Malcolm Pattinson. Keith Henry is the Chairman of the Remuneration Committee. The 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. Non-executive Directors' fees are considered and agreed by the Board.

The Remuneration Committee is permitted to appoint independent advisors to assist in the determination of remuneration.

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 and share options awarded under the All Staff Long Term Incentive Plan, with the balance between these components being salaries at levels around the middle of the range of salaries for peer companies and material additional remuneration linked to performance and results adding materially to shareholder value. Sterling acknowledges the benefit of the executive Directors accepting appointments as non-executive Directors of other companies, if they accept more than two such appointments they are required to pass their fees for those appointments to the Company. The details of individual components of the executive remuneration package and service contracts are discussed below.

Basic Salary and Benefits. The salary and benefits are reviewed annually. Currently the Remuneration Committee uses remuneration data collected from published accounts and surveys of peer companies and does not use executive remuneration consultants. The Committee reviews this method on a regular basis.

Performance Related Bonuses. Performance bonuses are awarded to executive Directors by the Board, upon recommendations by the Remuneration Committee. Prior to each year the Remuneration Committee considers the levels of potential bonus payments and the corresponding set of objectives for which bonuses may be payable. Objectives are set to align the individuals' motivation with the longer term sustainable future of the Company. These objectives may not provide short term or easily measurable results. At the end of each year the Remuneration Committee considers if the objectives have been achieved as well as individual contribution to the performance of the Group. The maximum level of performance bonus is capped at 100% of annual salary. Performance bonuses awarded to executive Directors are settled in shares in the Company which must be held for a minimum of 12 months after the award.

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

With effect from 2009, awards are made in the form of options to acquire shares in the Company at the shares' nominal value. The All Staff LTIP is designed as a three year plan and the Company intends to grant annual awards in October each year based on the recommendations of the Remuneration Committee.

Awards are made on similar terms to non-executive Directors of the Company, under a separate plan the NED LTIP. Awards under the NED LTIP are made by the Board and are not subject to performance conditions for independence reasons.

Pensions. The Group operates a number of defined contribution pension schemes pursuant to which it contributes 10% of pensionable salary per eligible member.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

REMUNERATION REPORT

Fees. The fees for non-executive Directors are determined by the Board within the limits stipulated in the Articles of Association. The non-executive Directors are not involved in any discussions or decision about their own remuneration.

SERVICE CONTRACTS

Each of the executive Directors has a service contract with the Company, details of which are as follows

Director	Commencement of appointment	Date of current contract	Base annual salary	Notice period
Alastair Beardsall	8 September 2009	1 January 2011	£80,000 ¹	6 months
Philip Frank	3 October 2011	3 October 2011	£231,800	6 months
Angus MacAskill	9 November 2010	9 November 2010	£271,800	6 months

¹ As of 1 January 2011 contracted to devote 20% of his working time to the business of Sterling Energy Plc

The salaries paid to the Directors are reviewed annually with the most recent salary review being implemented on 1 January 2013

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

Director	Commencement of appointment	Date of current contract	Base fees per annum
Nicholas Clayton	1 October 2009	1 October 2009	£33,000
Keith Henry	8 September 2009	8 September 2009	£33,000
Malcolm Pattinson	15 November 2010	15 November 2010	£33,000

Save for the fees outlined above and the share options awarded under the NED LTIP, the non-executive Directors are not entitled to any other benefits or arrangements

Except as disclosed above, there are no service contracts or letters of appointment in force between any Director with the Company or the Group as at the date of this document

The Company has granted an indemnity to its Directors (including subsidiary undertakings) under which the Company will, to the maximum extent possible, indemnify them against all costs, charges, losses and liabilities incurred by them in the performance of their duties

The Company provides limited Directors' and Officers' liability insurance, at a cost of approximately \$27k in 2012 (2011 \$26k)

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

REMUNERATION REPORT

DIRECTORS AND THEIR INTERESTS

Directors' Remuneration and Share Options

Aggregate remuneration (audited)

	Fees and basic salary £	Bonus £	Defined contribution pension £	Benefits in kind £	Total 2012 £	Total 2011 £
Executive Directors						
Alastair Beardsall	80,000	-	8,000	3,954	91,954	91,723
Jonathan Cooper (resigned 18 October 2011)		-	-	-	-	172,563
Philip Frank	225,000	-	22,500	7,449	254,949	61,910
Andrew Grosse (resigned 3 October 2011)		-	-	-	-	214,127
Angus MacAskil	263,800	-	26,380	5,989	296,169	365,004
Non-executive Directors						
Nicholas Clayton	33,000	-	-		33,000	30,000
Keith Henry	33,000	-	-		33,000	30,000
Malcolm Pattinson	33,000	-	-		33,000	30,000
Aggregate remuneration 2012 (£)	667,800	-	56,880	17,392	742,072	-
Aggregate remuneration 2011 (£)	818,256	85,000	73,089	18,982	-	995,327
Aggregate remuneration 2012 (US\$)	1,058,489		90,157	27,566	1,176,212	-
Aggregate remuneration 2011 (US\$)	1,311,665	136,255	117,162	30,429	-	1,595,511

No bonuses were paid to the Directors for the year ended 31 December 2012

Directors' interests in LTIP's are accounted for under IFRS 2 (Share-based payments), accounting charges in the period are detailed in note 26

All Staff Long-Term Incentive Plan (audited)

The Directors' interests in the All Staff LTIP are as follows

	1st January 2012		Lapsed	Granted	Exercised	31st December 2012	Exercise price	Earliest exercise date ¹	Latest exercise date ¹
Alastair Beardsall ²	1,125,000	(562,500)		-	(562,500)	-	40p	n/a	n/a
Phillip Frank	1,097,600	-		843,750		1,941,350	40p	01/10/2014	30/09/2017
Angus MacAskil	1,609,800	-		989,250		2,599,050	40p	01/10/2013	30/09/2017
	3,832,400	(562,500)		1,833,000	(562,500)	4,540,400			

Approved by shareholders at the EGM held on 22 December 2009

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

² In recognition of Alastair Beardsall's efforts in the fund raising and the September 2009 Placing, and as a means of retention, 50 per cent of the options awarded to him in 2009 vested without performance criteria in October 2012

No gains were made on the exercise of options during the year (2011 nil)

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

REMUNERATION REPORT

Non-executive Directors Long-Term Incentive Plan (audited)

The non-executive Directors' interests in the NED LTIP are as follows

	1st January 2012 ²	Lapsed ³	Granted ⁴	Exercised	31st December 2012	Exercise price	Earliest exercise date ¹	Latest exercise date ¹
Nicholas Clayton	125,000		103,150		228,150	40p	01/10/2012	30/09/2017
Keith Henry	125,000		103,150		228,150	40p	01/10/2012	30/09/2017
Malcolm Pattinson	125,000	(41,667)	103,150		186,483	40p	01/01/2014	30/09/2017
	375,000	(41,667)	309,450		642,783			

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

² Approved by shareholders at the EGM held on 22 December 2009 and 28 April 2011

³ Surrendered subject to approval of 2012 grant by shareholders at next Annual General Meeting

⁴ Granted subject to approval of 2012 grant by shareholders at next Annual General Meeting

The rules of the LTIP schemes are summarised in note 26

For and on behalf of the Board

Keith Henry
Chairman, Remuneration Committee

15 March 2013

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DIRECTORS' REPORT

The Directors present the Report and Financial Statements on the affairs of Sterling and its subsidiaries, together with the financial statements and auditors' report for the year ended 31 December 2012

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Group and Company throughout the year remained the exploration for and production of oil and gas in Africa and the Middle East. The significant developments during 2012 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, the Chief Executive's Review, the Operational Review and the Financial Review.

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

The Group uses a number of key performance indicators (KPI's) to assess the business performance against strategy. These are net debt (\$), reserves (million boe), EBITDA (\$), production (bopd) and share price growth. Analysis of the KPI's can be found in the Financial Review on page 15.

RESULTS AND DIVIDENDS

The Group loss for the financial year was \$12.9 million (2011 profit of \$18.4 million). This leaves an accumulated Group retained deficit of \$423.1 million (2011 deficit \$411.1 million) to be carried forward. The Directors do not recommend the payment of a dividend (2011 \$nil).

GOING CONCERN

The Group business activities, together with the factors likely to affect its future development, performance and position are set out in the Operations Review on pages 7 to 12. The financial position of the Group and Company, its cash flows and liquidity position are described in the Financial Review on pages 15 to 17. In addition, note 25 to the financial statements include the Group's objectives, policies and processes for managing its capital financial risk details of its financial instruments and its exposures to credit risk and liquidity risk.

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

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

CAPITAL STRUCTURE

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

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DIRECTORS' REPORT

DIRECTORS

The Directors who served during the year were as follows

Mr Alastair Beardsall
Mr Nicholas Clayton
Dr Philip Frank
Mr Keith Henry
Mr Angus MacAskill
Mr Malcolm Pattinson

Biographical details of serving Directors can be found in the Board of Directors section of this report on page 20 and 21

DIRECTORS' ELECTION AND ROTATION

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

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

DIRECTORS' AND THEIR INTERESTS

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

Ordinary shares of 40p each	18-Mar 2013	31-Dec 2012	31-Dec 2011
Alastair Beardsall ²	1,062,500	1,062,500	500,000
Nicholas Clayton ¹	132,500	132,500	132,500
Philip Frank ²	132,204	132,204	32,204
Keith Henry ¹	500,000	500,000	500,000
Angus MacAskill ²	302,000	302,000	100,000
Malcolm Pattinson ¹	62,810	62,810	62,810

¹ Non-executive Director, member of the Audit, Remuneration and Nominations Committees

² Executive Director

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

SUBSTANTIAL SHAREHOLDING

Except for the holdings of ordinary shares listed below, the Company has not been notified by or become aware of any persons holding 3% or more of the 220,053,520 issued ordinary shares of 40 pence each of the Company at 15 March 2013

	Number	%
Waterford Finance	65,814,217	29.91
Invesco	34,592,405	15.72
Denis O'Brien	16,190,433	7.36
Soyuzneftegas Capital Limited	15,494,103	7.04
Artemis Investment Management	10,910,174	4.96

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DIRECTORS' REPORT

SUPPLIER PAYMENT POLICY AND PRACTICE

The Company's and Group's policy is to settle terms of payment with suppliers when agreeing each transaction, ensuring that suppliers are made aware of the terms of payment and abide by them. At the 2012 year end, the number of supplier days outstanding for the Group was 24 days (2011: 37 days).

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group and Company made charitable donations of \$870 (2011: \$800), principally to local charities serving the communities in which the Group operates. No political contributions were made during the year (2011: \$nil).

BUSINESS RISK

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

Strategic:

Strategy risk

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

Concentration risk

The Company's portfolio of exploration assets has increased in concentration following the withdrawal from the Sangaw North PSC in Kurdistan. The Board has identified the broadening of the exploration portfolio, using the existing financial resources of the Company, as an important element of the Company's strategy.

Competition risk

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

Operational:

Exploration risk

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

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

Operator risk

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DIRECTORS' REPORT

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

Sterling carefully considers the technical and financial capability of company's becoming operator of licences during a farm out process. Murphy Oil is the operator of the Ntem licence in Cameroon and ExxonMobil is the operator of the Ampasindava licence in Madagascar

External:

Country risk

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

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

The Company has reached agreement with OMNIS, the state regulator in Madagascar, to prolong the Ampasindava and Ambilobe licences and awaits ratification by the Government of Madagascar, the existing exploration phase of each licence ended in November 2010. The Company believes the political roadmap towards elections is progressing well and expects a positive outcome. However there is no certainty of a positive outcome.

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

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

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

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

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
DIRECTORS' REPORT

	• Reliance on other operators • Delays in conducting work programmes
Commercial	• Failure to access new opportunities • Failure to maximise value from existing interests • Loss of control of key assets • Dissatisfied stakeholders • Failure to negotiate optimal contract terms • Reserve and production estimations are not exact determinations • Regulatory compliance and legal
Human Resources and Management Processes	• Failure to recruit and retain key personnel • Human error or deliberate negative action • Inadequate management processes • Insufficient timely information available to the management and the Board
Financial	• Restrictions in capital markets impacting available financial resource • Oil or gas price volatility impacting both revenues and reserves • Counterparty default • Cost escalation and budget overruns • Fiscal changes • Operations under-insured • Foreign currency risk • Financial control of operated and non-operated assets • Fraud and corruption

The Directors regularly monitor such risks, using information obtained or developed from external and internal sources, and will take actions as appropriate to mitigate these. Effective risk mitigation may be critical to Sterling in achieving its strategic objectives and protecting its assets, personnel and reputation. The Company has developed a business management system, including a risk management process which identifies key business risks and measures to mitigate these risks and then implements such measures considered appropriate. Other significant elements of the business management system include regular Board review of the business, defined process for preparation and approval of the annual work programme and budget, monthly management reporting, financial operating procedures, and HSES and anti-bribery management systems.

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

FINANCIAL INSTRUMENTS

Information about the use of financial instruments, the Group's policy and objectives for financial risk management is given in note 25 to the financial statements.

AUDITORS

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

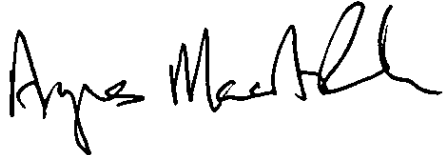
- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
DIRECTORS' REPORT

- 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

A handwritten signature in black ink, appearing to read 'Angus MacAskill', written in a cursive style.

Angus MacAskill
Director

15 March 2013

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

In preparing these financial statements, the Directors are required to

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

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

WEBSITE PUBLICATION

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

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge

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

For and on behalf of the Board

Angus MacAskill
Director

15 March 2013

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of Sterling Energy Plc for the year ended 31 December 2012 which comprise of the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the consolidated and company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditors

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

The Directors have chosen to comply with the requirements of Schedule 8 part 3 of the Large and Medium-Sized Companies and Groups (Accounts and Reports Regulations) 2008 made under Section 421 of the Companies Act 2006 ("Schedule 8") with regard to the Directors' Remuneration Report as if the company is a quoted company included on the official list.

Our responsibility is to audit and express an opinion on that part of the Directors' Remuneration Report to be audited. Other than previously noted we are not responsible for auditing and expressing an opinion on the company's compliance with the requirements of the Listing Rules.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 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,
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2012 INDEPENDENT AUDITORS' REPORT

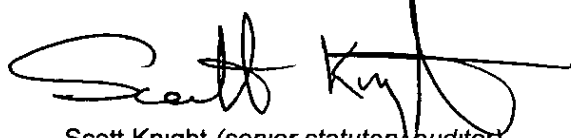
Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Scott Knight (*senior statutory auditor*)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
15 March 2013

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

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

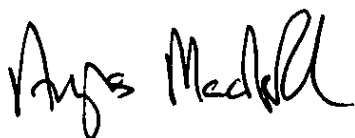
	Note	31st December 2012 \$000	31st December 2011 \$000
Revenue	4	22,496	19,146
Cost of sales	6	(12,028)	(5,113)
Gross profit		10,468	13,033
Other administrative expenses		(2,795)	(3,728)
Reversal of impairment of oil and gas assets		347	8,269
Impairment of oil and gas assets		-	(33)
Pre-licence costs		(2,353)	(1,282)
Total administrative expenses		(4,801)	3,226
Profit from operations	5	5,667	16,259
Finance income	8	350	3,212
Finance expense	8	(515)	(1,051)
Profit before tax		5,502	18,420
Tax	9	-	-
Profit for the year from continuing operations		5,502	18,420
Loss for the year from discontinued operations	10	(18,422)	-
(Loss)/profit for the year attributable to the owners of the parent		(12,920)	18,420
Other comprehensive (expense)/income			
Currency translation adjustments		(6)	31
Total other comprehensive (expense)/income for the year		(6)	31
Total comprehensive (expense)/income for the year attributable to the owners of the parent		(12,926)	18,451
Basic profit/(loss) per share (USc)			
From continuing operations	12	2.51	8.40
From continuing and discontinued operations	12	(5.89)	8.40
Diluted profit/(loss) per share (USc)			
From continuing operations	12	2.51	8.29
From continuing and discontinued operations	12	(5.89)	8.29

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31st December 2012 \$000	31st December 2011 \$000
Non-current assets			
Intangible royalty assets	13	2,424	3,221
Intangible exploration and evaluation assets	14	10,245	22,455
Property, plant and equipment	15	4,059	5,643
		<u>16,728</u>	<u>31,319</u>
Current assets			
Inventories		2,993	2,872
Trade and other receivables	17	1,210	922
Cash and cash equivalents		120,348	115,826
		<u>124,551</u>	<u>119,620</u>
Total assets		<u>141,279</u>	<u>150,939</u>
Equity			
Share capital	18	149,014	148,589
Share premium		378,863	378,859
Currency translation reserve		(210)	(204)
Retained deficit		(423,050)	(411,103)
Total equity		<u>104,617</u>	<u>116,141</u>
Non-current liabilities			
Long-term provisions	21	21,274	20,297
		<u>21,274</u>	<u>20,297</u>
Current liabilities			
Trade and other payables	22	15,388	14,501
		<u>15,388</u>	<u>14,501</u>
Total liabilities		<u>36,662</u>	<u>34,798</u>
Total equity and liabilities		<u>141,279</u>	<u>150,939</u>

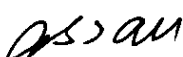
The financial statements of Sterling Energy Plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 15 March 2013

Signed on behalf of the Board of Directors



Angus MacAskill

Director



Alastair Beardsall

Director

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital \$000	Share premium \$000	Currency translation reserve \$000	Retained deficit ¹ \$000	Total \$000
At 1 January 2011	148,573	378,859	(235)	(431,380)	95,817
Profit for the year	-	-	-	18,420	18,420
Currency translation adjustments	-	-	31	-	31
Total comprehensive income for the year attributable to the owners of the parent	-	-	31	18,420	18,451
Issued share capital/premium	16	-	-	-	16
Share option charge for the year	-	-	-	1,857	1,857
At 31 December 2011	148,589	378,859	(204)	(411,103)	116,141
Loss for the year	-	-	-	(12,920)	(12,920)
Currency translation adjustments	-	-	(6)	-	(6)
Total comprehensive expense for the year attributable to the owners of the parent	-	-	(6)	(12,920)	(12,926)
Issued share capital/premium	425	4	-	-	429
Share option charge for the year	-	-	-	973	973
At 31 December 2012	149,014	378,863	(210)	(423,050)	104,617

¹ The share option reserve has been included within the retained deficit reserve

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2012 \$000	2011 \$000
Operating activities			
Cash generated from operations	24	7,800	5,573
Net cash flow from operating activities		7,800	5,573
Investing activities			
Interest received		350	365
Purchase of property, plant and equipment		(100)	(41)
Exploration and evaluation costs		(4,446)	(1,695)
Proceeds on disposal of PPE		-	22
Net cash used in investing activities		(4,196)	(1,349)
Financing activities			
Net proceeds from issue of ordinary shares		429	16
Net cash flow generated from financing activities		429	16
Net increase in cash and cash equivalents		4,033	4,240
Cash and cash equivalents at beginning of year		115,826	111,679
Effect of foreign exchange rate changes		489	(93)
Cash and cash equivalents at end of year		120,348	115,826

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
COMPANY STATEMENT OF FINANCIAL POSITION

	Note	31st December 2012 \$000	31st December 2011 \$000
Non-current assets			
Property, plant and equipment	15	3,977	5,602
Investments	16	106,668	105,740
		<u>110,645</u>	<u>111,342</u>
Current assets			
Inventories		2,993	2,872
Trade and other receivables	17	14,349	21,395
Cash and cash equivalents		118,565	114,831
		<u>135,907</u>	<u>139,098</u>
Total assets		<u>246,552</u>	<u>250,440</u>
Equity			
Share capital	18	149,014	148,589
Share premium		378,863	378,859
Retained deficit		(375,735)	(368,070)
Total equity		<u>152,142</u>	<u>159,378</u>
Non-current liabilities			
Long-term provisions	21a	21,154	20,144
		<u>21,154</u>	<u>20,144</u>
Current liabilities			
Trade and other payables	22	73,256	70,918
		<u>73,256</u>	<u>70,918</u>
Total liabilities		<u>94,410</u>	<u>91,062</u>
Total equity and liabilities		<u>246,552</u>	<u>250,440</u>

The financial statements of Sterling Energy Plc, registered number 1757721 were approved by the Board of Directors and authorised for issue on 15 March 2013

Signed on behalf of the Board of Directors



Angus MacAskill

Director



Alastair Beardsall

Director

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital \$000	Share premium \$000	Retained deficit ¹ \$000	Total \$000
At 1 January 2011	148,573	378,859	(371,480)	155,952
Total comprehensive income for the year	-	-	1,553	1,553
Issued share capital/premium	16	-	-	16
Share option charge for the year	-	-	1,857	1,857
At 31 December 2011	148,589	378,859	(368,070)	159,378
Total comprehensive expense for the year	-	-	(8,638)	(8,638)
Issued share capital/premium	425	4	-	429
Share option charge for the year	-	-	973	973
At 31 December 2012	149,014	378,863	(375,735)	152,142

¹ The share option reserve has been included within the retained deficit reserve

COMPANY STATEMENT OF CASH FLOWS

	Note	2012 \$000	2011 \$000
Operating activities			
Cash generated from operations	24	2,401	13,527
Net cash flow used in operating activities		<u>2,401</u>	<u>13,527</u>
Investing activities			
Interest received		350	365
Proceeds on disposal of PPE		-	22
Net cash generated from investing activities		<u>350</u>	<u>387</u>
Financing activities			
Net proceeds from issue of ordinary shares		429	16
Net cash flow generated from financing activities		<u>429</u>	<u>16</u>
Net increase in cash and cash equivalents		<u>3,180</u>	<u>13,930</u>
Cash and cash equivalents at beginning of year		114,831	100,936
Effect of foreign exchange rate changes		554	(35)
Cash and cash equivalents at end of year		<u>118,565</u>	<u>114,831</u>

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

a) General information

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

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

b) Basis of accounting and adoption of new and revised standards

(i) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the Group for financial year beginning 1 January 2012. Except as noted, the implementation of these standards is not expected to have a material effect on the Group.

Standard	Effective date	Impact on initial application
IFRS 7 – Amendment – Transfer of Financial Assets	1 July 2011	No impact
IFRS 1 – Amendment – Severe hyperinflation and removal of fixed dates	1 July 2011	No impact

No other IFRS issued and adopted but not yet effective are expected to have an impact on the Group's financial statements.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

(ii) Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early

Standard	Description	Effective date
IAS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27	Separate Financial Statements	1 January 2013
IAS 28	Investments in Associates and Joint Ventures	1 January 2013
IAS 19	Employee Benefits	1 January 2013
IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013
Improvements to IFRS	(2009-2011 Cycle)	1 January 2013
IFRS 10, 11 and 12 ¹	Transition Guidance	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 9 ¹	Financial Instruments	1 January 2015

¹ Not yet endorsed by the European Union

c) Going concern

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

d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an invested entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

e) Jointly controlled operations

Jointly controlled operations are arrangements in which the Group holds an interest on a long term basis which are jointly controlled by the Group and one or more ventures under a contractual arrangement. The Group's exploration, development and production activities are sometimes conducted jointly with other companies in this way. Since these arrangements do not constitute entities in their own right, the consolidated financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Group's interests.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

f) Revenue

Sales of oil and gas are recognised, net of any sales taxes when goods are delivered or the title has passed to the customer. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable. Royalties and tariff income are recognised as earned on an entitlement basis.

g) Oil and gas interests

Exploration and evaluation assets

The Group accounts for oil and gas exploration under the full cost method having regard to the requirements of IFRS 6 Exploration for and Evaluation of Mineral Resources. E&E costs are initially capitalised within intangible assets. Such E&E costs include licence acquisition costs, geological and geophysical costs, costs of drilling exploration and appraisal wells, and an appropriate share of overheads. E&E costs are capitalised and accumulated in cost pools which are not larger than a segment. Expenditures incurred before the Group has obtained the legal rights to explore a specific area are expensed in the year that they are incurred.

Costs relating to the exploration and evaluation of oil and gas interests are carried forward until the existence or otherwise of commercial reserves has been determined.

If commercial reserves have been discovered, the related E&E assets are assessed for impairment and the resultant carrying value is then reclassified as oil and gas assets within property, plant and equipment, on a cost pool by cost pool basis.

E&E assets that are determined not to have resulted in the discovery of commercial reserves remain capitalised as intangible E&E assets at cost, subject to the relevant cost pool meeting an impairment test as set out below.

Under the full cost method, impairment tests on E&E assets are conducted on an individual cost pool basis, including any development or producing assets, when facts and circumstances suggest that the carrying amount in the pool may exceed its recoverable amount. Such indicators include the point at which a determination is made as to whether or not commercial reserves exist. The E&E assets are tested for impairment together with all development and production assets associated with that cost pool, as a single cash-generating unit. The aggregate carrying value is compared against the expected recoverable amount of the cost pool, generally by reference to the present value of the future cash flows expected to be delivered from production of commercial reserves. Where the E&E assets to be tested fall outside the scope of any established cost pool, there will generally be no commercial reserves and if the E&E is determined as unsuccessful the E&E assets concerned will be written off in full. Any impairment loss is separately recognised within the statement of comprehensive income.

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

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

Refer to note 5 on page 54 for detailed disclosure of the results of impairments and impairment reviews performed.

Development and production assets

Development and production assets are generally accumulated on a field-by-field basis and include the cost of developing the commercial reserves discovered and bringing them into production, together with the E&E expenditures, incurred in finding commercial reserves, transferred from intangible E&E assets as outlined above, which constitutes a single cash generating unit. Depletion is provided for on a cash-generating unit basis on a unit of production basis over the life of the proven

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

and probable commercial reserves taking into account the expected future costs to extract all such reserves

An impairment test is performed on an individual cash-generating unit whenever events and circumstances indicate that the carrying value of an asset may exceed its recoverable amount

The recoverable amount is assessed as the present value of the future cash flows expected to be derived from production of commercial reserves

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

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 – 33% straight line

h) Decommissioning

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

Provisions are reviewed at each reporting date to reflect the current best estimate of the cost at present value. The unwinding of the discount is reflected as a finance expense. A decommissioning asset is also established, since the future cost of decommissioning is regarded as part of the total investment to gain access to future economic benefits, and included as part of the cost of the relevant development and production asset. Depletion on this asset is calculated under the unit of production method based on commercial reserves

i) Intangible royalty interests

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

j) Foreign currencies

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

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

k) Taxation

Current tax

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

l) Investments (Company)

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

m) Operating leases

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

n) Financial instruments

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

Trade receivables

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

Cash and cash equivalents

Cash and cash equivalents comprise demand deposits, and other short term highly liquid investments, with an original maturity of less than 3 months, and are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

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

Trade payables

Trade payables are stated at their amortised cost.

Financial liabilities and equity

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

o) Pension costs

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

p) Share-based payments

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

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

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

q) Over / (under) lift

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

r) Inventories

The Group's share of any material and equipment inventories is accounted for at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

s) Provisions

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

t) Segment reporting

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

The operating results of each of the geographical segments are regularly reviewed by the Group's chief operating decision makers in order to make decisions about the allocation of resources and to assess their performance. Africa has exploration and development activities, the Middle East has exploration activities (discontinued) and the United Kingdom office is an administrative cost centre.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Commercial reserves

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

Impairment of assets

Management is required to assess oil and gas assets for indicators of impairment and have considered the economic value of both the Chinguetti Funding and Royalty Agreements and specifically whether further historic impairments should be reversed. The carrying value of oil and gas assets is disclosed in notes 13, 14 and 15. The carrying value of related investments in the Company statement of financial position is disclosed in note 16. As part of this assessment, management has carried out an impairment test on the Chinguetti oil and gas assets within property, plant and equipment. This test compares the carrying value at the reporting date with the expected discounted cash flows from the relevant projects.

For the discounted cash flows to be calculated, management has used a production profile based on its best estimate of proven and probable reserves and a range of assumptions including a 10% pre-tax discount rate and an internally estimated oil price profile. Exploration and evaluation assets are subject to a separate review for indicators of impairment, by reference to the impairment indicators set out in IFRS 6, which is inherently judgemental.

Decommissioning

The Group has obligations in respect of decommissioning in Mauritania. The extent to which a provision is recognised depends on the legal requirements at the date of decommissioning, the estimated costs and timing of the work and the discount rate applied. Decommissioning estimates for the Chinguetti field are based on a range of operator estimates which are periodically reviewed by the operator and the Chinguetti partners. Sterling believes the field could be abandoned earlier than originally planned and allowance has been made for this in the calculation of the obligation.

Share-based payments

Management is required to make assumptions in respect of the inputs used to calculate the fair value of share-based payment arrangements. Details of these can be found in note 26.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

3. OPERATING SEGMENTS

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

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

The following tables present revenue, profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2012, and for the year ended 31 December 2011.

	Africa		Middle East (Discontinued)		Total	
	2012	2011	2012	2011	2012	2011
	\$000	\$000	\$000	\$000	\$000	\$000
Statement of comprehensive income						
Revenue ¹	22,496	19,146			22,496	19,146
Cost of sales	(12,028)	(6,113)			(12,028)	(6,113)
Gross profit	10,468	13,033			10,468	13,033
Impairment reversal	347	8,269	-		347	8,269
Impairment provision		(33)	(18,422)		(18,422)	(33)
Pre-licence costs	(2,353)	(1,282)	-		(2,353)	(1,282)
Segment result	8,462	19,987	(18,422)		(9,960)	19,987
Unallocated corporate expenses					(2,795)	(3,728)
(Loss)/profit from operations					(12,755)	16,259
Finance income					350	3,212
Finance expense					(515)	(1,051)
(Loss)/profit before tax					(12,920)	18,420
Tax						
(Loss)/profit attributable to owners of the parent					(12,920)	18,420
Profit from continuing operations					5,502	18,420
Loss from discontinued operations					(18,422)	-
					(12,920)	18,420

	Corporate		Africa		Middle East (Discontinued)		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Other segment information								
Capital additions								
Property, plant and equipment	100	41	-	-	-	-	100	41
Exploration and evaluation	-	-	1,313	(2,786)	4,575 ²	4,481	5,888	1,695
Depreciation & amortisation	(59)	(160)	(2,422)	(267)	-	-	(2,481)	(427)
Impairment reversal	-	-	347	8,269	-	-	347	8,269
Impairment provision	-	-	-	(33)	(18,422)	-	(18,422)	(33)
Segment Assets and Liabilities								
Non-current assets ³	83	41	16,645	17,432	-	13,846	16,728	31,319
Segment assets ⁴	119,409	115,300	3,409	3,297	1,733	1,023	124,551	119,620
Segment liabilities ⁵	(711)	(994)	(33,906)	(33,088)	(2,045)	(716)	(36,662)	(34,798)

¹ Revenue from continuing operations includes amounts of \$21.2 million (100% external) from one single customer (2011: \$17.5 million).

² Included within the \$4.5 million are accruals totalling \$1.4 million and net cash additions of \$3.1 million.

³ Segment non-current assets include \$6.5 million in Cameroon (2011: \$6.0 million), \$nil in Kurdistan (2011: \$13.8 million), \$6.4 million in Mauritania (2011: \$8.8 million) and \$3.8 million in Madagascar (2011: \$2.6 million).

⁴ Carrying amounts of segment assets exclude investments in subsidiaries.

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

4. REVENUE

	Total 2012 \$000	2011 \$000
Revenue from the sale of oil and gas	21,163	17,509
Royalty income	1,333	1,637
Total operating revenue	22,496	19,146

5. PROFIT FROM OPERATIONS

Profit from operations is stated after charging/(crediting)

	Note	Total 2012 \$000	2011 \$000
Staff costs	7	3,616	4,554
Share-based payments	7	973	1,857
Impairment reversal	14, 15	(347)	(8,269)
Impairment expense	14	18,422	33
Depreciation of other non-current assets	15	59	161

An analysis of auditor's remuneration is as follows:

Fees payable to the Group's auditors for the audit of the Group's annual accounts	48	70
Audit of the Company's subsidiaries pursuant to legislation	55	32
Audit related assurance services	11	11
Total audit fees	114	113

During the year the Company fully impaired all capitalised expenditure totalling \$18.4 million (2011 \$nil) on the Sangaw North licence following the decision to relinquish the block. Full details of the impairment and financial impact are disclosed in note 10 on page 56.

In 2011 the Company reversed impairments totalling \$8.3 million in accordance with IAS 36 "Impairment of Assets" following a review by the operator of forecast field life estimations on the Chinguetti field in Mauritania. This review resulted in an extension of the economic field life to better reflect decline rates that have been regressing less aggressively than originally prognosed. Of the \$8.3 million, \$5.6 million relates to reversals of prior period impairment losses on the Chinguetti Funding Agreement and \$2.7 million to reversals of prior period impairment losses on the Chinguetti Intangible Royalty Asset.

2011 Impairment reversals had been determined by estimating the value in use and resulted in an increase in field reserves of 0.472 million barrels of oil (Reserves Summary page 13). In calculating this impairment, management used a range of assumptions, including a long-term oil price of \$85 per barrel and a 10% pre-tax discount rate.

6. COST OF SALES

	2012 \$000	2011 \$000
Amortisation of intangible royalty asset	797	266
Depletion of property, plant & equipment - oil and gas	1,625	-
Operating costs	9,727	7,814
Under lift of product entitlement	(121)	(1,967)
	12,028	6,113

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

7. EMPLOYEE INFORMATION

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

	2012	2011
Africa & Middle East	14	17
Corporate support staff	11	14
	<u>25</u>	<u>31</u>

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

	2012 \$000	2011 \$000
Wages and salaries	3,034	3,831
Social security costs	347	426
Other pension costs	235	297
Share-based payments	973	1,857
	<u>4,589</u>	<u>6,411</u>

Key management personnel include Directors who have been paid \$1.2 million (2011: \$1.6 million), see Remuneration Report (pages 27 to 30) for additional detail.

A portion of the Group's staff costs and associated overheads are recharged to the joint venture partners, expensed as pre-licence expenditure or capitalised where they are directly attributable to on-going capital projects. In 2012 this portion amounted to \$4.3 million (2011: \$5.1 million).

8. FINANCE INCOME AND FINANCE EXPENSE

	2012 \$000	2011 \$000
Finance income		
Interest revenue on short-term deposits	350	365
Revisions to discount on decommissioning provision in year		2,847
	<u>350</u>	<u>3,212</u>
Finance expense		
Bank charges	12	10
Unwinding of discount on decommissioning provision	1,010	959
Unwinding of discount on production royalty bonus provision	26	21
Exchange differences	(533)	61
	<u>515</u>	<u>1,051</u>

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

9. TAXATION

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

	Total	
	2012	2011
	\$000	\$000
(Loss)/profit before tax	(12,920)	18,420
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 24.5% (2011: 26.5%)	(3,165)	4,881
Effects of		
Expenses not deductible for tax purposes	5,134	(2,117)
Capital allowances in excess of depreciation	(1,717)	(2,981)
Adjustment for tax losses	(252)	217
Tax charge for the year	-	-

10. DISCONTINUED OPERATIONS

On 29 January 2013, Sterling formally announced withdrawal from the Sangaw North licence in Kurdistan. The decision to relinquish was made in December 2012 following interpretation of the 2D seismic data acquired in the Sangaw North PSC earlier in 2012. This indicated that the remaining potential was insufficient to justify drilling a second exploration well in the contract area.

Sterling acquired and processed 117km of 2D seismic data, supplementing the 2D seismic data previously acquired in the contract area. Interpretation of the new seismic data indicated that the risked potential of a secondary target along the flank of the main structure, analogous to the recent discoveries made in adjacent acreage to the south east of the Sangaw North PSC area, did not justify the cost exposure of an exploration well. Based on this interpretation, the joint venture partnership has decided not to drill a second exploration well in the contract area.

Under the terms of the PSC, Sterling were required to notify the Kurdistan Regional Government of Iraq (KRG) on or before 31 January 2013 whether or not they wished to participate in the drilling of a further exploration well on the Sangaw North block before the end of the current exploration phase which ran to November 2013.

On 30 December 2012, Sterling fully impaired all expenditure capitalised on the Sangaw North block following a decision by the Board to relinquish the licence. Details of the financial impact of the relinquishment are summarised below:

	2012	2011
	\$000	\$000
Loss for the year from discontinued operations (page 40)	(18,422)	-
Cash flows from operating activities (note 24 page 63)	-	-
Cash flows from investing activities (note 3 page 53)	(3,133)	(4,481)
Basic and diluted loss per share from discontinued operations (USc) (note 12 page 57)	(8.38)	-

On 29 January 2013, Sterling notified the KRG of the partnership's decision not to drill a second exploration well in the Sangaw North PSC area and the PSC automatically terminated on that date.

At the date of termination, Sterling had fully satisfied the work commitment required by the Sangaw North PSC. Following the closure of Sangaw North operations, Sterling will have no remaining interests in Kurdistan.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

11. PROFIT ATTRIBUTABLE TO THE COMPANY

The loss for the financial year within the Company accounts of Sterling Energy Plc was \$8.6 million (2011 profit of \$1.6 million). As provided by s408 of the Companies Act 2006, no individual statement of comprehensive income and expense is provided in respect of the Company.

12. EARNINGS PER SHARE

The calculation of basic loss per share is based on the Group consolidated loss for the financial year of \$12.9 million (2011 profit \$18.4 million) and on 219,530,061 (2011 219,382,869) ordinary shares, being the weighted average number of ordinary shares in issue. For the year ended 31 December 2012, the basic loss per share were 5.89 US¢ per share (2011 profit 8.40 US¢ per share).

For the year ended 31 December 2012, the fully diluted loss per share was 5.89 US¢ per share (2011 profit 8.29 US¢ per share). This is computed based on 219,530,061 (2011 222,292,291) ordinary shares, being the total used for the computation of the basic earnings per share as adjusted in assuming the exercise of none of the 11,409,488 options outstanding as at the year end (see note 26 on pages 67 to 70).

For the year ended 31 December 2012, the basic and fully diluted loss per share from discontinued operations was 8.38 US¢ per share (2011 nil US¢ per share). The loss from discontinued operations during the year was \$18.4 million (2011 \$nil). The profit from continuing operations was \$5.5 million (2011 \$18.4 million).

13. INTANGIBLE ROYALTY ASSETS

	Group \$'000
Net book value at 31 December 2010 and 1 January 2011	824
Impairment reversal	2,663
Amortisation charge for the year	(266)
Net book value at 31 December 2011	3,221
Amortisation charge for the year	(797)
Net book value at 31 December 2012	2,424

Group net book value at 31 December 2012 comprises the value of rights to future royalties in respect of the Group's agreements covering licences PSC A and PSC B and PSC C-10 in Mauritania. The value of these royalty interests is dependent upon future oil and gas prices and the development and production of the underlying oil and gas reserves.

An impairment assessment and any subsequent charge are calculated on an individual royalty interest basis. Future recoverable amounts are estimated by management based on the present value of future cash flows expected to be derived from the production of commercial reserves in these licences and are compared against the carrying value of these assets.

In 2011 impairment losses recognised in prior periods totalling \$2.7 million have been reversed on the Chinguetti asset. Details of impairment losses can be found in note 1 on page 48 and note 5 on page 54.

STERLING ENERGY PLC **YEAR ENDED 31 DECEMBER 2012** **NOTES TO THE FINANCIAL STATEMENTS**

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

	Note	Group \$'000
Net book value at 31 December 2010 and 1 January 2011		20,793
Additions during the year		6,474
Reimbursement of back costs on farm-out		(4,779)
Impairment charge for the year		(33)
Net book value at 31 December 2011		<u>22,455</u>
Additions during the year		5,888
Impairment charge for the year	10	(18,422)
Impairment reversal for the year		324
Net book value at 31 December 2012		<u>10,245</u>

The amount for intangible exploration and evaluation assets represents investments in respect of exploration licences (see note 1g). Impairment tests on E&E assets are conducted on an individual cost pool basis when facts and circumstances suggest that the carrying amount in the pool may exceed its recoverable amount.

The impairment reversal recorded above relates to assets held in the Africa pool of \$324k (2011 impairment \$33k) where the estimated recoverable amount of the property, plant and equipment and E&E in the pool was in excess of the carrying amount.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

15 PROPERTY, PLANT AND EQUIPMENT

Group	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
Cost			
At 31 December 2010 and 1 January 2011	185,829	2,949	188,778
Additions during the year	-	41	41
Disposals in the year		(26)	(26)
Adjustments during the year	(4)	-	(4)
At 31 December 2011	185,825	2,964	188,789
Additions during the year	-	100	100
Adjustments during the year	(23)	-	(23)
At 31 December 2012	185,802	3,064	188,866
Accumulated depreciation and impairment			
At 31 December 2010 and 1 January 2011	(185,829)	(2,774)	(188,603)
Charge for the year	-	(161)	(161)
Disposals in the year	-	12	12
Impairment reversal for the year	5,606		5,606
At 31 December 2011	(180,223)	(2,923)	(183,146)
Charge for the year	(1,625)	(59)	(1,684)
Impairment reversal for the year	23		23
At 31 December 2012	(181,825)	(2,982)	(184,807)
Net book value at 31 December 2012	3,977	82	4,059
Net book value at 31 December 2011	5,602	41	5,643
Net book value at 31 December 2010	-	175	175

Company	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
Cost			
At 31 December 2010 and 1 January 2011	185,829	176	186,005
Adjustments during the year	(4)	-	(4)
Disposals in the year		(26)	(26)
At 31 December 2011	185,825	150	185,975
Disposals in the year	(23)		(23)
At 31 December 2012	185,802	150	185,952
Accumulated depreciation and impairment			
At 31 December 2010 and 1 January 2011	(185,829)	(161)	(185,990)
Charge for the year	-	(1)	(1)
Disposals in the year	-	12	12
Impairment reversal for the year	5,606		5,606
At 31 December 2011	(180,223)	(150)	(180,373)
Charge for the year	(1,625)	-	(1,625)
Impairment reversal for the year	23		23
At 31 December 2012	(181,825)	(150)	(181,975)
Net book value at 31 December 2012	3,977	-	3,977
Net book value at 31 December 2011	5,602	-	5,602
Net book value at 31 December 2010		15	15

During the year impairment reversals recognised in prior periods totalling \$23k have been reversed on the Chinguetti asset (2011 \$5.6 million). Details of impairment reversals can be found in note 1 on page 48 and note 5 on page 54.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

16. INVESTMENT IN SUBSIDIARIES

	Company \$000
Cost	
At 31 December 2010 and 1 January 2011	223,137
Additions during the year	1,539
Disposals during the year on liquidation of subsidiary undertakings	(118,936)
At 31 December 2011	105,740
Additions during the year	928
At 31 December 2012	106,668

The principal subsidiary undertakings at the year end are as follows (these undertakings are included on consolidation)

	Country of incorporation	Class of shares held	Proportion of voting rights held		Nature of business
			2012	2011	
Sterling Energy (UK) Limited ¹	United Kingdom	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy (International) Limited ²	United Kingdom	Ordinary	100%	100%	Exploration for oil and gas
Sterling Northwest Africa Holdings Limited ¹	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Cameroon Holdings Limited ³	Jersey, CI	Ordinary	100%	100%	Investment holding company
Sterling Cameroon Limited ³	Jersey, CI	Ordinary	100%	100%	Exploration for oil and gas
Sterling Energy (East Africa) Limited ³	Jersey, CI	Ordinary	100% ⁴	-	Exploration for oil and gas

¹ Held directly by the Company, Sterling Energy Plc

² Held directly by Sterling Energy (UK) Limited

³ Held directly or indirectly through Sterling Northwest Africa Limited

⁴ Sterling Energy (East Africa) Ltd incorporated during 2012

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Trade receivables	433	428	31	21
Amounts owed by subsidiary undertakings		-	14,228	21,308
Other receivables	117	51	19	13
Amounts due from joint venture partners	70	46	-	-
Prepayments and accrued income	590	397	71	53
	1,210	922	14,349	21,395

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

18. SHARE CAPITAL

	2012	2011
	\$000	\$000
Authorised, called up, allotted and fully paid		
220,053,520 (2011: 219,389,020) ordinary shares of 40p	149,014	148,589

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

Movements during the year included

- Issue of 102,000 Ordinary Shares of 40 pence to A MacAskill in settlement of 2011 bonus
- Issue of 562,500 Ordinary Shares of 40 pence to A Beardsall on the exercise of share options under the All Staff LTIP scheme

19. RESERVES

Reserves within equity are as follows

Share capital

Amounts subscribed for share capital at nominal value

Share premium account

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

Currency translation reserve

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

Retained deficit

Cumulative net gains and losses recognised in the Statement of Comprehensive Income less any amounts reflected directly in other reserves

20. DEFERRED TAX

At the reporting date the Group had an unrecognised deferred tax asset of \$19.0 million (2011: \$22.7 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 \$17.3 million (2011: \$21.9 million) relating primarily to unused losses and unutilised capital allowances.

21. LONG-TERM PROVISIONS

	2012 \$000	2011 \$000
Group		
Decommissioning provision (a)	21,154	20,144
2003 Production royalty bonus scheme (b)	120	153
	<u>21,274</u>	<u>20,297</u>
a) Decommissioning provisions	2012	2011
Group	\$000	\$000
At 1 January	20,144	22,032
Revisions in year	-	(2,847)
Unwinding of discount	1,010	959
	<u>21,154</u>	<u>20,144</u>

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

The Company amount of \$21.2 million (2011: \$20.1 million) in Africa represents the amount provided within the Company for future decommissioning expenditure.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

b) 2003 Production Royalty Bonus Scheme	2012	2011
	\$000	\$000
Group		
At 1 January	153	199
Unwinding of discount	26	21
Transferred to current liabilities	(67)	(69)
Foreign exchange movements	8	2
	<u>120</u>	<u>153</u>

This scheme was intended to reward key persons for the successful performance of certain assets after financial thresholds had been reached for the period since listing in 2002. The scheme was terminated in 2007 and replaced by the LTIP scheme ('2007 LTIP', and the 'All Staff LTIP', see note 26) and no further sums will accrue. The Company has the option to require the one remaining beneficiary to subscribe for new ordinary shares for the net amount arising after tax and national insurance from 2008 onwards.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Trade payables	377	962	71	6
Amounts owed to subsidiary undertakings		-	60,440	58,570
Amounts advanced from joint venture partners	92	205		-
Accruals	<u>14,919</u>	<u>13,334</u>	<u>12,745</u>	<u>12,342</u>
	<u>15,388</u>	<u>14,501</u>	<u>73,256</u>	<u>70,918</u>

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

23. OPERATING LEASES AND CAPITAL COMMITMENTS

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Minimum lease payments under operating leases recognised as an expense in the year	<u>4,443</u>	<u>4,447</u>	<u>3,378</u>	<u>3,383</u>

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

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Within one year	3,635	4,395	2,936	3,378
In the second to fifth year inclusive	<u>1,388</u>	<u>696</u>	<u>-</u>	<u>490</u>
	<u>5,023</u>	<u>5,091</u>	<u>2,936</u>	<u>3,868</u>

Operating lease payments represent the Group's share of rentals for an FPSO (Floating Production Storage and Offtake) vessel in Mauritania and rentals payable for its office properties. The current FPSO lease is due to expire in 2013 at which point the Joint Venture Partners have an option to extend the contract for a further period of time. Included within the \$5.0 million is \$2.9 million payable on the FPSO within one year.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

24. CASH FLOWS FROM OPERATING ACTIVITIES

	2012	2011
Group	\$000	\$000
Operating activities		
Profit before tax from continuing operations	5,502	18,420
Loss before tax from discontinued operations	(18,422)	-
Finance income and gains	(350)	(3,212)
Finance expense and losses	503	1,041
Depletion and amortisation	2,481	427
Impairment reversal	(347)	(8,269)
Impairment expense	18,422	33
Gain on disposal of property, plant and equipment	-	(8)
Share-based payment charge	973	1,857
Operating cash flow prior to working capital movements	8,762	10,289
Increase in inventories	(121)	(1,971)
(Increase)/decrease in trade and other receivables	(287)	16,773
Decrease in trade and other payables	(555)	(19,518)
	<u>7,800</u>	<u>5,573</u>
Cash generated from continuing operations	7,800	5,573
Cash generated/(outflow) from discontinued operations	-	-
	<u>7,800</u>	<u>5,573</u>
Company	2012	2011
	\$000	\$000
Operating activities		
(Loss)/profit before tax	(8,638)	1,553
Finance income and gains	(350)	(3,212)
Finance expense and losses	479	996
Depletion and amortisation	1,625	1
Impairment reversal	(23)	(5,605)
Net movement in investment	(928)	(1,539)
Disposal of investments	-	16,569
Gain on disposal of property, plant and equipment	-	(8)
Share-based payment charge	973	1,857
Operating cash flow prior to working capital movements	(6,862)	10,612
Increase in inventories	(121)	(1,971)
Decrease in trade and other receivables	7,046	25,790
Increase/(decrease) in trade and other payables	19,911	(20,904)
Increase in provisions	(17,573)	-
	<u>2,401</u>	<u>13,527</u>

25. FINANCIAL INSTRUMENTS

Capital risk management and liquidity risk

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

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 2012 and 31 December 2011

Group	Carrying amount / Fair value	
	2012 \$000	2011 \$000
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	120,348	115,826
Trade and other receivables	620	525
Total	120,968	116,351

Financial liabilities at amortised cost		
Trade and other payables	15,388	14,501
Total	15,388	14,501

Company	Carrying amount / Fair value	
	2012 \$000	2011 \$000
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	118,565	114,831
Trade and other receivables	14,278	21,342
Total	132,843	136,173

Financial liabilities at amortised cost		
Trade and other payables	73,256	70,918
Total	73,256	70,918

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

Interest rate sensitivity analysis

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

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

	Group Increase		Company Increase	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Cash and cash equivalents	1,203	1,158	1,186	1,148

Foreign currency risk

The Group's and Company's reporting currency is the US dollar, being the currency in which the majority of the Group's revenue and expenditure is transacted. The US dollar is the functional currency of the Company and the majority of its subsidiaries. Less material elements of its management, services and treasury functions are transacted in pounds sterling. The majority of balances are held in US dollars with transfers to pounds sterling and other local currencies as required to meet local needs. The Group does not enter into derivative transactions to manage its foreign currency translation or transaction risk.

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

Financial assets

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Cash and cash equivalents				
Cash and cash equivalents held in US\$	110,791	101,671	109,148	100,862
Cash and cash equivalents held in GBP	9,557	14,155	9,417	13,969
	120,348	115,826	118,565	114,831

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Trade and other receivables				
Trade and other receivables held in US\$	381	469	19	13,693
Trade and other receivables held in GBP	239	56	14,259	7,649
	620	525	14,278	21,342

Financial Liabilities

	Group		Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Trade and other payables				
Trade and other payables held in US\$	14,857	13,763	67,627	65,676
Trade and other payables held in GBP	531	738	5,629	5,242
	15,388	14,501	73,256	70,918

Credit risk management

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

In relation to its cash and cash equivalents, the Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. At the year end the Group held approximately 92% (2011: 88%) of its cash in US dollars. At the year end the Group held the majority of its balances with AA- and A+ Standard & Poors rated institutions. The Group continues to monitor its treasury management to ensure an appropriate balance of the safety of funds and maximisation of yield.

During the year the Company impaired loans to Sterling Energy International Limited totalling \$17.6 million (2011: \$nil) following the relinquishment of its Sangaw North licence in Kurdistan. Trade and other receivables are non-interest bearing. The Group does not hold any collateral as security and the Group does not hold any significant provision in the impairment account for trade and other receivables as they relate to customers with no default history.

Liquidity and interest rate tables

The following tables detail the remaining contractual maturity for the non-derivative financial assets and liabilities of the Group and Company. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows including rates for loan liabilities and cash deposits on actual contractual arrangements. The weighted average interest rate used in 2012 is nil% (2011: nil%).

	Less than six months \$000	Six months to one year \$000	One to six years \$000	Total \$000	Interest \$000	Principal \$000
Group						
Trade payables (2012)	469	-	-	469	-	-
Trade payables (2011)	1,167	-	-	1,167	-	-
Company						
Trade payables (2012)	71	-	-	71	-	-
Trade payables (2011)	6	-	-	6	-	-

Upside sharing agreement

Following the sale of Sterling's US operations to Atinum E&P Inc ("Atinum") in 2009 the Company held a three year 'upside sharing agreement', under which the Company is entitled to a 40% share of the annual excess net production proceeds, net of certain costs, if Atinum's average realised oil price exceeds \$90 bbl and/or the realised gas price exceeds \$9 mcf in 2010-2012.

The Company has modelled the value of each of the embedded derivatives (for oil and gas production) using a DCF model at prevailing oil and gas prices. The DCF model takes account of production profiles, appropriate discount factors and costs, hedges and other contractual terms.

At 31 December 2012 the value of the upside sharing agreement was \$nil (31 December 2011: \$nil). The Group has no financial obligation in respect of this agreement, which has now fully expired, with no amounts falling due.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

26. SHARE-BASED PAYMENTS

The Group recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of \$973k (2011 \$1.9 million). The Company recognised a total expense, within administration costs, in respect of share-based payments under equity-settled share option plans of \$184k (2011 \$255k).

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

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

Share options (2002- 2007)

Movements during the year on share options were as follows:

	2012 Number of share options	2012 Weighted average exercise price (pence)	2011 Number of share options	2011 Weighted average exercise price (pence)
Outstanding at the beginning of period	799,375	266	1,125,625	337
Forfeited during the period	(562,500)	231	(326,250)	553
Exercised during the period	-	-	-	-
Outstanding at the end of the year	236,875	348	799,375	266
Exercisable at the end of the year	236,875	348	799,375	266

For all options the Group plan provides for a grant price equal to the average quoted market price of the Company's shares on the date of grant. All options are equity settled.

The vesting period for all options is generally two years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, some options are forfeited if the employee leaves the Group before the options vest.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

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

Year of grant:	2012 Weighted average exercise price (pence)	2012 Number	2011 Number
2001	n/a	-	-
2002	160	-	503,750
2003	280	193,750	193,750
2004	500	14,375	14,375
2005	690	2,500	27,500
2006	830	13,750	47,500
2007	620	12,500	12,500

No share options were exercised during 2012 (2011: nil). The options outstanding at the end of the year have a weighted average contractual life of 0.60 years (2011: 1.18 years). The cost of share options is spread over the vesting period of two years. The weighted average fair value of options granted during the period was nil pence (2011: nil pence). Some of the options lapse if the employee leaves the Company.

No further awards were made under this share option scheme post the introduction of the 2007 LTIPs.

2007 Long Term Incentive Plan ("2007 LTIP")

Following the introduction, and approval by shareholders of the All Staff Long Term Incentive Plan ('All Staff LTIP') in 2009, no further awards or grants have been made under the 2007 LTIP, subsisting awards and grants remained in place and the scheme fully lapsed during the year.

Movement during the year on share options were as follows:

	2012 Number of share options	Exercise price (pence)	2011 Number of share options	Exercise price (pence)
Outstanding at the beginning of period	417,328	40	910,240	40
Exercised during the period	-	-	(25,513)	40
Lapsed during the period	(417,328)	40	(467,399)	40
Outstanding at the end of the year	-	-	417,328	40
Exercisable at the end of the year	-	-	417,328	40

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

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

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

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

	2012		2011	
	Number of	Exercise	Number of Share	Exercise price
	Share options	price (pence)	options	(pence)
Outstanding at the beginning of the year	7,354,868	40	5,282,777	40
Granted during the period	6,270,600	40	3,952,150	40
Exercised during the period	(562,500)	40	-	-
Lapsed during the period	(2,533,138)	40	(1,880,059)	40
Outstanding at the end of the year	10,529,830	40	7,354,868	40
Exercisable at the end of the year	-	-	-	-

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

The options outstanding at the year end have a contractual life of 4.14 years (2011: 4.10 years). The cost of the options is spread over the vesting period of three years. The fair value of the options granted during the year was 20.4 pence (2011: 15.45 pence).

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

If the SESP performance is between matching the Index and under-performing by 10%, the amount of the share options that will be earned will be determined by extrapolating on a 2:5:1 straight line basis.

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

If the SESP performance is between matching the Index and out-performing by 50%, the amount of the share options that will be earned will be determined by extrapolating on a 1:5:1 straight line basis.

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

All performance measures are defined as being the absolute share price performance or absolute index performance, and not the performance relative to each other.

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

	2012	2011
Share price (pence)	43	40
Exercise price (pence)	40	40
Expected volatility at time of grant	69.53%	79.77%
Expected life (years)	3	3
Risk free rate (%)	0.24%	0.81%
Expected dividends	Nil	Nil

Expected volatility for grants in the year was estimated by calculating the historical volatility of the Company's share price over the period 23 December 2009 to 30 September 2012 (2011: over the period 23 December 2009 to 30 September 2011). The Company has overlaid a normal distribution for the FTSE350 condition to assess a range of possible outcomes.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

	2012		2011	
	Number of Share options	Exercise price (pence)	Number of Share options	Exercise price (pence)
Outstanding at the beginning of the year	427,084	40	302,084	40
Granted during the period	309,450	40	125,000	40
Lapsed during the period	(93,751)	40	-	-
Outstanding at the end of the year	642,783	40	427,084	40
Exercisable at the end of the year	-	-	-	-

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

Furthermore, options are forfeited if the employee leaves the Group before the options vest or are exercised. The options outstanding at the year end have a contractual life of 3.39 years (2011: 3.20 years). The cost of the options is spread over the vesting period of three years. The fair value of the options granted during the year was 20.4 pence (2011: n/a pence).

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

Fair values were measured by use of a binomial model, using the same inputs as the basic (pre-modified) model for the All Staff Long Term Incentive Plan above.

27 RELATED PARTY TRANSACTIONS

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

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Short-term employee benefits	1,087	1,482	158	144
Defined contribution pension	90	117	-	-
Share-based payments	884	1,089	184	255
	2,061	2,688	342	399

Further information on Directors' remuneration is detailed in the Remuneration Report, on pages 27 to 30.

28 SUBSEQUENT EVENTS

There have been no events subsequent to the reporting date that require disclosure.

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
NOTES TO THE FINANCIAL STATEMENTS

29. CONTINGENT LIABILITIES

The Group has received a claim for VAT from the Madagascan tax authority totalling \$973k in respect of its Ampasindava and Ambilobe licences. Having taken professional advice the Group considers the claim to be wholly without foundation and continues to defend its position through the appropriate dispute resolution and legal processes.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DEFINITIONS AND GLOSSARY OF TERMS

\$	US dollars
2006 Act	The Companies Act 2006, as amended
2007 LTIP	the 2007 Long Term Incentive Plan
1P	Proven reserves or in-place quantities depending on the context
2D	two dimensional
2P	the sum of Proven and Probable reserves or in-place quantities depending on the context
3D	three dimensional
3P	the sum of Proven, Probable and Possible reserves or in-place quantities depending on the context
AIM	Alternative Investment Market of the London Stock Exchange
All Staff LTIP	the All Staff Long-Term Incentive Plan adopted in 2009
AGM	Annual General Meeting
API gravity	an American Petroleum Institute scale for crude oil density
Articles	the Articles of Association of the Company
bbl	barrel, equivalent to 42 US gallons of fluid
bbl/d	barrel per day
bopd	barrel of oil per day
boe	barrel of oil equivalent, a measure of the gas component converted into its equivalence in barrels of oil
boepd	barrel of oil equivalent per day
bcf	billion cubic feet of gas
Board	the Board of Directors of the Company
C	Celsius
Capex	capital expenditure
CGR	condensate gas ratio
Combined Code	the Combined Code on Corporate Governance Now superseded by the UK Corporate Governance Code (see below)
Companies Act	the Companies Act (as amended 2006)
Company or Sterling	Sterling Energy Plc
Contingent Resources	those quantities of petroleum estimated, as at a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies, Contingent Resources are a class of discovered recoverable resources

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DEFINITIONS AND GLOSSARY OF TERMS

COS	chance of success
Darcy	unit of permeability
Deg	degrees
Directors	the Directors of the Company
DST	drill stem test, a method of flow testing a well
E&E	exploration and evaluation assets
EBITDA	earnings before interest, taxation, depreciation, depletion and amortisation, impairment, share-based payments and pre-licence expenditure
EITI	Extractive Industries Transparency Initiative
EMV	expected monetary value
EUR	economic ultimate recovery
farm-in & farm-out	a transaction under which one party (farm-out party) transfers part of its interest to a contract to another party (farm-in party) in exchange for a consideration which may comprise the obligation to pay for some of the farm-out party costs relating to the contract and a cash sum for past costs incurred by the farm-out party
FDP	field development plan
FPSO	Floating, Production, Storage and Offloading vessel
FSA	the Financial Services Authority of the United Kingdom
G&G	geological and geophysical
GBP	pounds sterling
GIIP	gas initially in place
GOC	gas oil contact
GOR	gas oil ratio
GWC	gas water contact
Group	the Company and its subsidiary undertakings
HMRC	Her Majesty's Revenue and Customs
HSES	Health, Safety, Environment and Security
hydrocarbons	organic compounds of carbon and hydrogen
km	kilometre(s)
km ²	square kilometre(s)
KRG	Kurdistan Regional Government of Iraq
lead	indication of a possible exploration prospect
London Stock Exchange or LSE	London Stock Exchange Plc
m	metre(s)
mmbbl	million barrels

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DEFINITIONS AND GLOSSARY OF TERMS

mmstb	million barrels of oil at stock tank conditions
mmboe	million barrels of oil equivalent
mmcf	million cubic feet of gas
mmcfge/d	million cubic feet of gas equivalent per day
mmscf/d	million cubic feet at standard pressure and temperature per day
mss	metres sub-sea
mTVDss	metres true vertical depth sub-sea
Murphy Oil	Murphy Cameroon Ntem Oil Co Ltd a wholly owned subsidiary of Murphy Oil Corporation
NED LTIP	non-executive Director Long Term Incentive Plan adopted in 2009
NPV	net present value of a series of cash-flows
OECD	Organisation for Economic Cooperation and Development
Opex	operating expenditure
Ordinary Shares	Sterling ordinary shares of 40 pence each
OWC	oil water contact
P90, P50, P10	90%, 50% and 10% probabilities respectively that the stated quantities will be equalled or exceeded The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively
Panel or Takeover Panel	The Panel on Takeovers and Mergers
Petroleum	oil, gas, condensate and natural gas liquids
Petronas	PC Mauritania I PTY LTD
PP&E	Property, Plant & Equipment
PRMS	Petroleum resource Management System as issued in March 2007 by the Society of Petroleum Engineers et al
Prospect	a potential sub-surface accumulation of hydrocarbons which has been identified but not drilled
Prospective Resources or Prospective Recoverable Resources	those quantities of petroleum which are estimated, as at a given date, to be potentially recoverable from undiscovered accumulations
psi(a)	pounds per square inch (absolute)
PSC	production sharing contract

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DEFINITIONS AND GLOSSARY OF TERMS

Reserves	reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions Reserves must satisfy four criteria, they must be discovered, recoverable, commercial and remaining based on the development projects applied Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by development and production status
Reservoir	a porous and permeable rock capable of containing fluids
RF	recovery factor
RI	royalty interest
RISC	RISC (UK) Limited of 53 Chandos Place, Covent Garden, London WC2N 4HS
Scf	standard cubic feet of gas (measured at 60 degree Fahrenheit and 14.7 psia)
Seismic	data, obtained using a sound source and receiver, that is processed to provide a representation of a vertical cross-section through the subsurface layers
SESP	Sterling Energy share price
Shares	40p Ordinary Shares
Shareholders	Ordinary shareholders of 40p each in the Company
SMH	Societe Mauritanienne Des Hydrocarbures
sq km	square kilometre
sq mi	square mile
stb	stock tank barrel (measured at 60 degrees Fahrenheit and 14.7 psia)
STOIIP	Stock tank oil initially in place
Subsidiary	a subsidiary undertaking as defined in the 2006 Act
Tcf	trillion cubic feet of gas
TEA	technical evaluation agreement
TD	total depth
TVD	true vertical depth
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

DEFINITIONS AND GLOSSARY OF TERMS

UK Corporate Governance Code or Code	Formerly the Combined Code, sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders
United States or US	the United States of America
Water-cut	that percentage of total fluid production that is water
Working Interest or WI	a Company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

PROFESSIONAL ADVISERS

Nominated Advisors

Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EL2Y 9LY

Corporate Brokers

Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EL2Y 9LY

Peel Hunt
Moor House,
120 London Wall
London
EC2Y 5ET

Corporate Bankers

Barclays Commercial Bank
1 Churchill Place
London
E14 5HP

HSBC
165 Fleet Street
London
EC4A 2DY

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

Legal

Ashurst
Broadwalk Street
5 Appold Street
London
EC2A 2HA

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Registered Office

85 Fleet Street
London
EC4Y 1AE

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

ANNUAL GENERAL MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Sterling Energy Plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

Information relating to the appointment of a proxy may be found in the notes appended to this notice of Annual General Meeting

STERLING ENERGY Plc (the "Company")

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Sterling Energy Plc will be held at Ashurst LLP, Broadwalk House, 5 Appold Street, London, EC2A 2HA on 19 April 2013, at 11 00 a m to consider and, if thought fit, to pass the following resolutions. Resolutions 8 and 9 shall be proposed as special resolutions and all other resolutions shall be proposed as ordinary resolutions

ORDINARY RESOLUTIONS

- 1 To receive and adopt the Accounts for the financial year ended 31 December 2012, together with the reports of the Directors and auditors thereon **(Resolution 1)**
- 2 To approve the Remuneration Report contained in the Accounts for the financial year ended 31 December 2012 **(Resolution 2)**
- 3 To re-appoint BDO LLP as auditors of the Company **(Resolution 3)**
- 4 To authorise the Directors to set the remuneration of the auditors **(Resolution 4)**
- 5 In accordance with article 106 of the Company's Articles of Association, to re-elect Nicholas John Clayton, who retires by rotation, as a Director of the Company **(Resolution 5)**
- 6 In accordance with article 106 of the Company's Articles of Association, to re-elect Keith Nicholas Henry, who retires by rotation, as a Director of the Company **(Resolution 6)**

STERLING ENERGY PLC
YEAR ENDED 31 DECEMBER 2012
ANNUAL GENERAL MEETING

- 7 That the Directors be generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "**Act**"), to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares
- (a) up to an aggregate nominal amount (within the meaning of section 551(3) and (6) of the Act) of £29,340,469 (such amount to be reduced by the nominal amount allotted or granted under (b) below in excess of such sum), and
 - (b) comprising equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount (within the meaning of Section 551(3) and (6) of the Act) of £58,680,939 (such amount to be reduced by any allotments or grants made under (a) above) in connection with or pursuant to an offer or invitation by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the Directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever,

these authorities to expire at the conclusion of the next Annual General Meeting of the Company (or if earlier on 30 June 2014), (save that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or rights to be granted, after such expiry and the Directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authorities conferred hereby had not expired) **(Resolution 7)**

SPECIAL RESOLUTIONS

- 8 That subject to the passing of Resolution 7, the Directors be given power pursuant to section 570(1) and 573 of the Companies Act 2006 (the "**Act**") to
- (a) allot equity securities (as defined in section 560 of the Act) of the Company for cash pursuant to the authority conferred by that resolution, and
 - (b) sell ordinary shares (as defined in section 560(1) of the Act) held by the Company as treasury shares for cash,

as if section 561 of the Act did not apply to any such allotment or sale, provided that this power shall be limited to the allotment of equity securities for cash and the sale of treasury shares

- (i) in connection with or pursuant to an offer or invitation to acquire equity securities (but in the case of the authority granted under Resolution 7(b), by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment or sale but subject to such exclusions or other arrangements as the Directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal regulatory or practical difficulties which may arise under the laws of or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever, and

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

ANNUAL GENERAL MEETING

- (i) in the case of the authority granted under Resolution 7(a) above (or in the case of any transfer of treasury shares), and otherwise than pursuant to paragraph (i) of this resolution, up to an aggregate nominal amount of £4,401,070,

and shall expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 30 June 2014), save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the Directors may allot equity securities, or sell treasury shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired
(Resolution 8)

9 That

- (a) the grant to each of Keith Nicholas Henry, Nicholas John Clayton and Malcolm Hood Pattinson of an option to acquire 103,150 ordinary shares at 40p per share under the Sterling Energy Plc non-executive Directors Long-Term Incentive Plan (the "NED LTIP") be and is hereby approved,
- (b) the Directors be generally and unconditionally authorised for the purpose of section 551 of the Act (in addition to any existing authority) to exercise all powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares pursuant to or in connection with the NED LTIP up to an aggregate nominal amount (within the meaning of section 551 (3) and (6) of the Act) of £123,780, and
- (c) the Directors be given the power pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in the Act) (in addition to any existing authority) pursuant to the authority referred to in paragraph (b) above as if section 561 of the Act did not apply to any such allotment provided that any such power shall be limited to the allotment of equity securities pursuant to or in connection with the NED LTIP up to an aggregate nominal amount of £123,780,

these authorities to expire on 1 October 2017 (save that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or rights to be granted, after such expiry and the Directors may allot shares, or grant rights to subscribe for or to convert any security into shares, in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired) **(Resolution 9)**

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

ANNUAL GENERAL MEETING

BY ORDER OF THE BOARD Andrew Smith COMPANY SECRETARY 15 March 2013	Registered Office Sterling Energy Plc 85 Fleet Street London EC4Y 1AE
--	--

EXPLANATORY NOTES TO THE RESOLUTIONS:

The following explanatory information is provided by way of background to the business of the meeting

Resolution 2

This resolution is to approve the Directors' Remuneration Report for the financial year ended 31 December 2012. You can find the report on pages 27 to 30 of the Report and Financial Statements 2012.

Resolution 5

Biographical details of the Director standing for re-election (Nicholas John Clayton) appear on page 20 of the Report and Financial Statements 2012.

Resolution 6

Biographical details of the Director standing for re-election (Keith Nicholas Henry) appear on page 21 of the Report and Financial Statements 2012.

Resolution 7

Your Directors may allot shares and grant rights to subscribe for, or convert any security into, shares only if authorised to do so by shareholders. The authority granted at the last Annual General Meeting is due to expire at this year's Annual General Meeting. Accordingly, Resolution 7 will be proposed as an ordinary resolution to grant new authorities to allot shares and grant rights to subscribe for, or convert any security into, shares (a) up to an aggregate nominal amount of £29,340,469 and (b) in connection with a rights issue up to an aggregate nominal amount (including allotments under part (a) of the resolution) of £58,680,939.

These amounts represent approximately one third and approximately two thirds respectively of the total issued ordinary share capital of the Company at 15 March 2013, in accordance with current guidelines of the Association of British Insurers (the "ABI") insofar as they affect the Company. If given, these authorities will expire at the next Annual General Meeting of the Company or on 30 June 2014, whichever is the earlier. Your Directors have no present intention of issuing shares pursuant to this authority.

Resolution 8

Your Directors also require additional authority from shareholders to allot equity securities or sell treasury shares where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The authority granted at the last Annual General Meeting is due to expire at this year's Annual General Meeting. Accordingly, Resolution 8 will be proposed as a special resolution to grant such authority. Apart from offers or invitations in proportion to the respective number of shares held, the authority will be limited to the allotment of equity securities and sales of treasury shares for cash up to an aggregate nominal value of £4,401,070 (being 5% of the Company's issued ordinary

STERLING ENERGY PLC YEAR ENDED 31 DECEMBER 2012 ANNUAL GENERAL MEETING

share capital at 15 March 2013) If given, this authority will expire at the next Annual General Meeting of the Company or on 30 June 2014, whichever is the earlier Your Directors do not have any present intention of exercising this authority, but consider it desirable to have the flexibility to use it should opportunities arise Your Directors will have due regard to institutional guidelines in relation to any exercise of this authority, in particular, the requirement for advance consultation and explanation before making any non pre-emptive cash issue pursuant to this resolution which exceeds 7.5% of the Company's issued share capital in any rolling 3 year period

Resolution 9

The Sterling Energy Plc non-executive Directors Long-Term Incentive Plan (the "**NED LTIP**") was approved by shareholders at the Extraordinary General Meeting held on 4 December 2009, at which time your Directors were authorised to allot shares pursuant to options to be granted under the NED LTIP up to an aggregate nominal amount of £150,000 On 30 October 2012, Keith Nicholas Henry, Nicholas John Clayton and Malcolm Hood Pattinson were each granted, subject to the approval of shareholders, an option to acquire 103,150 ordinary shares at 40p per share (the "**NED LTIP**") The NED LTIP are exercisable after three years and are not subject to performance conditions There being insufficient headroom within the existing authority for issue of shares to satisfy the NED LTIP, it is proposed that your Directors be authorised to allot shares pursuant to the NED LTIP up to an aggregate nominal amount of £123,780, such authority to expire on 1 October 2017

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

ANNUAL GENERAL MEETING

Recommendation

Your Directors believe that all the proposed resolutions to be considered at the Annual General Meeting as set out in this document are in the best interests of the Company and its shareholders as a whole. Accordingly, your Directors unanimously recommend that you vote in favour of them as they intend to do in respect of their own beneficial holdings.

NOTES:

1 Appointment of a proxy

Only holders of ordinary shares are entitled to attend and vote at this meeting.

A member is entitled to appoint another person as their proxy to exercise all or any of their rights to attend to speak and to vote at the Annual General Meeting. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by them. A proxy need not be a member of the Company. A Form of Proxy for the Annual General Meeting is enclosed and should be completed and returned so as to reach the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU by hand, post or courier (during normal business hours only), not later than 48 hours before the time of the Annual General Meeting. Completion of a Form of Proxy or any CREST Proxy Instruction will not preclude a member attending and voting in person at the meeting.

Alternatively, you can register your proxy vote electronically by means of a website provided by the Company's registrar (www.capitashareportal.com), where full instructions are provided. In order to register your vote on-line you will need to enter the Investor Code which is given in the enclosed Form of Proxy. This website can only be used for the purpose stated above, not for sending any other document or information.

2 CREST electronic proxies

Alternatively, if you are a member of CREST, you may register the appointment of a proxy by using the CREST electronic proxy appointment service.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for this Annual General Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual subject to the provisions of the Company's Articles of Association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by no later than 48 hours before the start of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

STERLING ENERGY PLC

YEAR ENDED 31 DECEMBER 2012

ANNUAL GENERAL MEETING

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

3 Documents on display

There will be available for inspection at the registered office of the Company during normal business hours from the date of this notice until the time of the Annual General Meeting and at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting:

- (a) copies of service agreements under which Directors of the Company are employed, and copies of the terms and conditions of appointment of non-executive Directors, and
- (b) the Company's Articles of Association

4 Right to attend and vote

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the Annual General Meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), only those persons who have their name entered in the register of members' of the Company at 6.00 p.m. on 17 April 2013 or, in the event of any adjournment, by 6.00 p.m. on the date which is two days before the day of the adjourned meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5 Corporate members

Any corporate which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6 Electronic Communication

You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.