The background of the entire page is a vibrant green color with a white topographic map pattern of contour lines. In the top left corner, there is a white vertical bar. To its right, the text 'STERLING ENERGY' is written in a large, bold, black, sans-serif font, with 'PLC' in a smaller, black, sans-serif font directly below it.

**STERLING  
ENERGY**  
PLC

**2019**

**Report and Financial Statements**

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

Sterling Energy plc ('Sterling' or the 'Company'), together with its subsidiary undertakings (the 'Group'), is an upstream oil and gas company listed on the AIM market of the London Stock Exchange.

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

# Report and Financial Statements

Year ended 31 December 2019

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## GROUP ACCOUNTS

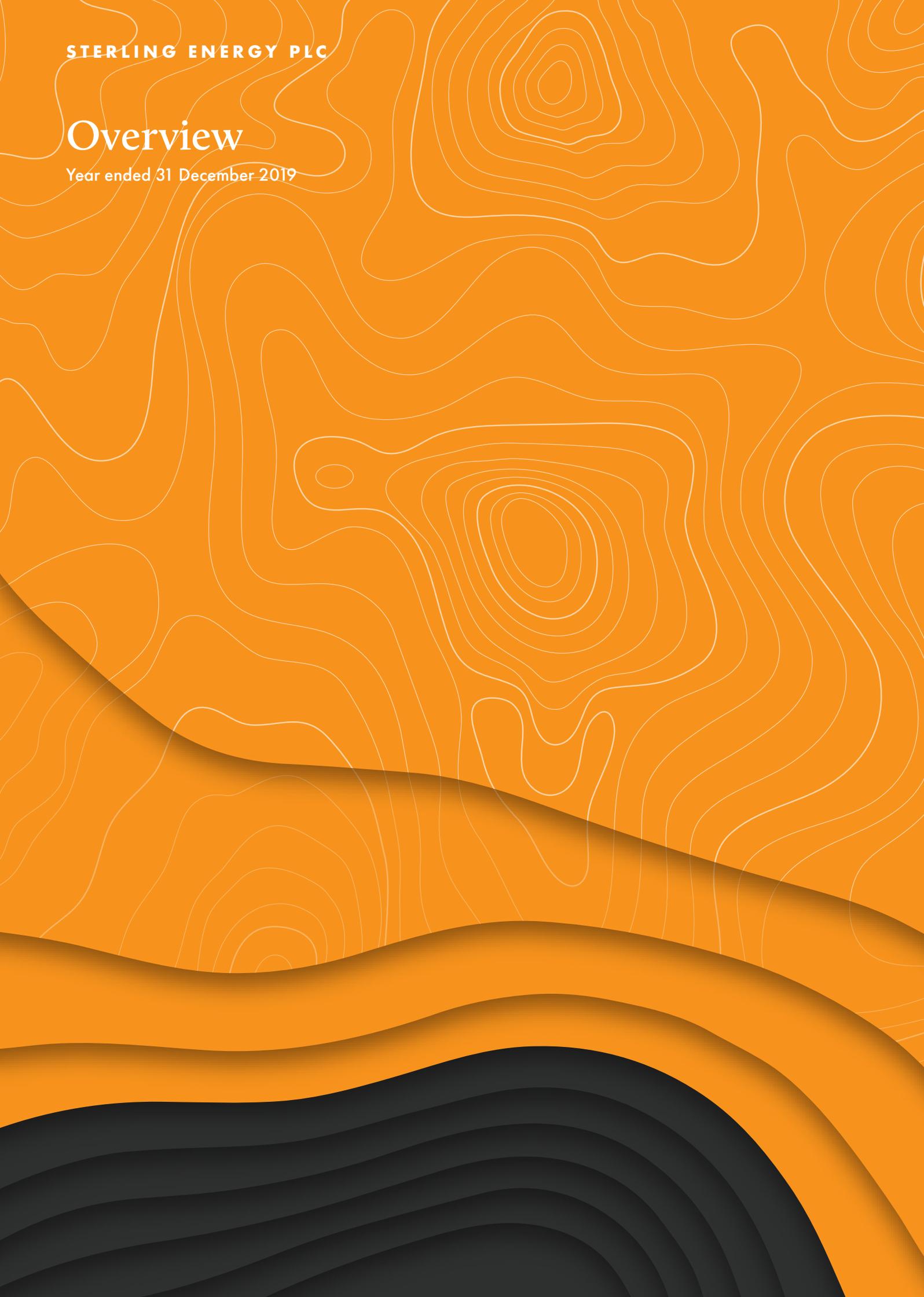
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STERLING ENERGY PLC

# Overview

Year ended 31 December 2019





# 2019 Summary



## OPERATIONS

Government of the Republic of Somaliland granted a continued extension to the current period of the Odewayne production sharing agreement ('PSA')

Throughout 2019: Odewayne block, Somaliland - Sterling continued to support the Operator in progressing the technical understanding of the block



## CORPORATE

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

Screened over fifty separate opportunities globally over 2019 and engaged with five of these to the point of indicative offer



## FINANCIAL

Cash resources net to the Group at 31 December 2019 of \$44.9 million (2018: \$46.3 million)

The Group remains debt free and fully funded for all commitments

Adjusted EBITDAX<sup>1</sup>: loss for the Group of \$917k (2018: \$1.5 million loss)

Ongoing focus on capital discipline, cash general and administrative overheads ('G&A') expenses reduced by 15% to \$2.6 million (2018: \$3.0 million)

Proactive focus on treasury management, with interest received totaling \$1.1 million (2018: \$1.0 million)

<sup>1</sup> Defined within the definitions and glossary of terms on pages 80 – 82.

# Chairman’s Statement

A number of key factors affected oil price expectations in 2019 including global demand, performance of the Chinese economy, the wider macro-economic environment, maritime regulations, revision of trade deals, production cuts as well as Iranian sanctions. Following the year end, and into 2020, Coronavirus concerns became a new and extremely significant factor of uncertainty and further affected underlying net asset value and risk appetite, with Brent crude plunging by over 30% in one day. Some of the E&P deals that looked promising throughout the year at \$60/bbl have proven not to have sustainable value as midterm investments and are currently languishing along with international indexes.

During 2019 our team intensified screening and pre-selection of E&P opportunities that meet corporate standards and the class of assets targeted by the Group. Some of the key criteria were reviewed and updated by the Board to improve focus and concentrate on added value and secure cases in what has been and continues to be a volatile market.

The Somaliland acreage remains an attractive opportunity in the long term, subject to good progress by the Operator Genel Energy which carries our costs inclusive of the drilling of the first well and has a strong cash balance to weather the downturn and fund its operations. Results of the reprocessed 2D seismic data are now ready for interpretation and we are hopeful this will show potential for material

accumulations of hydrocarbons. During the year, the operator successfully applied for the extension of the Third Exploration Period, which was subsequently granted by the state authority. Once interpretation work is complete the Operator may elect to proceed to the Fourth Exploration Period which will focus on additional seismic and the drilling of an exploration well.

## FINANCIAL

2019 costs were further reduced by the means of the improved overhead management and the net cash resources at the end of the year remain solid. 2020 financial obligations are minimal and fully funded.

## BOARD AND MANAGEMENT

In 2019 the Board and the management team led by David Marshall as the Chief Executive Officer and Director of the Company remained stable and focused on the corporate strategy and its objectives. The overall expertise and the background of the team allowed the group to effectively screen opportunities in

all major basins around the world and to short list the most promising ones for the Board to review.

## OUTLOOK FOR 2020

The Covid-19 virus has had a significant impact, affecting economies and populations globally. The spread of Covid-19 has been unlike any previous virus, taking governments and populations by surprise. It is widely expected that the world economy will be severely impacted by the Covid-19 despite measures by governments to protect it. Sterling is currently in a very strong position, preserving its capabilities, strengths and cash position to absorb any shock to the UK and wider economy and anticipates distressed M&A opportunities to arise as a result of this situation. Sterling has not experienced any significant disruption to its operations and continues to be fully functional, however Government lockdowns across the globe will undoubtedly have an effect on our counterparties and progress on potential investments. The Company continues to monitor the situation in Somaliland.

**BRENT OIL PRICE 2019-2020**



The Company continues to be fully set to evaluate M&A opportunities that continue to arise in 2020 and remains committed to executing an accretive acquisition once the right opportunity is identified. We expect that despite the current global uncertainties and the risk factors which are currently impacting the fossil fuel industry as a whole, our past background and professional excellence will allow us to target a deal for the benefit of all our shareholders.

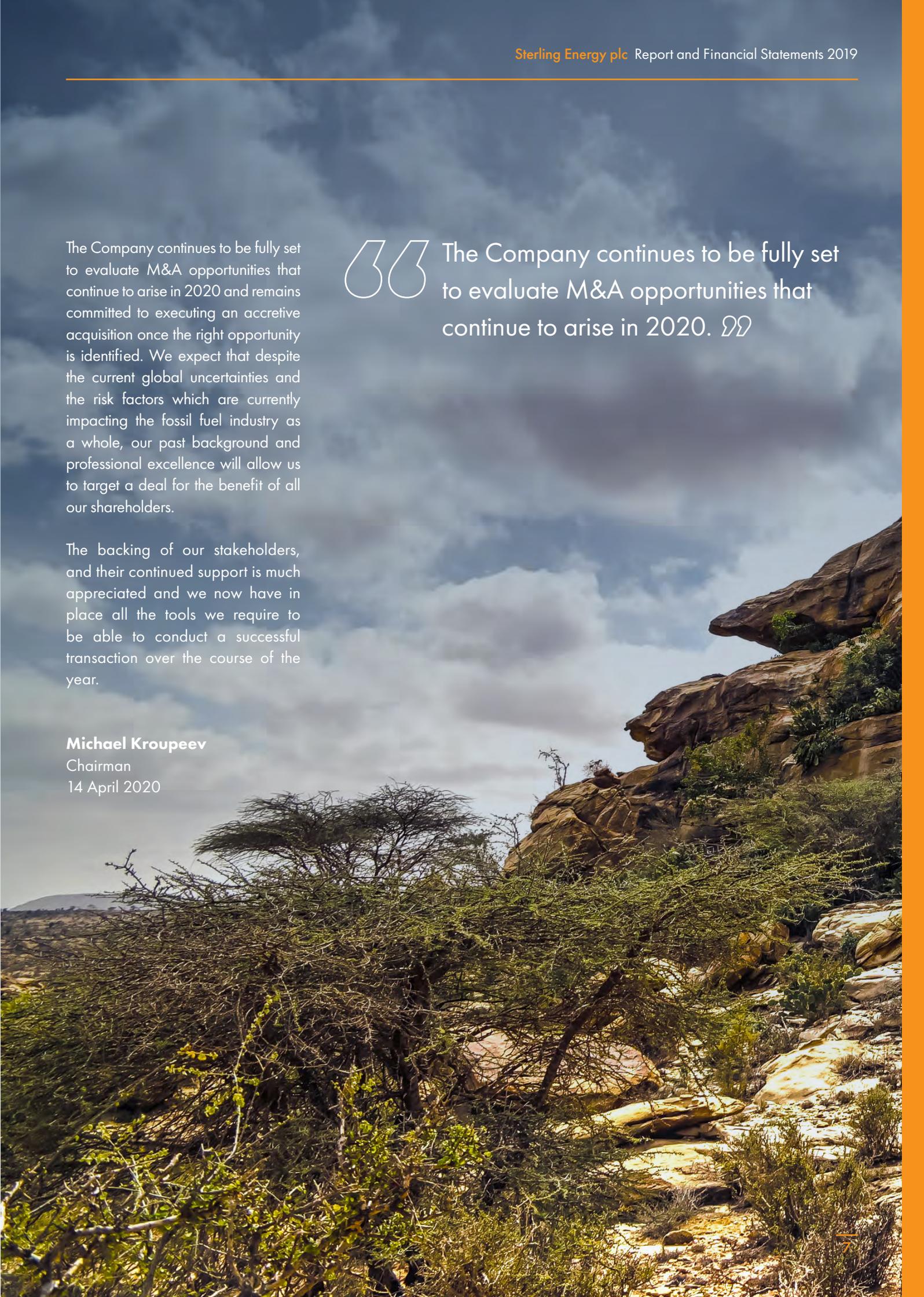
The backing of our stakeholders, and their continued support is much appreciated and we now have in place all the tools we require to be able to conduct a successful transaction over the course of the year.

**Michael Kroupeeov**

Chairman

14 April 2020

“ The Company continues to be fully set to evaluate M&A opportunities that continue to arise in 2020. ”



# Chief Executive's Review

 Sterling has a detailed understanding of the current M&A market and intends to take advantage of the current volatile marketplace. 

## 2019 & 2020 MARKET LANDSCAPE

Oil price in 2019 started strongly with Brent reaching \$67 per barrel in the first Quarter, dropping back to \$60 per barrel at end 2019, the price cushioned by increased USA oil productions despite OPEC interventions and geopolitical disruption.

A relatively stable oil price during 2019 should have encouraged M&A activity, but the large proportion of assets available were higher risk exploration prospects with operators reluctant to sell oil production and development opportunities. Production assets that were available tended to have marginal economics at flat ~\$60 per barrel.

The dramatic change in oil price following the Covid-19 impact on demand, along with the collapse of the Opec+ Alliance, has further weakened highly leveraged oil companies, who will see the benefit of partnering with a cash rich entity. This steep decline, as a result of world events, has particularly impacted financial markets and will allow us to benefit from the database of companies we have evaluated in 2019 whilst presenting new opportunities to acquire assets at advantageous terms.

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

## OPERATIONS

During 2019 work on the Odewayne block in Somaliland focused on the reprocessing of the entire 2D seismic dataset acquired in 2017 to pre-stack time migration ('PSTM'). This product was delivered to the Company in Q1 2020. Sterling will review this newly reprocessed 2D seismic data set in 1H 2020 and will update its technical assessment and outlook on block prospectivity accordingly.

We will continue to support the Operator and look forward to the results from the reprocessing. The costs associated with current period (Third Period) and the Fourth Period are fully carried by Genel Energy Somaliland Limited ('Genel Energy'), hence the minimal capital investment shown within the accounts.

## CORPORATE

During 2019 Sterling reviewed over fifty opportunities, of which 5 bids were placed and a number are still under consideration. The oil price environment in 2019 saw high expectations of value from sellers which in turn made concluding a deal with reasonable terms challenging.

Our strong cash position of \$44.9 million, with no debt or other liabilities, can be used to leverage a production foothold and include low risk exploration commitment. In 2020 Sterling's ability to fund exploration and development is key to our forward strategy. Our focus for 2020 is onshore low-cost operators, who will benefit from our cash position to develop and explore their existing portfolio.

The Company has continued to reduce G&A and focus on robust treasury management, in line with the Board mandate for cash preservation to maximise our ability to deploy capital into existing and new assets. In 2019 G&A expenditure reduced by 15% in comparison to 2018 whilst increasing interest received.

Sterling has a detailed understanding of the current M&A market and intends to take advantage of the current volatile marketplace. As such, we look to the remainder of 2020 with confidence in the belief that the current turmoil will present a number of exciting opportunities for Sterling.

## David Marshall

Chief Executive Officer  
14 April 2020



STERLING ENERGY PLC

# Strategic Report

Year ended 31 December 2019

# Operations Review

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



## SOMALILAND

Somaliland offers one of the last opportunities to target an undrilled onshore rift basin in Africa. The Odewayne block, with access to Berbera deepwater port less than a 100km to the north, is ideally located to commercialise any discovered hydrocarbons. A 2D geophysical survey acquired in 2017 and reprocessed in 2019, along with potential field data and legacy geological field studies, are the focus of the company's 2020 work programme to determine if a Mesozoic sedimentary basin is present in the block.

## Odewayne (W.I. 34%) Exploration block OVERVIEW

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

The Odewayne production sharing agreement was awarded in 2005. It is in the Third Period, with a minimum work obligation of 500km of 2D seismic. The Third Period has been further extended, through the 8th deed of amendment (as mentioned on page 14), and its minimum work obligation was met in 2017 when the Somaliland Government (Ministry of Energy and Minerals) contracted BGP (Geophysical contractor) to undertake a 1,000km (full fold, 1,076km surface) 10km by 10km 2D seismic campaign. The minimum work obligation during the optional Fourth Period of the PSA, which has also been extended by 2 years, is for 1,000km of 2D seismic and one exploration well.

The Company's wholly owned subsidiary, Sterling Energy (East Africa) Limited ('SE(EA)L'), holds a 34% working interest in the PSA. SE(EA)L originally acquired a 10% position from Petrosoma Limited ('Petrosoma') in November 2013 and an additional 30% from Jacka Resources Somaliland Limited ('Jacka') in two transactions during 2014.

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



In early 2018, following encouraging results from an integrated geoscience review in late 2017 of the basic post-stack processed 2D dataset provided by the Operator Genel Energy, Sterling undertook a highly focused and rigorous processing effort, independent of the Operator. The first phase deliverables were a full PSTM dataset, consisting of 3 lines of ca. 235km and were received in May 2018. These reprocessed lines showed significant improvements in subsurface imaging and were shared with the joint venture ('JV') partners in order to assist the decisions on forward work programs.

In parallel to Sterling's efforts, the Operator undertook a number of studies to support the interpretation of the 2D seismic dataset. This included the integration of the 2D seismic data with the potential fields data in the form of a 2D gravity modeling study, alongside an updated review of the regional geology of the Odewayne basin. These studies led to the development of a number of geological models that were used to interpret the seismic data which in the Company's view help support the likely presence of a sedimentary basin. Following this work, the JV partners

agreed that reprocessing of the seismic data was needed to further improve the understanding of the prospectivity of the Odewayne Basin.

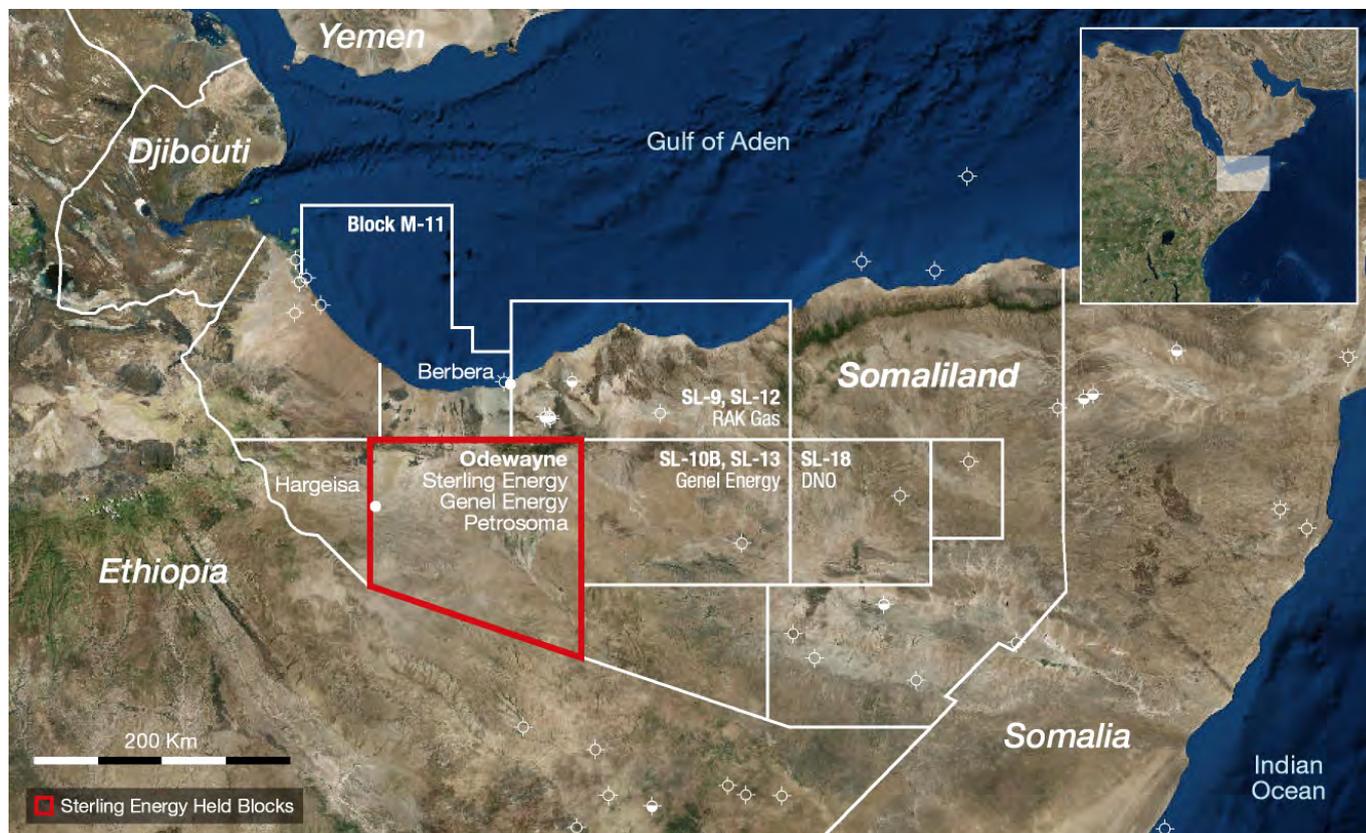
## OUTLOOK

Following the various tests performed by both Sterling and the Operator, in 2019 the Operator undertook the reprocessing of the whole 2D seismic data set to pre-stack time migrated data. An interpretation dataset was made available by the Operator in November 2019 and final products were delivered in January 2020.

Sterling will review this newly reprocessed 2D seismic data set in Q2 2020 and will update its technical assessment and outlook on block prospectivity accordingly. Alongside the seismic reprocessing, a surface seep study focused on areas highlighted by the seismic as most likely to be situated above migration pathways from potential hydrocarbon kitchens. It is anticipated that the above work will aid the JV partnership in developing an appropriate forward work program to further evaluate the prospectivity of the licence.

# Asset Summary

Somaliland – Odewayne



## CONTRACT SUMMARY

Contract type	PSA	Participants	
Contract signed	6 October 2005	Genel Energy Somaliland Limited (Operator)	50%
Contract effective date	6 October 2005	Sterling Energy (East Africa) Limited	34%
Contract area	22,840km <sup>2</sup>	Petrosoma Limited	16%

### Exploration term

Current Period 3: To 2 November 2020 (see licence status)  
 Period 3 work commitment: 500km 2D seismic acquisition  
 Period 4 (optional): To 2 May 2022  
 Period 4 work commitment: 1,000km 2D seismic acquisition and one exploration well  
 Period 5 (optional): To 2 May 2023  
 Period 5 work commitment: 500km 2D seismic acquisition and one exploration well  
 Period 6 (optional): To 2 May 2024  
 Period 6 work commitment: 500km 2D seismic acquisition and one exploration well

### Production term

Twenty five years, renewable for additional ten years

### State participation

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

### Licence status

The block is in the Third Period of the exploration term. The Group's costs associated with the Third and Fourth period work programmes are fully carried by Genel Energy.

The Third Period expiry, as described in the 8th Amendment to the PSC.



# Financial Review

Year ended 31 December 2019

## SELECTED FINANCIAL DATA

		2019	2018
Adjusted EBITDAX	\$million	(0.9)	(1.5)
Loss after tax	\$million	(1.6)	(2.0)
Year end cash net to the Group	\$million	44.9	46.3
Year end share price	Pence	8.7	10.4

## NON-IFRS MEASURES

The Group uses certain measures of performance that are not specifically defined under IFRS or other generally accepted accounting principles. These non-IFRS measures include capital investment, debt and adjusted EBITDAX.

## INCOME STATEMENT

Group G&A decreased by 15% during the year to \$2.6 million (2018: \$3.0 million). The continued reduction in the Group's administrative overhead is in keeping with the Board driven KPI for cash preservation.

In 2019, a portion of the Group's staff costs and associated overheads have been expensed as pre-licence expenditure (\$1.3 million), or capitalised/recharged (\$23k) where they are directly assigned to capital projects or recharged. This totalled \$1.4 million in the year (2018: \$1.4 million).

Interest received during the year was \$1.1 million (2018: \$1.0 million). Net finance income (finance income less finance expenses) totalled \$1.0 million in the year (2018: \$1.0 million).

The loss for the year was \$1.6 million (2018: loss \$2.0 million):

	\$ (million)
Loss for year 2018	(2.0)
Decrease in revenue	(0.5)
Decrease in cost of sales	0.5
Decrease in G&A and pre-licence	0.4
<b>Loss for year 2019</b>	<b>(1.6)</b>

## ADJUSTED EBITDAX AND NET LOSS

Group adjusted EBITDAX loss totalled \$917k (2018: \$1.5 million loss):

	2019 \$000	2018 \$000
Loss after tax (page 52)	(1,600)	(1,956)
Interest and finance costs	(952)	(1,024)
Depletion and depreciation	191	10
Pre-licence costs	1,444	1,453
Total EBITDAX (Adjusted)	(917)	(1,517)

The basic loss per share was 0.7 cents per share (2018: loss 0.9 cents per share). No dividend is proposed to be paid for the year ended 31 December 2019 (2018: \$nil).

### **STATEMENT OF FINANCIAL POSITION**

At the end of 2019, non-current assets totalled \$22.1 million (2018: \$21.1 million) relating in principal to the Odewayne block (\$21.1 million).

At the end of 2019, net assets/total equity stood at \$65.8 million (2018: \$67.3 million).

IFRS 16 (Leases) was adopted on 1 January 2019 and required the Company to account for all leases under a single balance sheet model, recognising both the rights to the asset and the liability arising under the lease. IFRS 16 is further described in Note 1, Note 10 and Note 17.

Net current assets reduced to \$44.5 million (2018: \$46.2 million). At the end of 2019 cash and cash equivalents totalled \$44.9 million (2018: \$46.3 million), this reduction is for the most part due to G&A overheads.

### **CASH FLOW**

Total net decrease in cash and cash equivalents in the year was \$1.5 million (2018: \$35.1 million, primarily due to the termination of the Chinguetti Funding Agreement), a full reconciliation of which is provided in the Consolidated Statement of Cash Flows on page 55.

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

### **ACCOUNTING STANDARDS**

The Group has reported its 2019 and 2018 full year accounts under International Financial Reporting Standards ('IFRS'), as adopted by the European Union.

### **CAUTIONARY STATEMENT**

This financial report contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. Whilst the Directors believe the expectation reflected herein to be reasonable in light of the information available up to the time of their approval of this report, the actual outcome may be materially different owing to factors either beyond the Group's control or otherwise within the Group's control but, for example, owing to a change of plan or strategy. Accordingly, no reliance may be placed on the forward-looking statements.

# Business Risk

## PRINCIPAL BUSINESS RISKS

The long-term success of the Group depends on its ability to manage its asset portfolio and to find, acquire, develop and/or commercially produce new oil and natural gas reserves. In achieving its long-term success, the Group is exposed to a number of risks and uncertainties which could have a material impact on the Company's performance. Key to mitigating the risks faced by the Company is ensuring Sterling has the correct Board and senior management team in place who regularly review the business, approve the annual work programme and budget as well as consider monthly management reporting, financial operating procedures, health, safety, security and environment ('HSSE') and other important factors. The Directors regularly monitor all risks to the Company using information obtained or developed from external and internal sources and will take actions as appropriate to mitigate these. The Group utilises a risk management system that identifies key business risks and measures to address these risks. The Company proactively implements such measures considered appropriate on a case-by-case basis.

The Company's strategic risk and operational risks remained the same with no change in the Company's portfolio.

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

Category	Risk	Mitigation	Change
<b>Financial, Commercial and Economic</b> <ul style="list-style-type: none"> <li>Low commodity prices</li> <li>Market volatility</li> <li>Counterparty distress</li> </ul>	<ul style="list-style-type: none"> <li>Continued lower oil and gas commodity prices and market volatility.</li> <li>Difficulty in capital raising for new acquisitions and/or to fund development activities.</li> <li>Licence extension uncertainty. Licences, permits or approvals may be difficult to obtain and sustain.</li> <li>Fiscal instability.</li> <li>Foreign currency risk.</li> </ul>	<ul style="list-style-type: none"> <li>Group maintains a strong balance sheet and remains fully funded for its existing commitments.</li> <li>Management continually assess all existing assets and proposed new acquisitions in light of future capital requirements from a disciplined lifecycle investment perspective.</li> <li>The Group holds the majority of its cash in US dollars, the predominant currency used in oil and gas operations.</li> </ul>	▶
<b>External</b> <ul style="list-style-type: none"> <li>Country risk</li> <li>Climate change</li> <li>Legal compliance</li> </ul>	<ul style="list-style-type: none"> <li>The Group's assets are located in a non-OECD country. Governments, regulations, and the security environment may adversely change, including the use of tax claims, real or not. The Group's assets in Somaliland have been or are affected by country-specific situations.</li> <li>The regulation of the energy industry to address climate change is increasingly international in scope and application. The Group's activity focuses on finding and producing carbon based fuels often with long investment and production lifecycles.</li> <li>Complex Legal and Regulatory Compliance or litigation risk.</li> <li>The Group's headquarters are located in the UK, with continuing uncertainty surrounding Brexit.</li> <li>Failure to recruit and retain key personnel and/or engage in adequate succession planning.</li> <li>Human error or deliberate negative action.</li> </ul>	<ul style="list-style-type: none"> <li>The Board monitors political, regulatory and HSSE changes and engages third-party expertise as required. The Group has objectives to acquire additional core assets, to assist in diversifying jurisdictional risk.</li> <li>New investments are considered in the light of changing environmental regulations, fiscal volatility and geopolitical dynamics.</li> <li>The Company accords the highest importance to corporate governance matters and operates to high ethical standards.</li> <li>Activities are subject to various different jurisdictional laws, customs, fiscal and administrative regulations.</li> <li>The Company employs suitably experienced and qualified staff and, when required, external advisors to ensure full compliance. Legal risk assessment and due diligence (where appropriate) is undertaken for all counterparties the Company deals with.</li> </ul>	▶

<p><b>Strategic</b></p> <ul style="list-style-type: none"> <li>• Concentration of portfolio</li> <li>• Competition</li> </ul>	<ul style="list-style-type: none"> <li>• Group's remaining asset (Somaliland) is concentrated on early stage frontier and basin exploration and production within the African continent.</li> <li>• Reduction in Industry interest to promote/carry early stage exploration assets – making it more difficult to farm-out the Group's early stage exploration assets.</li> <li>• Competitors have significantly greater financial and technical resources.</li> <li>• Concentration of shareholder base.</li> <li>• Failure to negotiate optimal contract terms.</li> <li>• Inadequate management processes.</li> <li>• Financial control of non-operated assets.</li> <li>• Fraud, Bribery and corruption / increased third party exposure.</li> <li>• Inappropriate or poorly conceived corporate strategy and failure to deliver on such strategy including failure to access new opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• The Board is actively seeking to diversify the current portfolio risk by acquiring appraisal, development and/or producing assets, using existing financial resources of the Group and additional capital (as required).</li> <li>• The Board is pursuing an M&amp;A strategy and conducts detailed due diligence prior to engagement with any prospective transaction.</li> <li>• Ongoing engagement with shareholders to inform investment decisions (including representatives on the Board).</li> <li>• Key documentation and contract terms are considered by the Board to ensure the best possible outcomes are achieved.</li> <li>• Management regularly monitor and amend cost structure, investment strategy and treasury policy to include countercyclical investments.</li> <li>• The Board meets regularly to review the business plan, G&amp;A expenses, strategy and monthly reporting.</li> </ul>	<p>►</p>
<p><b>Operational</b></p> <ul style="list-style-type: none"> <li>• Exploration and production risk</li> <li>• Operator and partner risk</li> </ul>	<ul style="list-style-type: none"> <li>• Exploration activities may not result in a commercial discovery.</li> <li>• The Group is dependent on other operators for the performance of E&amp;P activities, due lack of control. This may result in delay in conducting exploration work programmes.</li> <li>• HSSE incident or non-compliance under local rules and/or laws.</li> </ul>	<ul style="list-style-type: none"> <li>• Management aims to diversify and manage risk across a portfolio of assets. Applying the Group's experience, expertise and appropriate technology to minimise risk, through the asset lifecycle.</li> <li>• The Group carefully considers the technical, HSSE and financial capabilities of operators and potential partners during any JV farm-out or new opportunity acquisition.</li> </ul>	<p>►</p>
<p><b>Covid-19 Pandemic</b></p>	<ul style="list-style-type: none"> <li>• Staff may become ill or require themselves to be quarantined, excessive numbers of which may limit the Company's ability to continue its normal operations.</li> </ul>	<ul style="list-style-type: none"> <li>• There are no SEY staff on the ground at the Odewayne asset. All staff are based in the UK with access to advanced healthcare and the NHS.</li> <li>• World Health Organisation procedures designed to limit staff exposure and isolate those suspected of contracting the virus alongside the implementation of enhanced hygiene and sanitation protocols have been put in-place for UK based staff. All UK staff are able to work from home when required and following UK Government guidelines.</li> </ul>	<p>▲</p>

▲ Increased ▼ Decreased ► Unchanged

# Business Risk (cont.)

## INTERNAL CONTROL

The Directors are responsible for establishing and maintaining the Group and the Company’s systems of internal control including financial and compliance controls and risk management. These are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication.

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

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

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

## COMPANY POLICIES

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

Health, safety, security and environment	
Core competency of the Group	<ul style="list-style-type: none"> <li>• Every individual to be aware of his/her responsibility towards providing a safe and secure working environment;</li> <li>• Managed through staff training and procedures to reduce HSSE risks as low as reasonably practical;</li> <li>• Appropriate emergency response systems are in place to reduce and mitigate the impact and losses of any incident; and</li> <li>• Ensure compliance with all relevant laws, regulations and industry standards.</li> </ul>
JV partners	<ul style="list-style-type: none"> <li>• The Group maximises its influence with JV partners to share its HSSE and social responsibility values; and</li> <li>• Contractors are required to demonstrate and deliver a credible HSSE and social responsibility programme.</li> </ul>
Environmental	<ul style="list-style-type: none"> <li>• The Group is committed to minimising its impact on the environment in both field operations and within its offices; and</li> <li>• 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.</li> </ul>

Corporate responsibility	
Conducting business in a responsible and sustainable way	<ul style="list-style-type: none"> <li>• The Group has corporate, environmental and social responsibilities to the indigenous communities in the areas in which it operates, to its partners, to its employees and to its shareholders; and</li> <li>• In pursuing its business objectives, it undertakes not to compromise its Corporate Social Responsibility with any of these stakeholders.</li> </ul>
Business Integrity	
Conducting business with integrity, honesty and fairness	<ul style="list-style-type: none"> <li>• Highest ethical standards are a cornerstone of the Group's business;</li> <li>• All business activities are reviewed to ensure they meet our standards;</li> <li>• The Group also seeks to ensure that similar standards are applied by its business partners, contractors and suppliers; and</li> <li>• All members of staff are individually accountable for their actions to ensure that they apply and maintain these standards.</li> </ul>
Community Responsibility	
Committed to being a good partner in the communities in which we operate	<ul style="list-style-type: none"> <li>• Engagement and dialogue with local stakeholders to ensure that, as far as possible, projects benefit both the Group and the communities in which the project is located.</li> </ul>
Employees	
Workplace free of discrimination	<ul style="list-style-type: none"> <li>• All employees are afforded equal opportunities and are rewarded on merit and ability;</li> <li>• All employees are given contracts with clear and fair terms; and</li> <li>• Staff are offered access to relevant training and encouraged to join professional bodies to enhance their knowledge, competencies, career development and opportunities for progression.</li> </ul>
Culture of openness	<ul style="list-style-type: none"> <li>• High standards of conduct, accountability and propriety; and</li> <li>• Employees can report legitimate concerns without fear of penalty or punishment.</li> </ul>
Whistleblowing Policy	
Empowers employees to be proactive	<ul style="list-style-type: none"> <li>• Employees able to make anonymous reports directly to the Senior independent non-executive Director; and</li> <li>• Employees are encouraged to report any failure to comply with legal obligations or the Group's regulations, dangers to health and safety, financial malpractice, damage to the environment, criminal offences and actions which are likely to harm the reputation of the Group.</li> </ul>
Antibribery and Corruption Policy	
Committed to using only legitimate means to further business interests	<ul style="list-style-type: none"> <li>• The Company commits not to offer, promise, pay or accept bribes in order to obtain unfair advantage;</li> <li>• Remuneration, payments and commissions shall be for legitimate business reasons; and</li> <li>• Systematic procedure supporting the Policy to reduce the risk of bribery and corruption to as low as reasonably practicable.</li> </ul>

# Business Risk (cont.)

## SECTION 172 STATEMENT

A director of a company must act in a way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the following factors:

- The likely consequences of any decision in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and the environment;
- The desirability of the company maintaining a reputation for high standards of business conduct; and
- The need to act fairly between members of the Company.

The Board has regard to the provisions of s.172 of the Companies Act 2006 in carrying out their duties and have regard to the matters set out in s.172 (a) – (f) in the decisions taken during the year ended 31 December 2019.

## Our stakeholder engagement

The Board identifies a number of key stakeholders of the Company: JV partners; regulators and government partners; communities where our assets are located; shareholders; and our employees. During the year the Company actively engaged with its identified key stakeholders.

The Company is committed to engaging positively with the communities in which our assets are located and looks to support those communities relevant to our operations.

As set out on pages 12 and 13 the Company has worked closely with Genel Energy, focused on the reprocessing of the entire 2D seismic dataset acquired in 2017 to PSTM. The Company will continue engage with the Operator in relation to this asset now the dataset has been delivered to the JV.

The Company has a small team of employees and consultants based in the UK all of whom have direct contact with the head of Human Resources who engages with the workforce and reports directly to the CEO. Board meetings are held in the UK office where a number of employees and consultants are invited to join the meeting from time to time. All members of the Board have day-to-day business interactions with various employees of the Group so receive direct employee feedback and engagement.

The Directors regularly engage with investors via the AGM and at other times during the year. Continued access to the capital markets is key to the success of the Company's M&A strategy therefore the management team and the Board work to ensure that the Company's investors have a sound understanding of the Company's strategy and ambitions and how this may be implemented. Investors views are sought by the Directors to guide the Company's strategy and in particular its M&A strategy. The Company's M&A strategy has become more targeted towards seeking particular assets in more limited jurisdictions as discussed in the CEO's statement on pages 8 and 9.

### **Principal decisions during 2019**

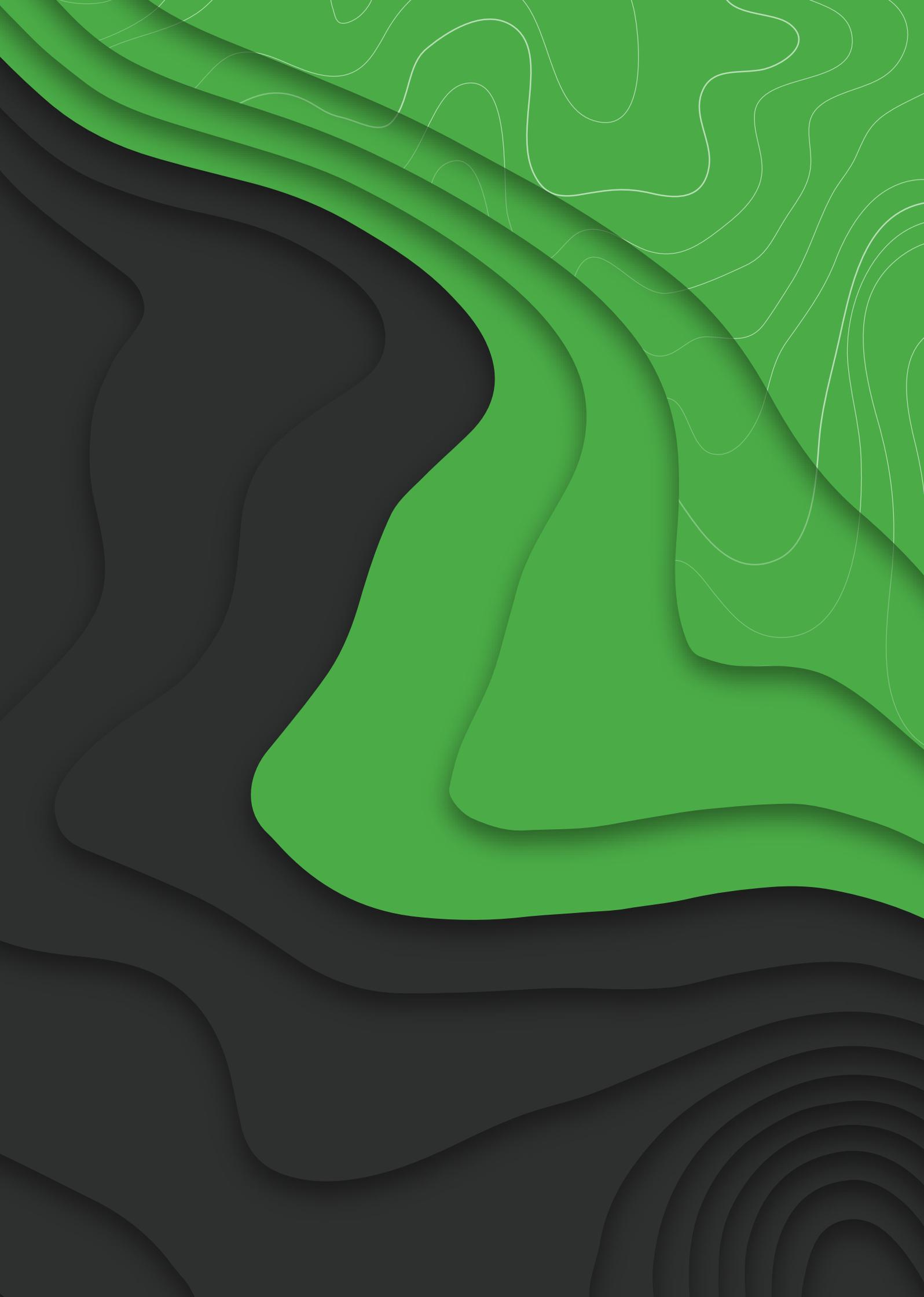
During 2019 the Board retained its focus on reducing G&A and engaged in robust treasury management to preserve the Company's capital to maximise the Company's ability to deploy capital into existing and new assets.

Key decisions made by the Board were in relation to M&A opportunities with a significant focus on the likely consequences of these decisions in the long-term as well as looking how these decisions may affect communities and the environment. As stated above investor feedback in relation to the Company's M&A strategy was considered as part of the Board's decision making in this area.

The Strategic Report was approved by the Board of Directors on 14 April 2020 and signed on its behalf by:

### **David Marshall**

Chief Executive Officer



STERLING ENERGY PLC

# Corporate Governance

Year ended 31 December 2019

# Board of Directors



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**DAVID MARSHALL**  
CHIEF EXECUTIVE OFFICER  
AGED 61

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

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

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



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**MICHAEL KROUPEEV**  
NON-EXECUTIVE CHAIRMAN  
AGED 53

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

Michael has 25 years' experience working within the exploration and production sector. After attending University in Russia and the United Kingdom studying Plasma physics and gaining an MBA at the London Business school respectively, he began his UK career working for Dana Petroleum plc as a Director in 1994. In 1995, Michael founded Waterford. Waterford is an oil and gas focused vehicle, specialising in the financing of oil, gas and other energy related projects in emerging markets. He has been directly involved in the capital raising for natural resource projects and in acquiring, restructuring, developing and divesting such assets. Waterford has a number of substantial shareholdings in oil and gas companies with operations in Europe, Africa, former Soviet Union and the Middle East. Michael also served as a Director of Sibir Energy Plc from 1998 till 2000.



**LEO KOOT**  
**SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR**  
 AGED 57

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

Leo has over 29 years' experience in the energy sector and an MSc in Petroleum Engineering from Delft University, the Netherlands. Following a successful start to his career with Shell International, he has been involved in multiple successful business start-ups of scale including EDP Ltd, TAQA Bratani (UK) Ltd and TAQA Iraq BV.

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

Leo is currently the Executive Chairman of Columbus Energy Resources PLC, a Managing Partner of MENA Gulf Investments and a non-executive Chairman of Tulip Oil.



**ILYA BELYAEV**  
**NON-EXECUTIVE DIRECTOR**  
 AGED 38

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

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

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

# Statement of Corporate Governance

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

## **CORPORATE CULTURE**

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

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

## **BOARD COMPOSITION**

As at 14 April 2020, the Board currently comprises Michael Kroupeev, non-executive Chairman, David Marshall, CEO, Leo Koot, Senior Independent non-executive Director and Ilya Belyaev, non-executive Director. The Board consider Leo to be independent. Leo was appointed in 2017, his tenure is not concurrent with management and there are no other factors which the Board consider may compromise his independence. As a representative of a major shareholder, the Board do not consider Ilya to be independent. Michael was not considered independent on appointment as non-executive Chairman as a representative of Waterford Finance and Investment Limited (which, along with its associates, beneficially holds 29.2% of the Company).

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

Michael Kroupeev (non-executive Chairman) and Ilya Belyaev (non-executive Director) are shareholder representatives. All of the Directors bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards. The Board meets regularly throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

Board composition is reviewed by the Nominations Committee which considers the balance of skills, personal qualities and diversity, as well as focusing on succession planning. The Directors acknowledge that shareholder expectation is that at least half of the Directors of a Board will be independent NEDs, however, given the current stage of development of the Company's operations and its focus on completing a material transformative M&A transaction, the Board consider the current composition to be appropriate for the Company at this time. As and when the Company completes an M&A transaction, the balance of skills, experience and knowledge will be reconsidered.

## FUNCTIONING OF THE BOARD

The Board is responsible to the shareholders for the proper management of the Company. A Statement of Directors' Responsibilities in respect of the financial statements is set out on page 45.

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

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

Leo Koot is the Senior Independent non-executive Director. The Senior Independent non-executive Director is available to all shareholders and staff if they have concerns which, through the normal channels of contact with the non-executive Chairman and CEO, have not been resolved or for which such contact is inappropriate. The Company does not detail the roles of Chairman, Senior Independent Director and Company Secretary. The CEO has contractual obligations.

## CONFLICTS OF INTEREST

Whilst conflicts should be avoided, the Board acknowledges that instances arise where this is not always possible. In such circumstances, Directors are required to notify the Chairman before the conflict arises and the details are recorded in the minutes. If a Director notifies the Board of such an interest, they may be, if requested by the Chairman, excluded from any related discussion and will always be excluded from any formal decision.

## EVALUATION OF THE BOARD'S PERFORMANCE

Performance evaluation takes place informally and includes assessing the effectiveness of the Board as a whole. Aspects of performance include attendance and active participation at Board meetings, quality of involvement in Committees, commitment and effectiveness of their contribution to Board activities (including the AGM and shareholder communications), the adequacy of training and non-executive Directors' independence. No formal Board performance evaluation took place during 2019.

## RETIREMENT AND RE-ELECTION

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

## MEETINGS AND TIME COMMITMENT OF THE BOARD

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

# Statement of Corporate Governance (cont.)

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

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

	Board Meetings	Audit Committee <sup>1</sup>	Remuneration Committee	Nominations Committee
<b>Number of meetings in year</b>	<b>10</b>	<b>1</b>	<b>1</b>	<b>-</b>
David Marshall	9	-	-	-
Michael Kroupeeov	10	-	-	-
Leo Koot	10	1	1	-
Ilya Belyaev	10	1	1	-

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

## LOCATION OF CORPORATE GOVERNANCE DISCLOSURES

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

### Michael Kroupeeov

Chairman

14 April 2020

# Audit Committee Report

## MEMBERS

This Committee currently comprises:

- Leo Koot (Chairman)
- Ilya Belyaev

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

## SUMMARY OF RESPONSIBILITIES

- monitoring the integrity of the Group's financial statements, including review of the financial statements of the Company including its annual and half-yearly reports and any formal announcements relating to its financial performance;
- reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- monitoring the effectiveness of the internal control environment;
- making recommendations to the Board on the appointment of the Auditors;
- making a recommendation to the Board on Auditors' fees;
- agreeing the scope of the Auditors' annual audit programme and reviewing the output;
- ensuring the independence of the Auditors is maintained;
- assessing the effectiveness of the audit process; and
- developing and implementing policy on the engagement of the Auditors to supply non-audit services.

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

An essential part of the integrity of the financial statements lies around the key assumptions and estimates or judgments to be made. Key estimates reviewed by the Committee during 2019 included the discount rate to be used on the adoption of IFRS 16 (leases). The Committee reviews key judgments prior to publication of the financial statements, as well as considering significant issues throughout the year, which included the carrying value of investments and impairment of assets. The Committee reviewed and was satisfied that the judgments exercised by management contained within the Report and Financial Statements are reasonable.

The external audit function plays an important part in assessing the effectiveness of financial reporting and internal controls, and the effectiveness and quality of audit is of key importance. Our Auditors, BDO LLP, have been in place since 2010. The Committee notes that it is considered best practice for companies to put the external audit contract out to tender at least every ten years. In line with the audit profession's own ethical guidance, the current audit engagement partner (who has rotated in a year early) is due to rotate off the Company's account in the year ending 31 December 2023, having served for a period of five years. Having considered the Financial Reporting Council's ('FRC's') guidance, the Committee's current intentions are that it will initiate a re-tendering process during 2020. The Committee has recommended to the Board that shareholders support the re-appointment of BDO LLP at the 2020 AGM.

Further disclosure relating to the Auditors is set out within the Directors Report on pages 42 – 44.

Details of fees payable to the Auditors are set out in Note 4.

## Leo Koot

Chairman of the Audit Committee  
14 April 2020

# Nominations Committee

## MEMBERS

This Committee currently comprises:

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

Following the replacement of the CEO in 2018, the Nominations Committee also considered the composition of the Board generally, reviewing the skills and experience of the Board as a whole.

Following the detailed review in 2018, the Nominations Committee did not meet during 2019.

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

## **Michael Kroupeev**

Chairman of the Nominations Committee

14 April 2020

# Remuneration Committee Report

## MEMBERS

This Committee currently comprises:

- Leo Koot (Chairman)
- Ilya Belyaev

The Remuneration Committee met once during the year.

The Company Secretary acted as secretary to the Committee and the Chairman of the Board attended Committee meetings where appropriate.

## SUMMARY OF RESPONSIBILITIES

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

During 2019 the Committee advised on the following matters:

- the 2019 review of achievement of corporate objectives/key performance indicators ('KPIs') and recommended the executive Director and employees be rewarded for achieving some of the KPIs set by the Remuneration Committee and partially achieving others;
- the 2019 non-executive Directors remuneration structure;
- the extension of the executive Director's contract; and
- the remuneration policy, including setting KPIs for the executive Director for 2019, to ensure alignment of the executive Director and senior team with the Board approved strategic mandate.

During 2019, the Committee were satisfied with the increase in M&A opportunities presented to the Board and the quality of the technical due diligence and economic analyses undertaken in 2019.

This report will explain how the Company's remuneration policy was implemented in 2019 and how it will be applied for 2020.

## Leo Koot

Chairman of the Remuneration Committee

14 April 2020

# Remuneration Committee Report (cont.)

## REMUNERATION POLICY

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

The Company acknowledges the benefit of the executive Director accepting appointments as non-executive Directors of other companies; however, if he accepts more than two such appointments he will be required to deduct such fees for those appointments from his Company executive remuneration.

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

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

Base Salary	
Purpose and link to strategy	To be the foundation of the Directors remuneration package and to recognise market value of the role, reflecting the individual's skills, experience, authorities and responsibilities, to ensure the business can attract and retain the appropriate Directors, both executive and non-executive.
Operation	<ul style="list-style-type: none"> <li>• Base salary is reviewed annually taking into account the Directors' performance, individual responsibilities and experience.</li> <li>• The Committee uses comparator data where possible, collected from published accounts and industry surveys of peer companies to determine the base salary for the executive Director.</li> <li>• The Committee also considers matters of retention, motivation and economic climate as well as the challenges facing the business.</li> <li>• No executive remuneration consultants were used during the year.</li> <li>• The Board uses peer group data to determine the level of fees for the non-executive Directors.</li> </ul>

Performance related bonuses	
Purpose and link to strategy	To incentivise and reward, on an annual basis, the performance of individuals on both financial and non-financial metrics.
Operation	<ul style="list-style-type: none"> <li>Objectives/KPIs are set, prior to the year under review, to align near-term goals with the longer-term sustainable future of the Group. Individual performance is also considered when awarding a bonus.</li> <li>KPIs are relevant to the award, stretched and designed to enhance shareholder value and to promote the long-term success of the Company.</li> <li>At the end of each year the Committee considers if the KPIs have been achieved in addition to individual performance and contribution to the Group.</li> <li>The maximum level of performance related bonus for the executive Director is capped at 100% of annual salary.</li> <li>Bonuses are paid in cash after the end of the financial year to which they relate unless the element of the bonus is directly linked to a specific KPI which is achieved during the year whereupon an interim bonus may be paid at the discretion of Board, as advised by the Remuneration Committee.</li> <li>The bonus is non-contractual and is discretionary.</li> <li>Non-executive Directors do not participate in the bonus scheme.</li> </ul>
Pension provision	
Purpose and link to strategy	To provide competitive retirement benefits commensurate with schemes offered by peer companies.
Operation	<ul style="list-style-type: none"> <li>The Group operates a defined contribution pension scheme pursuant to which it contributes 10% of pensionable salary per eligible member to the individual Director's personal pension plan as chosen by the individual Director.</li> <li>Scheme membership and contribution is linked to the member's base salary.</li> <li>The Company operates no defined benefit schemes.</li> <li>Non-executive Directors are not eligible to receive pension contributions.</li> </ul>
Benefits	
Purpose and link to strategy	To provide competitive cost-effective benefits to assist in attracting and retaining appropriate Directors required to deliver the Group's strategy.
Operation	<ul style="list-style-type: none"> <li>The Group subscribes to a number of benefits for employees and Directors which include life assurance, travel insurance, income protection, subsidised fitness centre membership and private medical insurance (or associated cash plan which is subject to an annual limit).</li> <li>The Group maintains Directors' and Officers' liability insurance cover and provides the Directors with an indemnity, the level of which is reviewed annually.</li> <li>Where appropriate some of these benefits are linked to base salary.</li> </ul>

# Remuneration Committee Report (cont.)

## COMPANY SHARE OPTION PLAN

Towards the end of 2018 and into 2019 the Remuneration Committee have worked to establish a new HMRC approved Company Share Option Plan ('CSOP'). No awards have been made under this new plan to-date.

## OTHER MATTERS

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

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

## REPORT ON REMUNERATION

The table below reports single figure remuneration of the Directors:

2019 Remuneration	Fees and basic salary £	Bonus £	Defined contribution pension £	Benefits in kind £	Single figure remuneration Total 2019 £
<b>Executive Directors:</b>					
David Marshall <sup>1,2</sup>	214,135	26,026	21,413	4,572	<b>266,146</b>
<b>Non-executive Directors:</b>					
Michael Kroupeeov	102,800	-	-	-	<b>102,800</b>
Leo Koot	51,400	-	-	-	<b>51,400</b>
Ilya Belyaev	37,008	-	-	-	<b>37,008</b>
Aggregate remuneration 2019 (£)	405,343	26,026	21,413	4,572	<b>457,354</b>
Aggregate remuneration 2019 (US\$)	517,439	33,223	27,335	5,837	<b>583,834</b>

2018 Remuneration	Fees and basic salary	Bonus	Defined contribution pension	Benefits in kind	Single figure remuneration Total 2018
	£	£	£	£	£
<b>Executive Directors:</b>					
David Marshall (appointed 6 June 2018) <sup>3</sup>	113,846	-	11,385	2,951	<b>128,182</b>
Eskil Jersing (notice period ended 21 June 2018) <sup>4</sup>	135,338	60,000	-	5,029	<b>200,367</b>
<b>Non-executive Directors:</b>					
Michael Kroupeev	102,800	-	-	-	<b>102,800</b>
Leo Koot	51,400	-	-	-	<b>51,400</b>
Ilya Belyaev	37,008	-	-	-	<b>37,008</b>
Aggregate remuneration 2018 (£)	440,392	60,000	11,385	7,980	<b>519,757</b>
Aggregate remuneration 2018 (US\$)	587,916	80,099	15,198	10,654	<b>693,867</b>

<sup>1</sup> Includes 2018 bonus amount of £26k accrued at 2018 year-end, which was paid on 26 February 2019.

<sup>2</sup> Excludes bonus amount of £34k awarded and accrued at 2019 year-end, which was paid on 26th March 2020.

<sup>3</sup> Excludes bonus amount of £26k awarded and accrued at 2018 year-end.

<sup>4</sup> Fees and basic salary include £13k pension contributions paid as cash.

## REMUNERATION OF THE EXECUTIVE DIRECTORS

### Base Salary

David Marshall was appointed to the position of CEO on 6 June 2018 on an annual base salary of £200,000 for a 12 month term. In May 2019 his contract was extended for a further 12 month term with an increased salary of £225,000. He receives a 10% pension contribution and other benefits as set out above.

### Bonus

In respect of David Marshall, the Committee agreed that the annual bonus opportunity would be up to 100 per cent of base salary and the Committee set new KPIs for 2019 relating to his performance. The Committee considers the specifics of the KPIs to be commercially sensitive as they reflect the Company's ongoing commercial strategy, however generally they focus on M&A led transformational growth initiatives and preservation of the Group's cash position. The Committee assessed that this target had been partially achieved and accordingly awarded a bonus of £34k to the Executive Director.

### Service Agreement

The Service Agreement of the executive Director is for a 12 month period, which was extended in May 2019, and contains a contractual notice period of 3 months.

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

# Remuneration Committee Report (cont.)

## REMUNERATION OF THE NON-EXECUTIVE DIRECTORS

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

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

Director	Commencement of appointment	Date of current contract	Base fees per annum
Michael Kroupeev	9 May 2016	9 May 2016	£105,600
Leo Koot	19 January 2017	19 January 2017	£52,800
Ilya Belyaev	19 January 2017	19 January 2017	£38,100

Non-executive Director fees were not increased in 2019, an increase of 2.7% has been applied from January 2020.

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

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

## RELATIONSHIP AGREEMENT

Waterford, founded by Michael Kroupeev, entered into a relationship agreement with the Company in May 2016, given that Waterford and its associates beneficially own ordinary shares in the Company, equivalent to approximately 29.2% of the entire issued share capital of the Company. This was undertaken on terms and conditions that are customary for a substantial shareholding of this nature (the 'Relationship Agreement').

## IMPLEMENTATION OF EXECUTIVE DIRECTOR (DAVID MARSHALL) REMUNERATION POLICY FOR 2020

Base Salary	£231,100
Annual Bonus	<b>Opportunity</b> <ul style="list-style-type: none"> <li>• 100%</li> </ul> <b>KPI's</b> <ul style="list-style-type: none"> <li>• Linked to preservation of Group's cash position</li> <li>• M&amp;A growth led initiatives</li> </ul>
CSOP share options	Up to £30,000 (to be awarded)
Pension	10% paid into a defined contribution scheme of the Directors choice
Benefits	Full range of Company benefits as detailed in Remuneration Policy above

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

The Company provides limited Directors' and Officers' liability insurance, at a cost of approximately \$14.7k in 2019 (2018: \$19k).

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

Year	CEO	CEO single figure of total remuneration (£)	% change	Annual bonus pay-out against maximum opportunity (%)	Long-term incentive vesting rates against maximum opportunity (%)
2019	David Marshall <sup>1</sup>	266,146	(19.0%)	12%	-
2018	David Marshall <sup>1</sup> / Eskil Jersing <sup>2</sup>	328,550	(0.7%)	24%	-
2017	Eskil Jersing <sup>2</sup>	330,751	0.6%	5%	-
2016	Eskil Jersing	328,881	13.3%	4%	-
2015	Alastair Beardsall <sup>3</sup> / Eskil Jersing	290,184	32.0%	-	-
2014	Alastair Beardsall <sup>3</sup>	219,801	(51.3%)	-	-

<sup>1</sup> Bonus amount of £26k awarded and accrued at 2018 year-end, paid on 26 February 2019 and included with the 2019 remuneration figure.

<sup>2</sup> Bonus amount of £35k awarded and accrued in 2017, paid on 4 May 2018 and included with the 2018 remuneration figure.

<sup>3</sup> Part-time.

The annual percentage change in CEO single figure remuneration for years 2014 to 2019 compares with that of all employees: (19.8%), 11.1%, (6.0%), (21.6%), (21.8%) and (14.7%) respectively.

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

	Total Group remuneration (£)	Total distribution to shareholders
2019	1,179,525	-
2018	1,349,059	-

# Remuneration Committee Report (cont.)

## DIRECTORS AND THEIR INTERESTS (AUDITED)

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

Ordinary shares of 10p each	9 April 2020	31 December 2019	31 December 2018
David Marshall <sup>1</sup>	-	-	-
Michael Kroupeev <sup>2</sup>	64,315,517	64,315,517	64,815,517
Leo Koot <sup>3</sup>	-	-	-
Ilya Belyaev <sup>4</sup>	-	-	-

<sup>1</sup> Executive Director.

<sup>2</sup> Non-executive Chairman, member of the Nominations Committees. Founder of Waterford Finance and Investment Limited ('Waterford'). Waterford and its Associates beneficially own 64,315,517 Ordinary Shares in the Company, equivalent to approximately 29.2% of the entire issued share capital.

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

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

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

# Extractive Industries Transparency Initiative ('EITI')

In accordance with the Transparency Criteria as set out by the EITI, the following payments to Government bodies have been made during the year ended 31 December 2019:

	2019 \$000	2018 \$000
Somaliland - Odewayne <sup>1</sup>	75	75
	<b>75</b>	<b>75</b>

<sup>1</sup> Gross payments made by Genel Energy (SE(EA)L fully carried for its share of cost).

# Directors' Report

The Directors present their Annual Report and Financial Statements on the affairs of the Company and its subsidiaries, together with the independent Auditors' Report for the year ended 31 December 2019.

## **PRINCIPAL ACTIVITY AND BUSINESS REVIEW**

The principal activity of the Group and Company throughout the year was the exploration of oil and gas with a primary geographic focus on Africa and the Middle East, with an extension of the area for material opportunities. The developments during 2019 and the other activities of the Group, as well as the future strategy and prospects for the Group, are reviewed in detail in the Chairman's Statement and the Strategic Report section of this report.

The Group operates through overseas branches and subsidiary undertakings as appropriate to the fiscal environment. Subsidiary undertakings of the Group are set out in Note 11 to the financial statements.

The Group uses a number of KPIs to assess the business performance against strategy, in 2019 these included; M&A led growth initiatives, managing the Group's financial exposure to its existing assets and the continued reduction in the Group's administrative overhead.

## **RESULTS AND DIVIDENDS**

The Group loss for the financial year was \$1.6 million (2018: loss \$2.0 million). This leaves an accumulated Group retained earnings of \$37.8 million (2018: retained earnings of \$39.4 million) to be carried forward. The Directors do not recommend the payment of a dividend (2018: \$nil).

## **DIRECTORS LIABILITIES**

Qualifying third-party indemnity provisions for the benefit of all of the Directors were in force throughout the financial year and they remained in force as at the date of approval of the Annual Report as described in the Remuneration Committee report pages 33 – 40.

## **GOING CONCERN**

The Group business activities, together with the factors likely to affect its future development, performance and position are set out in the Operations review on pages 12 and 13. The financial position of the Group and Company, its cash flows and liquidity position are described in the Financial Review on pages 16 and 17. In addition, Note 18 to the financial statements includes the Group's objectives, policies and processes for managing its capital financial risk: details of its financial instruments and its exposures to credit risk and liquidity risk.

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

The Directors have, 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. This assessment has been made by the Directors who remain confident the group has sufficient cash resources at the date of signing the annual report to meet its liabilities as they fall due for a period of at least 12 months from the date of signing these financial statements, and notwithstanding the impact that Covid-19 has had internationally. The Directors believe that the Group is in a strong position to absorb any potential impact on the Group arising from Covid-19, and thus, they continue to adopt the going concern basis of accounting in preparation of the 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 14 to the financial statements. The Company has one class of ordinary share, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

## DIRECTORS

The Directors who served during the year were as follows:

Mr. David Marshall  
 Mr. Michael Kroupeev  
 Mr. Leo Koot  
 Mr. Ilya Belyaev

Biographical details of serving Directors can be found in the Board of Directors section of this report on pages 26 and 27.

## DIRECTORS AND ELECTION ROTATION

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

## SIGNIFICANT SHAREHOLDINGS

Except for the holdings of ordinary shares listed below, the Company has not been notified by or become aware of any persons holding 3% or more of the 220,053,520 issued ordinary shares of 10 pence each of the Company at 9 April 2020:

	Number	%
Waterford Finance & Investment Ltd	64,315,517	29.23
Zion SPC - Access Fund SP	36,611,361	16.64
Mistyvale Limited	34,467,790	15.66
Denis O'Brien	15,750,000	7.16
Credit Suisse	14,930,358	6.78

# Directors' Report (cont.)

## **BUSINESS RISK**

A summary of the principle and general business risks can be found within the Strategic Report on pages 18 – 23.

## **FINANCIAL INSTRUMENTS**

Information about the use of financial instruments, the Group's policy and objectives for financial risk management is given in Note 18 to the financial statements.

## **SUBSEQUENT EVENTS**

Events surrounding Covid-19 are covered within the Chairman's and CEOs statements (pages 6 – 9) and within the business risks section (pages 18 – 23).

## **AUDITORS**

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

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

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

BDO LLP has expressed its willingness to continue in office as Auditors and a resolution to appoint BDO will be proposed at the forthcoming Annual General Meeting, which is to be confirmed.

## **David Marshall**

Chief Executive Officer

14 April 2020

# Statement of Directors' Responsibilities

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

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

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

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

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

## WEBSITE PUBLICATION

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

## DISCLOSURE OF AUDIT INFORMATION

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

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

For and on behalf of the Board

**David Marshall**

Chief Executive Officer

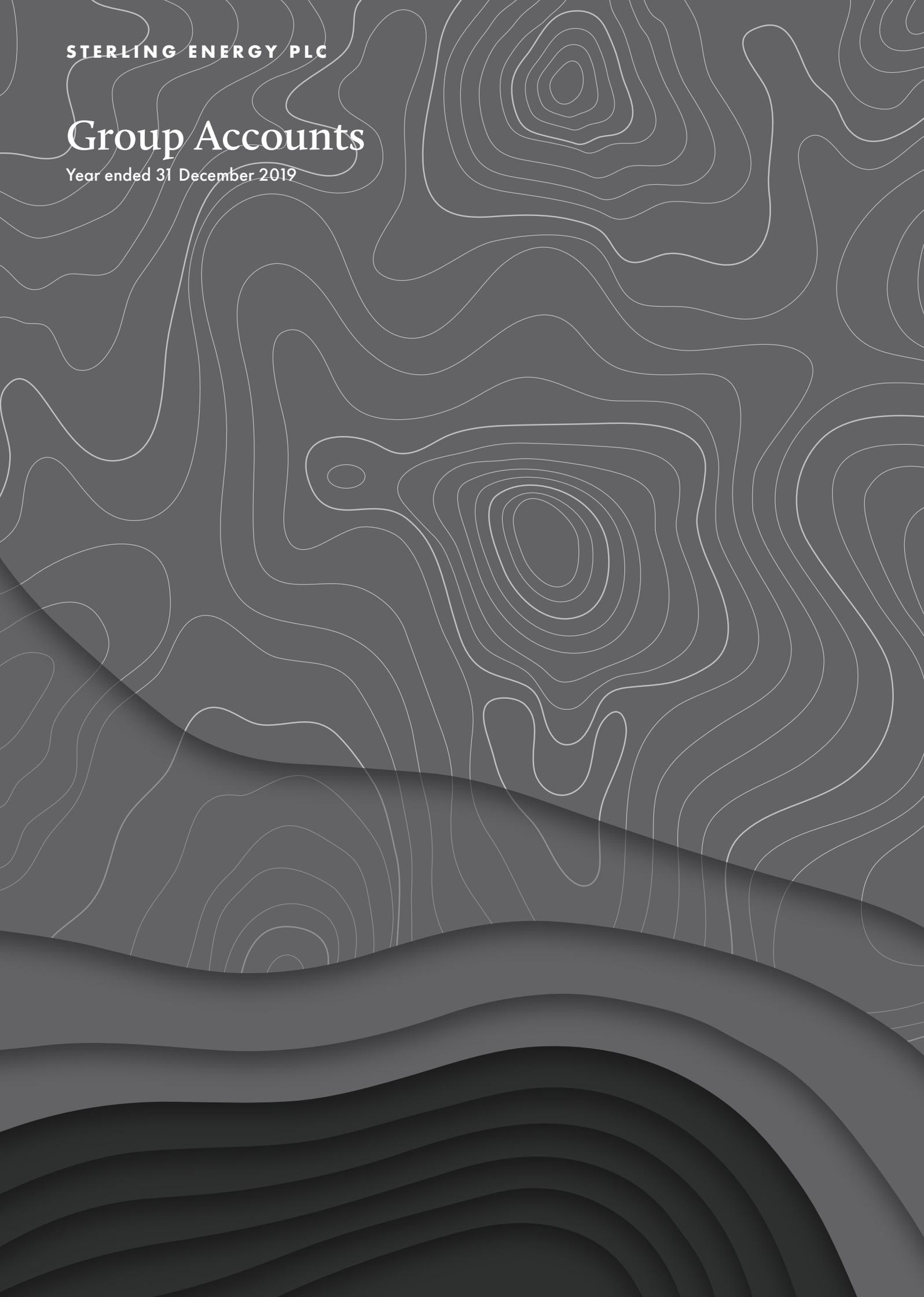
14 April 2020



STERLING ENERGY PLC

# Group Accounts

Year ended 31 December 2019



# Independent Auditors' Report

to the members of Sterling Energy plc

## OPINION

We have audited the financial statements of Sterling Energy Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the consolidated and the parent company statements of financial position, the consolidated statement of comprehensive income, the consolidated and the parent company statement of changes in equity, the consolidated and the parent company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further

described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## CONCLUSIONS RELATING TO GOING CONCERN

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

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

## KEY AUDIT MATTERS

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

**MATTER****Carrying Value of Exploration Assets**

The carrying value of Odewayne is disclosed in Note 9 to the financial statements and the associated accounting policy is disclosed in Note 1. The Company holds a 34% interest in the Odewayne Block, fully carried by Genel Energy Somaliland Limited ('Genel') for its shares of the costs of all exploration activities during the Third and Fourth Periods of the production sharing agreement. The Third Period has been extended to 2 November 2020 and has a minimum work obligation of 500km of 2D seismic. The Fourth Period has also been extended to 2 May 2022 and has a minimum work obligation of 1,000km of 2D seismic and one exploration well.

Management performed an impairment indicator review in accordance with accounting standards to assess whether there were any indicators of impairment for the exploration assets and whether impairment was appropriate.

Given the inherent judgement involved in the assessment of the carrying value of the exploration assets, we considered the carrying value of exploration assets to be a significant risk and area of focus for our audit.

**How our audit addressed the key audit matter**

We considered Management's assessment of the indicators of impairment by performing the following work:

- We confirmed with Management and through our review of the operating committee meeting minutes that there is an ongoing expectation that exploration in the licence areas will continue. We have also reviewed the licence agreement and the Participation agreement. We have also reviewed the signed amendment which extends the periods out to 2020 and onwards.
- We made enquires at appropriate management levels of possible commitments and contingent liabilities we also obtained and reviewed the Operating Committee minutes and the Management reports to identify any undisclosed commitments or contingent liabilities.
- Contracts were reviewed to check that the group is being carried until the Fourth Period by Genel, and that Genel are contractually committed to develop the prospect until then. The Odewayne licence extension to 2020 was also checked.
- We have reviewed management reports, Operating committee meeting minutes and public announcements to understand the future prospects of the asset and the desire to further develop the asset.
- We reviewed the FY20 budgets and work programmes to assess the group's intention to continue to fund exploration activity on this licence.

We considered the adequacy of the disclosures made in the financial statements to check that this was consistent with both the conclusions from our audit testing and requirements of applicable accounting standards.

**Our Findings**

We found management's assessment that there were no indicators of impairment at the reporting date and the related disclosures in the financial statements to be appropriate.

**OUR APPLICATION OF MATERIALITY**

	2019	2018	Bases for materiality
Group Materiality	\$1.00m	\$1.36m	2019: 1.5% of total assets (2018: 2% of total assets)
Company Materiality	\$0.75m	\$1.02m	2019: 75% of Group materiality (2018: 75% of Group materiality)

# Independent Auditors' Report (cont.)

to the members of Sterling Energy plc

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

We consider total assets to be the most significant determinant of the group's financial performance on the basis that the Group's principal activity is the development of oil and gas exploration assets and it is the value of assets that is of greatest interest to the users of the financial statements.

Each significant component of the group was audited to a lower level of materiality, which is used to determine the financial statement areas that are included within the scope of our audit and the extent of sample sizes used during the audit. Each significant component was audited to a materiality of \$0.75m (2018: \$1.02m).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 75% equating to \$0.75m (2018: 75% equating to \$1.02m) of the above materiality levels.

We agreed with the audit committee that we would report to them all individual audit differences identified during the course of our audit in excess of \$20k (2018: \$27k). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

## AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements at

Group level. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement due to fraud.

Our group audit scope focused on the group's principal operating entities, Sterling Energy plc and Sterling Northwest Africa Holdings Limited. We have identified both entities as significant components for the purposes of our financial statement audit, based on their relative share of total assets. Full scope audits were performed on these significant components.

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

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

## OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the report and financial statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.

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

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

## RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' responsibilities set out on page 45, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern,

disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

This description forms part of our auditor's report.

## USE OF OUR REPORT

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

**Matt Crane** (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor, London UK  
14 April 2020

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

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

	Note	31 December 2019 \$000	31 December 2018 \$000
Revenue		-	534
Cost of sales		-	(515)
<b>Gross profit</b>		-	19
Other administrative expenses		(1,108)	(1,546)
Pre-licence costs		(1,444)	(1,453)
<b>Total administrative expenses</b>		(2,552)	(2,999)
<b>Loss from operations</b>	4	(2,552)	(2,980)
Finance income	6	1,068	1,044
Finance expense	6	(116)	(20)
<b>Loss before tax</b>		(1,600)	(1,956)
Tax	7	-	-
<b>Loss for the year attributable to the owners of the parent</b>		(1,600)	(1,956)
<b>Other comprehensive expense - items to be reclassified to the income statement in subsequent periods</b>			
Currency translation adjustments		(3)	(12)
Total other comprehensive expense for the year		(3)	(12)
<b>Total comprehensive expense for the year attributable to the owners of the parent</b>		(1,603)	(1,968)
<b>Basic and diluted loss per share (US cents)</b>	8	(0.7)	(0.9)

# Consolidated Statement of Financial Position

Year ended 31 December 2019

	Note	31 December 2019 \$000	31 December 2018 \$000
<b>Non-current assets</b>			
Intangible exploration and evaluation assets	9	21,119	21,093
Property, plant and equipment	10	975	8
		<b>22,094</b>	21,101
<b>Current assets</b>			
Trade and other receivables	12	250	390
Cash and cash equivalents	13	44,851	46,312
		<b>45,101</b>	46,702
<b>Total assets</b>		<b>67,195</b>	67,803
<b>Equity</b>			
Share capital	14/15	28,143	28,143
Currency translation reserve		(204)	(201)
Retained earnings	15	37,844	39,387
<b>Total equity</b>		<b>65,783</b>	67,329
<b>Current liabilities</b>			
Trade and other payables	16	439	474
Lease liability	17	208	-
		<b>647</b>	474
<b>Non-current liabilities</b>			
Lease liability	17	735	-
Long-term provision		30	-
		<b>765</b>	-
<b>Total liabilities</b>		<b>1,412</b>	474
<b>Total equity and liabilities</b>		<b>67,195</b>	67,803

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 14 April 2020.

Signed on behalf of the Board of Directors

**David Marshall**

Chief Executive Officer

14 April 2020

# Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Share capital	Currency translation reserve	Retained earnings <sup>1</sup>	Total
	\$000	\$000	\$000	\$000
At 1 January 2018	28,143	(189)	41,343	69,297
Loss for the year	-	-	(1,956)	(1,956)
Currency translation adjustments	-	(12)	-	(12)
Total comprehensive expense for the year attributable to the owners of the parent	-	(12)	(1,956)	(1,968)
At 31 December 2018	28,143	(201)	39,387	67,329
Changes in accounting policy - IFRS 16	-	-	57	57
At 1 January 2019	28,143	(201)	39,444	67,386
Loss for the year	-	-	(1,600)	(1,600)
Currency translation adjustments	-	(3)	-	(3)
Total comprehensive expense for the year attributable to the owners of the parent	-	(3)	(1,600)	(1,603)
<b>At 31 December 2019</b>	<b>28,143</b>	<b>(204)</b>	<b>37,844</b>	<b>65,783</b>

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

# Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Note	2019 \$000	2018 \$000
<b>Operating activities</b>			
Loss before tax		(1,600)	(1,956)
Depreciation, depletion & amortisation	10	191	10
Finance income and gains		(1,068)	(1,044)
Finance expense and losses		55	12
Decommissioning costs paid		-	(32,500)
Operating cash flow prior to working capital movements		(2,422)	(35,478)
Decrease in inventories		-	363
Decrease in trade and other receivables		140	478
Decrease in trade and other payables		(35)	(41)
Increase in provision		30	-
<b>Net cash flow used in operating activities</b>		<b>(2,287)</b>	<b>(34,678)</b>
<b>Investing activities</b>			
Interest received	6	1,068	1,044
Purchase of property, plant and equipment	10	-	(4)
Exploration and evaluation costs	9	(26)	(1,391)
<b>Net cash used in investing activities</b>		<b>1,042</b>	<b>(351)</b>
<b>Financing activities</b>			
Principal paid on lease liability	17	(201)	-
Interest paid on lease liability	6/17	(54)	-
<b>Net cash used in financing activities</b>		<b>(255)</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,500)</b>	<b>(35,029)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>46,312</b>	<b>81,365</b>
Effect of foreign exchange rate changes		39	(24)
<b>Cash and cash equivalents at end of year</b>	13	<b>44,851</b>	<b>46,312</b>

# Company Statement of Financial Position

Year ended 31 December 2019

	Note	31 December 2019 \$000	31 December 2018 \$000
<b>Non-current assets</b>			
Investments	11	20,140	20,140
		<b>20,140</b>	20,140
<b>Current assets</b>			
Trade and other receivables	12	21,060	19,414
Cash and cash equivalents	13	44,849	46,310
		<b>65,909</b>	65,724
<b>Total assets</b>		<b>86,049</b>	85,864
<b>Equity</b>			
Share capital	14/15	28,143	28,143
Retained earnings	15	24,951	24,780
<b>Total equity</b>		<b>53,094</b>	52,923
<b>Current liabilities</b>			
Trade and other payables	16	32,955	32,941
		<b>32,955</b>	32,941
<b>Total liabilities</b>		<b>32,955</b>	32,941
<b>Total equity and liabilities</b>		<b>86,049</b>	85,864

The profit for the financial year within the Company accounts of Sterling Energy plc was \$171k (2018: \$336k profit). As provided by s408 of the Companies Act 2006, no individual statement of comprehensive income and expense is provided in respect of the Company.

The financial statements of Sterling Energy plc, registered number 1757721, were approved by the Board of Directors and authorised for issue on 14 April 2020.

Signed on behalf of the Board of Directors

**David Marshall**

Chief Executive Officer

14 April 2020

# Company Statement of Changes in Equity

Year ended 31 December 2019

	Share capital	Retained earnings <sup>1</sup>	Total
	\$000	\$000	\$000
At 1 January 2018 as restated	28,143	33,444	61,587
Changes in accounting policy - IFRS 9	-	(9,000)	(9,000)
At 1 January 2018 as restated	28,143	24,444	52,587
Total comprehensive income for the year	-	336	336
At 31 December 2018	28,143	24,780	52,923
Total comprehensive income for the year	-	171	171
<b>At 31 December 2019</b>	<b>28,143</b>	<b>24,951</b>	<b>53,094</b>

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

# Company Statement of Cash Flows

Year ended 31 December 2019

	Note	2019 \$000	2018 \$000
<b>Operating activities</b>			
Profit before tax		171	336
Finance income and gains		(1,068)	(1,044)
Finance expense and losses		-	10
Decommissioning costs paid		-	(32,500)
Operating cash flow prior to working capital movements		(897)	(33,198)
Decrease in inventories		-	363
Increase in trade and other receivables		(1,646)	(1,992)
Increase/(decrease) in trade and other payables		14	(1,258)
<b>Net cash flow used in operating activities</b>		<b>(2,529)</b>	<b>(36,085)</b>
<b>Investing activities</b>			
Interest received	6	1,068	1,044
<b>Net cash generated from investing activities</b>		<b>1,068</b>	<b>1,044</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,461)</b>	<b>(35,041)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>46,310</b>	<b>81,362</b>
Effect of foreign exchange rate changes		-	(11)
<b>Cash and cash equivalents at end of year</b>	13	<b>44,849</b>	<b>46,310</b>

# Notes to the Financial Statements

Year ended 31 December 2019

## 1. ACCOUNTING POLICIES

### a) General Information

Sterling Energy plc is a public company limited by shares, incorporated in the United Kingdom under the UK Companies Act 2006. The address of the registered office is High Holborn House, 52-54 High Holborn, London WC1V 6RL. The Company and the Group are engaged in the exploration, development and production of commercial oil and gas.

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

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

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

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

IFRS 16 'Leases' replaces IAS 17 'Leases' for accounting periods commencing on or after 1 January 2019. Under IFRS 16 the standard requires lessees to account for all leases under a single balance sheet model, recognising both the rights to the asset and the liability arising under the lease. This introduces a single lessee accounting model and eliminates the previous distinction between an operating lease and a finance lease.

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease and any lease payments made in advance of the lease commencement date (net of any incentives received). The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- a single discount rate to the lease; and
- exclude initial direct costs from the measurement of right-of-use assets at the date of initial application of the lease.

Sterling Energy plc adopted IFRS 16 Leases on 1 January 2019. The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with the head office lease.

The new Standard has been applied using the modified retrospective approach, as if it had always been applied, but using the incremental borrowing rate at the date of initial application. The cumulative effect is recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

# Notes to the Financial Statements

Year ended 31 December 2019

	As previously reported \$000	Adoption of IFRS 16 \$000	As restated \$000
<b>Accounts affected - As at 1 January 2019</b>			
Retained earnings	39,387	57	39,444
PPE - Office lease (ROU asset)	-	1,135	1,135
Lease liability	-	1,089	1,089
Current and Non-current liabilities	474	(10)	464

The following is a reconciliation of operating lease commitments at 31 December 2018 (as disclosed in the financial statements to 31 December 2018) to the lease liabilities recognised at 1 January 2019:

	\$000
<b>Total operating lease commitments disclosed at 31 December 2018</b>	213
Effect of reassessing lease term	1,358
Discounted using incremental borrowing rate	(193)
Amounts expensed to profit and loss	(289)
<b>Total lease liability recognised under IFRS 16 at 1 January 2019</b>	(1,089)

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5%.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables (current and non-current).

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

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

Standard	Description	Effective date	EU status
IFRS 3	Amendments - Business Combinations: Definition of a Business	1 January 2020	Expected Q1 2020
IAS 1 and IAS 8	Amendments - Definition of Material	1 January 2020	Endorsed
IFRS 9, IAS 37 and IFRS 7	Amendments - Interest Rate Benchmark Reform	1 January 2020	Endorsed
IAS 1	Amendments - Classification of Liabilities as Current or Non-current	1 January 2022	TBC

**c) Going Concern**

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

**d) Basis of Consolidation****(i) Subsidiaries**

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

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

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

**(ii) Transactions eliminated on consolidation**

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

A separate Statement of Comprehensive Income and expense for the parent Company has not been published in accordance with section 408 of the Companies Act 2006.

**e) Joint Arrangements**

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

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

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

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

The Odewayne PSA is classified as a joint arrangement within the Group (see Note 9).

**f) Revenue**

Sales of oil and gas are recognised, net of any sales taxes, upon transfer of title to the customer; typically, this is at the point of physical lifting. Royalties and tariff income are recognised as earned on an entitlement basis.

# Notes to the Financial Statements

Year ended 31 December 2019

## g) Oil and Gas Interests

Exploration and evaluation ('E&E') assets

### *Capitalisation*

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

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

### *Impairment*

In accordance with IFRS 6 E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. The recoverable amount of the individual asset is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are recognised in the profit or loss within the Statement of Comprehensive Income. Any impairment loss is separately recognised within the Statement of Comprehensive Income.

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

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

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

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

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

- Office lease, straight-line over the lease term
- Computer and office equipment depreciation, 33% straight-line

**i) Foreign Currencies**

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

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

**j) Taxation***Current Tax*

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

*Deferred Tax*

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

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

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

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

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

# Notes to the Financial Statements

Year ended 31 December 2019

## **k) Investments (Company)**

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

## **l) Leases**

In accordance with IFRS 16, at the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

## **m) Financial Instruments**

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

### *Trade receivables and amounts due from subsidiaries*

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

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

### *Cash and Cash Equivalents*

Cash and cash equivalents comprise demand deposits, and other short-term investments, with an original maturity of between 3 and 6 months, are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

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

### *Trade Payables*

Trade payables are stated at their amortised cost.

### *Financial Liabilities and Equity*

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

**n) Pension Costs**

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

**o) Segment Reporting**

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

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

**2. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Judgements***Company – Investment*

If circumstances indicate that impairment may exist, investments in subsidiary undertakings of the Company are evaluated using market values, where available, or the discounted expected future cash flows of the investment. If these cash flows are lower than the Company's carrying value of the investment, an impairment charge is recorded in the Company. Where impairments have been booked against the underlying exploration assets, the investments in subsidiaries have been written down to reflect their recoverable value. Evaluation of impairments on such investments involves significant management judgement and may differ from actual results.

A full impairment review has not been performed in 2019 and thus no impairments were recognised during the year, by the Company.

As at 31 December 2019, Company investments in subsidiaries totalled \$20.1 million (see Note 11), being underpinned by the Odewayne exploration block in Somaliland. After reviewing the feasibility of the asset detailed in the Operations review on pages 12 and 13, management did not note any impairment indicators that would result in a full impairment review to be undertaken.

# Notes to the Financial Statements

Year ended 31 December 2019

## *Impairment of assets*

Management is required to assess oil and gas assets for indicators of impairment and has considered the economic value of individual E&E assets. E&E assets are subject to a separate review for indicators of impairment, by reference to the impairment indicators set out in IFRS 6, which is inherently judgmental.

After reviewing the feasibility of the asset detailed in the Operations review on pages 12 and 13 and considering the key factors including; the extension to the current period and further exploration work streams, management did not note any impairment indicators that would result in a full impairment review to be undertaken.

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

## **Estimates**

### *Company – expected credit loss model prescribed by IFRS 9*

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

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

The credit loss allowance was assessed at 31 December 2019. There was no change in the expected credit loss allowance during the period.

### *Discount rates – IFRS 16 leases*

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 31 December 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor on the basis of external figures derived from the market.

### 3. OPERATING SEGMENTS

Africa operations in 2019 focused on exploration and appraisal activities in Somaliland. The UK corporate office is a technical and administrative cost centre focused on new ventures. The operating results of each segment are regularly reviewed by the Board of Directors in order to make decisions about the allocation of resources and to assess their performance.

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

The following table's present revenue, profit and certain asset and liability information regarding the Group's operating segments for the year ended 31 December 2019 and for the year ended 31 December 2018.

	Note	Corporate		Africa		Total	
		2019 \$000	2018 \$000	2019 \$000	2018 \$000	2019 \$000	2018 \$000
<b>Statement of comprehensive income</b>							
Revenue		-	-	-	534	-	534
Cost of sales		-	-	-	(515)	-	(515)
<b>Gross profit</b>		-	-	-	19	-	19
Other administrative expenses		<b>(1,108)</b>	(1,546)	-	-	<b>(1,108)</b>	(1,546)
Pre-licence costs		<b>(1,444)</b>	(1,453)	-	-	<b>(1,444)</b>	(1,453)
<b>(Loss)/profit from operations</b>		<b>(2,552)</b>	(2,999)	-	19	<b>(2,552)</b>	(2,980)
Finance income	6	<b>1,068</b>	1,044	-	-	<b>1,068</b>	1,044
Finance expense	6	<b>(116)</b>	(20)	-	-	<b>(116)</b>	(20)
<b>Segment (loss)/profit before tax</b>		<b>(1,600)</b>	(1,975)	-	19	<b>(1,600)</b>	(1,956)
<b>Segment assets and liabilities</b>							
Non-current assets <sup>1</sup>		<b>975</b>	8	<b>21,119</b>	21,093	<b>22,094</b>	21,101
Segment assets <sup>2</sup>		<b>45,101</b>	46,702	-	-	<b>45,101</b>	46,702
Segment liabilities <sup>3</sup>		<b>(1,396)</b>	(460)	<b>(16)</b>	(14)	<b>(1,412)</b>	(474)

<sup>1</sup> Segment non-current assets of \$21.1 million in Somaliland (2018: \$21.1 million).

<sup>2</sup> Corporate segment assets include \$44.9 million cash and cash equivalents (2018: \$46.3 million). Carrying amounts of segment assets exclude investments in subsidiaries.

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

# Notes to the Financial Statements

Year ended 31 December 2019

## 4. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Note	2019 \$000	2018 \$000
Staff costs	5	1,648	1,976
Depreciation of Property, plant and equipment	10	191	10
<b>An analysis of auditor's remuneration is as follows:</b>			
Fees payable to the Group's auditors for the audit of the Group's annual accounts		47	49
Audit of the Company's subsidiaries pursuant to legislation		5	7
<b>Total audit fees</b>		<b>52</b>	<b>56</b>

## 5. EMPLOYEE INFORMATION

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

	Group		Company	
	2019	2018	2019	2018
Africa	-	1	-	-
Corporate	7	7	-	-
Non-executive	3	3	3	3
	<b>10</b>	<b>11</b>	<b>3</b>	<b>3</b>

Group and Company employee costs during the year amounted to:

	Group		Company	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Wages and salaries	1,379	1,667	245	255
Social security costs	172	211	29	29
Other pension costs	97	98	-	-
	<b>1,648</b>	<b>1,976</b>	<b>274</b>	<b>284</b>

Key management personnel include Directors who have been paid \$584k (2018: \$694k). See Remuneration Committee Report (pages 33 – 40) and Note 19 for additional detail.

A portion of the Group's staff costs and associated overheads are expensed as pre-licence expenditure (\$1.3 million) or capitalised (\$23k). In 2019 this amounted to \$1.4 million (2018: \$1.4 million).

## 6. FINANCE INCOME AND FINANCE EXPENSE

	2019 \$000	2018 \$000
<b>Finance income:</b>		
Interest revenue on short-term deposits	1,068	1,044
	<b>1,068</b>	1,044
<b>Finance expense:</b>		
Bank charges	61	8
Interest expense for leasing arrangement	54	-
Exchange loss	1	12
	<b>116</b>	20

## 7. TAXATION

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

	2019 \$000	2018 \$000
Loss before tax	(1,600)	(1,956)
Tax on loss on ordinary activities at standard UK corporation tax rate of 19% (2018: 19%)	(304)	(372)
<b>Effects of:</b>		
Deferred tax movement on provision not provided	3	5
Expenses not deductible for tax purposes	58	-
Capital allowances in excess of depreciation	(271)	(347)
Adjustment for tax losses	514	714
Tax charge for the year	-	-

### Deferred Tax

At the reporting date the Group had an unrecognised deferred tax asset of \$19.5 million (2018: \$19.2 million) relating primarily to unused tax losses and unutilised capital allowances. No deferred tax asset has been recognised due to the uncertainty of future profit streams against which these losses could be utilised. At the reporting date the Company had an unrecognised deferred tax asset of \$14.8 million (2018: \$14.8 million) relating primarily to unused losses and unutilised capital allowances.

# Notes to the Financial Statements

Year ended 31 December 2019

## 8. LOSS PER SHARE (BASIC AND DILUTED)

	2019 \$000	2018 \$000
Loss for the year	(1,600)	(1,956)
Weighted average number of ordinary shares in issue during the year	220,053,520	220,053,520
Dilutive effect of share options outstanding	-	-
Fully diluted average number of ordinary shares during the year	220,053,520	220,053,520
EPS (US cents)	(0.7)	(0.9)

## 9. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	Group \$000
Net book value at 1 January 2018	21,041
Additions during the year	52
Net book value at 31 December 2018	21,093
Additions during the year	26
<b>Net book value at 31 December 2019</b>	<b>21,119</b>

Group intangible assets at the year end 2019:

Odewayne PSA, Somaliland: SE(EA)L 34%, Genel Energy 50%, Petrosoma 16%.

Classified as a joint arrangement in accordance with IFRS 11.

**10. PROPERTY, PLANT AND EQUIPMENT**

<b>Group</b>	<b>Office Lease \$000</b>	<b>Computer and office equipment \$000</b>	<b>Total \$000</b>
<b>Cost</b>			
At 1 January 2018	-	154	154
Additions during the year	-	4	4
Disposals during the year	-	(18)	(18)
At 31 December 2018	-	140	140
Adoption of IFRS 16	1,135	-	1,135
Modification during the year	23	-	23
<b>At 31 December 2019</b>	<b>1,158</b>	<b>140</b>	<b>1,298</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2018	-	(140)	(140)
Additions during the year	-	(10)	(10)
Disposals during the year	-	18	18
At 31 December 2018	-	(132)	(132)
Charge for the year	(187)	(4)	(191)
<b>At 31 December 2019</b>	<b>(187)</b>	<b>(136)</b>	<b>(323)</b>
<b>Net book value at 31 December 2019</b>	<b>971</b>	<b>4</b>	<b>975</b>
Net book value at 31 December 2018	-	8	8
Net book value at 31 December 2017	-	14	14

The right of use asset (office lease) is depreciated on a straight-line basis over the lifetime of the lease contract. The current lease term is for 8 years, ending in 2024.

See Note 1 for details (Leases) and Note 17 (Lease liability).

# Notes to the Financial Statements

Year ended 31 December 2019

## 11. INVESTMENT IN SUBSIDIARIES

	Company \$000
<b>Cost</b>	
At 1 January 2018	20,140
At 31 December 2018	20,140
<b>At 31 December 2019</b>	<b>20,140</b>

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

The subsidiary undertakings at 31 December 2019 are as follows (included on consolidation):

	Country of incorporation	Class of shares held	Type of ownership	Proportion of voting rights held 2019	Proportion of voting rights held 2018	Nature of business
Sterling Energy (UK) Limited	United Kingdom <sup>4</sup>	Ordinary	Direct	100%	100%	Exploration for oil and gas
Sterling Energy Overseas Limited	United Kingdom <sup>4</sup>	Ordinary	Direct	100%	100%	Investment holding company
Sterling Energy Mauritania Limited <sup>1</sup>	United Kingdom <sup>4</sup>	Ordinary	Indirect	100%	100%	Exploration for oil and gas
Sterling Northwest Africa Holdings Limited	Jersey, CI <sup>5</sup>	Ordinary	Direct	100%	100%	Exploration for oil and gas
Sterling Energy Holdings Limited <sup>2</sup>	Jersey, CI <sup>5</sup>	Ordinary	Indirect	100%	100%	Investment holding company
Sterling Energy (East Africa) Limited <sup>3</sup>	Jersey, CI <sup>65</sup>	Ordinary	Indirect	100%	100%	Exploration for oil and gas

<sup>1</sup> Held directly by Sterling Energy Overseas Limited

<sup>2</sup> Held directly by Sterling Northwest Africa Holdings Limited

<sup>3</sup> Held directly by Sterling Energy Holdings Limited

<sup>4</sup> Registered address - 52-54 High Holborn, London, WC1V 6RL

<sup>5</sup> Registered address - 12 Castle Street, St Helier, Jersey, JE2 3RT

**12. TRADE AND OTHER RECEIVABLES**

	Group		Company	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Trade receivables	166	264	65	155
Amounts owed from subsidiary undertakings	-	-	20,978	19,233
Other receivables	27	37	8	12
Prepayments and accrued income	57	89	9	14
	<b>250</b>	390	<b>21,060</b>	19,414

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

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

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

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

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

**13. CASH IN BANK AND SHORT-TERM DEPOSITS**

	Group		Company	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Cash at bank available on demand	1,103	1,810	1,103	1,810
Short-term deposits	43,746	44,500	43,746	44,500
Cash on hand	2	2	-	-
	<b>44,851</b>	46,312	<b>44,849</b>	46,310

Group and Company	Term	Interest rate %	2019 \$000	2018 \$000
Development Bank of Singapore (DBS)	3 months	1.96 - 2.04	23,500	24,500
Julius Baer	3 months	2.03 - 2.06	20,246	20,000
			<b>43,746</b>	44,500

At 31 December 2019, all short-term deposits mature within 90 days and can be withdrawn without restriction.

# Notes to the Financial Statements

Year ended 31 December 2019

## 14. SHARE CAPITAL

	2019 \$000	2018 \$000
<b>Authorised, called up, allotted and fully paid</b>		
220,053,520 ordinary shares of 10p (2018: 220,053,520 ordinary shares of 10p)	<b>28,143</b>	28,143

## 15. RESERVES

Reserves within equity are as follows:

### Share capital

Amounts subscribed for share capital at nominal value.

### Currency translation reserve

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

### Retained earnings

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

## 16. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
<b>Current liabilities</b>				
Trade payables	<b>108</b>	142	<b>33</b>	47
Amounts owed to subsidiary undertakings	-	-	<b>32,811</b>	32,823
Accruals	<b>331</b>	332	<b>111</b>	71
	<b>439</b>	474	<b>32,955</b>	32,941

The Directors consider that the carrying amount of trade and other payables is a reliable estimate of their fair value. Transactions between subsidiaries are non-interest bearing and repayable on demand.

**17. LEASES**

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For further details see Note 1 (Leases).

The Group has a lease for the head office and classifies it as a right-of-use asset in a consistent manner to its property, plant and equipment (see Note 10).

On adoption of IFRS 16, the Company recognised lease liabilities in relation to the head office which had previously been classified as 'operating leases' under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5%.

Lease liabilities are presented in the statement of financial position as follows:

	<b>2019</b> <b>\$000</b>
Current	208
Non-current	735
	<b>943</b>

Extension options are included in the lease liability when it, based on the management's judgement, is reasonably certain that an extension will be exercised. As at 31 December 2019, the contractual maturities of the Company's lease liabilities are as follows:

	<b>Within one year \$000</b>	<b>Between one to two years \$000</b>	<b>Over two years \$000</b>	<b>Total \$000</b>	<b>Interest \$000</b>	<b>Carrying amount \$000</b>
<b>Group</b>						
Lease liability	230	230	623	1,083	(140)	943

**18. FINANCIAL INSTRUMENTS****Capital risk management and liquidity risk**

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

**Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each material class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements. Due to the short-term nature of these assets and liabilities such values approximate their fair values at 31 December 2019 and 31 December 2018.

# Notes to the Financial Statements

Year ended 31 December 2019

Group	Carrying amount/Fair value	
	2019 \$000	2018 \$000
<b>Financial assets at amortised cost</b>		
Cash and cash equivalents	44,851	46,312
Trade and other receivables	193	301
<b>Total</b>	<b>45,044</b>	<b>46,613</b>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	439	474
<b>Total</b>	<b>439</b>	<b>474</b>

Company	Carrying amount/Fair value	
	2019 \$000	2018 \$000
<b>Financial assets at amortised cost</b>		
Cash and cash equivalents	44,849	46,310
Trade and other receivables	21,051	19,400
<b>Total</b>	<b>65,900</b>	<b>65,710</b>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	32,955	32,941
<b>Total</b>	<b>32,955</b>	<b>32,941</b>

## Financial risk management objectives

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

## Interest rate risk management

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

## Interest rate sensitivity analysis

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

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

	Increase		Decrease	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Cash and cash equivalents	449	463	(449)	(463)

### Foreign Currency Risk

The Company's functional currency is the US dollar, being the currency in which the majority of the Group's revenue and expenditure is transacted. Small elements of its management, services and treasury functions are held and transacted in pounds sterling. Such elements transacted in pounds sterling have been exchanged at; the average rate of \$1.2765/£1.00 (2018: \$1.335/£1.00) or the year end spot rate of \$1.321/£1.00 (2018: 1.277/£1.00), depending on its nature and timing. The Group does not enter into derivative transactions to manage its foreign currency. Foreign currency risk is immaterial to the Group and Company – see the following table:

### Financial Assets

	Group		Company	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
<b>Cash and cash equivalents</b>				
Cash and cash equivalents held in US\$	44,630	45,618	44,629	45,617
Cash and cash equivalents held in GBP	221	694	220	693
	<b>44,851</b>	<b>46,312</b>	<b>44,849</b>	<b>46,310</b>

	Group		Company	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
<b>Trade and other receivables</b>				
Trade and other receivables held in US\$	65	154	11,738	11,824
Trade and other receivables held in GBP	128	147	9,313	7,576
	<b>193</b>	<b>301</b>	<b>21,051</b>	<b>19,400</b>

### Financial Liabilities

	Group		Company	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
<b>Trade and other payables</b>				
Trade and other payables held in US\$	8	27	27,587	27,597
Trade and other payables held in GBP	431	447	5,368	5,344
	<b>439</b>	<b>474</b>	<b>32,955</b>	<b>32,941</b>

# Notes to the Financial Statements

Year ended 31 December 2019

## Credit risk management

The Group has to manage its currency exposures and the credit risk associated with the credit quality of the financial institutions in which the Group maintains its cash resources. At the year end the Group held approximately 99.5% (2018: 98.5%) of its cash in US dollars. At the year end the Group held the majority of its balances with AA-/A Standard & Poor's or equivalent rated institutions. The Group continues to proactively monitor its treasury management to ensure an appropriate balance of the safety of funds and maximisation of yield.

Trade and other receivables are non-interest bearing. The Group does not hold any collateral as security and the Group does not hold any significant allowance in the impairment account for trade and other receivables as they relate to customers with no default history. There are no financial instruments held at fair value under the level 1, 2 and 3 hierarchy.

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

## Liquidity and interest rate tables

The following tables detail the remaining contractual maturity for the non-derivative financial assets and liabilities of the Group and Company. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows including rates for loan liabilities and cash deposits on actual contractual arrangements. The weighted average interest rate used in 2019 is nil % (2018: nil %).

	Less than six months \$000	Six months to one year \$000	One to six years \$000	Total \$000	Interest \$000	Principal \$000
<b>Group</b>						
<b>Trade and other payables (2019)</b>	<b>63</b>	-	-	<b>63</b>	-	-
Trade and other payables (2018)	97	-	-	97	-	-
<b>Company</b>						
<b>Trade and other payables (2019)</b>	<b>25</b>	<b>32,811</b>	-	<b>32,836</b>	-	-
Trade and other payables (2018)	37	32,823	-	32,860	-	-

## 19. RELATED PARTY TRANSACTIONS

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

	Group		Company	
	2019 \$000	2018 \$000	2019 \$000	2018 \$000
Short-term employee benefits	567	666	245	255
Social security costs	71	79	29	31
Defined contribution pension	27	15	-	-
	<b>665</b>	760	<b>274</b>	286

Further information on Directors' remuneration is detailed in the Remuneration Committee Report, on pages 33 – 40.

The Company's subsidiaries are listed in Note 11. The following table provides the balances which are outstanding with subsidiary undertakings at the balance sheet date:

	2019 \$000	2018 \$000
Amounts owed from subsidiary undertakings	20,978	19,233
Amounts owed to subsidiary undertakings	(32,811)	(32,823)
	<b>(11,833)</b>	(13,590)

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

## 20. SUBSEQUENT EVENTS

Save for the events surrounding Covid-19 which have been discussed within the Chairman's and CEOs statements (pages 6 – 9) and within the business risks section (pages 18 – 23), no significant subsequent events requiring disclosure or adjustment have occurred.

The measurement of expected credit losses in accordance with IFRS 9 (Financial Instruments), are not impacted by subsequent global developments related to Covid-19 and are therefore non-adjusting.

# Definitions and Glossary of Terms

\$	US dollars
Companies Act or Companies Act 2006	The Companies Act 2006, as amended
1P	Proven reserves (both proved developed reserves + proved undeveloped reserves)
2D	Two dimensional
2P	1P (proven reserves) + probable reserves, hence "proved AND probable."
3D	three dimensional
3P	The sum of 2P (proven reserves + probable reserves) + possible reserves, all 3Ps "proven AND probable AND possible."
AIM	AIM, a SME Growth market of the London Stock Exchange
AGM	Annual General Meeting
Articles	The Articles of Association of the Company
bbl	Barrel, equivalent to 42 US gallons of fluid
bopd	Barrel of oil per day
boe	Barrel of oil equivalent, a measure of the gas component converted into its equivalence in barrels of oil.
Board	The Board of Directors of the Company
City Code	The City Code on Takeovers and Mergers
Company	Sterling Energy plc
CSOP	Company Share Option Plan (HMRC approved share option scheme)
Directors	The Directors of the Company
D&P	Development and production assets
E&E	Exploration and evaluation assets
E&P	Exploration and production
EBITDAX (Adjusted)	Earnings before interest, taxation, depreciation, depletion and amortisation, impairment, share-based payments, provisions and pre-licence expenditure.
EITI	Extractive Industries Transparency Initiative
EUR	The total amount of hydrocarbons expected to be produced from the hydrocarbon accumulation over the life of the project. Estimated ultimate recovery is synonymous with recoverable resource and the terms are used interchangeably.
Farm-in & farm-out	A transaction under which one party (farm-out party) transfers part of its interest to a contract to another party (farm-in party) in exchange for a consideration which may comprise the obligation to pay for some of the farm-out party costs relating to the contract and a cash sum for past costs incurred by the farm-out party.
FCA	Financial Conduct Authority of the United Kingdom
G&A	General and administrative
G&G	Geological and geophysical
GBP	Pounds sterling
Genel Energy	Genel Energy Somaliland Limited
Group	The Company and its subsidiary undertakings

HMRC	Her Majesty's Revenue and Customs
HSSE	Health, Safety, Security and Environment
hydrocarbons	Organic compounds of carbon and hydrogen
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
Jacka	Jacka Resources Somaliland Limited
JV	Joint venture
k	Thousands
km	Kilometre(s)
km <sup>2</sup>	Square kilometre(s)
KPIs	Key performance indicators
lead	Indication of a potential exploration prospect
London Stock Exchange or LSE	London Stock Exchange Plc
M&A	Merger and acquisition
m	Metre(s)
mcf	Thousand cubic feet
OECD	Organisation for Economic Cooperation and Development
OPEC	Organisation of the Petroleum Exporting Countries
Ordinary Shares	Ordinary shares of 10 pence each
P90	The value on a probabilistic distribution which is exceeded by 90% of the outcomes.
P50	The value on a probabilistic distribution which is exceeded by 50% of the outcomes. The P50 is also the median value of the distribution.
P10	The value on a probabilistic distribution which is exceeded by 10% of the outcomes.
Pmean	The average of the values in the probabilistic distribution between defined 'boundary conditions'. Universally regarded as the best single value to quote or communicate for any uncertain distribution of outcomes involved in repeated trial investigations.
Panel or Takeover Panel	The Panel on Takeovers and Mergers
Petroleum	Oil, gas, condensate and natural gas liquids
Petroleum system	Geologic components and processes necessary to generate and store hydrocarbons, including a mature source rock, migration pathway, reservoir rock, trap and seal.
Petrosoma	Petrosoma Limited (JV partner in Somaliland)
Pre-Stack Depth Migration	Process by which seismic events are geometrically re-located in space and depth to the location the event occurred in the subsurface.
Pre-Stack Time Migration	Process by which seismic events are geometrically re-located in seismic travel time to the location the event occurred in the subsurface.
Prospect	An area of exploration in which hydrocarbons have been predicted to exist in economic quantity. A group of prospects of a similar nature constitutes a play.
PSA	Production sharing agreement
PSC	Production sharing contract

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## Definitions and Glossary of Terms (cont.)

QCA Code	Corporate Governance Code for Small and Mid-Size Quoted Companies 2018
Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must satisfy four criteria; they must be discovered, recoverable, commercial and remaining based on the development projects applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterised by development and production status.
Reservoir	A porous and permeable rock capable of containing fluids
Seismic	Data, obtained using a sound source and receiver, that is processed to provide a representation of a vertical cross-section through the subsurface layers.
Shares	10p ordinary shares
Shareholders	Ordinary shareholders of 10p each in the Company
Subsidiary	A subsidiary undertaking as defined in the 2006 Act
Tcf	Trillion cubic feet
United Kingdom or UK	The United Kingdom of Great Britain and Northern Ireland
Waterford Finance and Investment	Waterford Limited
Working Interest or WI	A Company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.

# Professional Advisers

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