



1 June 2009

## STERLING ENERGY PLC

### 2008 PRELIMINARY RESULTS

Sterling Energy, the AIM listed (symbol: SEY) independent oil and gas exploration and production company operating in Africa, the Middle East, the Gulf of Mexico and onshore USA, today announces its 2008 Preliminary Results together with an update on progress and outlook.

#### 2008 HIGHLIGHTS

- Revenues for the period increased 7% to \$103.6 million (2007: \$97.2 million).
- Average production decreased 17% to 4,809 boe/d (2007: 5,760 boe/d), partly due to the impact of two major hurricanes in the USA. Year to date production in 2009 has averaged 4,694 boe/d.
- EBITDA increased to \$65.1 million (2007: \$56.6 million).
- Falls of 61% in oil prices and of 25% in gas prices between the end of 2007 and 2008 resulted in lowered fixed asset values and triggered non-cash pre-tax impairment charges of \$180.1 million. Accordingly an operating loss of \$175.2 million resulted (2007: profit \$1.8 million).
- Operating profit of \$7.7 million before impairment charges (2007: \$1.8 million).
- Proved plus probable ("2P") oil and gas reserves at the end of 2008 were down 14% at 18.3 million boe.
- Placing of £13.5 million at 2p per share in October 2008.
- Since the start of 2008, Sterling has repaid \$41.4 million (27%) of its bank debt, which currently stands at \$112 million. In 2008 the falls in prices of oil by 75% and gas by 58%, from their peaks, and continued gas price weakness in 2009 has resulted in a marked reduction in the Group's Borrowing Base debt availability. Sterling's debt is above the calculated available level and a waiver was agreed with its banks in April 2009 until mid-August 2009. Sterling is subject to certain restrictions and approvals under the waiver. A strategic solution is being sought to enable repayment of the existing debt gap of \$25.3 million in advance of expiry of the waiver, in addition to further repayments forecast to then fall due. A further review will take place at that time. Cash balances are currently \$4.3 million.
- Increased activity in Kurdistan on the Sangaw North PSC with a 325km 2D seismic programme completed over the block in late 2008. Sterling retains a 53.33% interest (40% fully diluted) in the block after farming it out. Sterling recovered all past costs and has a carry through the seismic and the first well up to the point of testing.
- Recent interpretation of the Kurdistan seismic confirms that the extensive anticline evident at the surface is also present in the sub surface where a very large structural closure is evident.
- Good progress has been made in the evaluation of the Ampasindava and Ambilobe PSC's, Madagascar, where several large structures have been identified, with Sifaka one of the largest. A site survey on the Sifaka prospect has been conducted and a potential drilling location identified.

- Prospectivity studies over the Ntem block, offshore Cameroon (Sterling 100%), have identified a number of significant prospects. The maritime border dispute that has delayed drilling is understood to be close to being settled.
- A conditional sale of the USA assets announced in September 2008 was not completed. This was due to the impact of the banking and credit crisis and the major falls in energy prices since then. A sale remains central to Sterling's strategy.
- 2008 drilling in the USA resulted in 9 out of 18 successful wells. Results so far in 2009 have improved markedly. Activity is now focused on bringing on near-term production and improving reserve classification.

## MANAGEMENT OBJECTIVES FOR 2009

- The immediate focus remains on finding a resolution to Sterling's debt shortfall which has arisen principally as a direct result of the sustained and major fall in energy prices as shown in the table below.

	Brent Oil	Henry Hub
	\$/bbl	\$/mcf
1 January 2008	94.57	7.27
High point (July 2008)	145.28	12.92
31 December 2008	36.96	5.47
28 May 2009	64.48	3.55

- We continue discussions with interested third parties and continue to seek a sale of assets, including the USA business. Debt repayments from cash flow are currently \$1 million per month.
- To drill the high-impact, carried well in the exciting and fast emerging oil province of Kurdistan.
- To farmout an interest in the Cameroon licence and to drill as soon as feasible.
- To farmout an interest in Madagascar and then prepare for drilling of the Sifaka prospect in 2010.

Graeme Thomson, CEO of Sterling, commented:

“Volatile times require fortitude, boldness and no little luck. 2009 is a year of challenge and we are focused on achieving our key objectives, being to resolve the debt issue that has arisen from the recent huge fall in energy prices and to drill potentially “company-making” wells with a carried interest.”

## CHAIRMAN'S STATEMENT

As we all know, 2008 and so far 2009, have been exceptionally difficult times for the world economy and, not least, for smaller Exploration and Production companies like Sterling.

We announced late last year that we had received possible bid approaches and had agreed a conditional sale of our USA assets. Major falls in energy prices since then, especially of USA gas, have had adverse ramifications, including for our debt facilities and cash flows. This, plus the impact of instability in the global banking sector, has made it a particularly complex position to resolve. I am nonetheless optimistic that, given the best endeavours of the management team and the support of our banks, for whose waiver in respect to the February Borrowing Base repayment until mid-August 2009 I am grateful, we shall prevail.

Since the start of 2008 we have repaid \$41.4 million of debt and as at date of this report now owe \$112.2 million. At the last Borrowing Base review, computed effective mid February 2009, we had a "debt gap", being the debt repayment temporarily deferred as a result of the waiver, of \$28.3 million after making an \$8.0 million repayment. Further payments totalling \$3.0 million have subsequently been made. Under the terms of our waiver, we must repay not less than \$1.0 million of debt per month, and have limitations and bank approval requirements on capital expenditures and other procedures. In addition to closing the remaining debt gap of \$25.3 million, and meeting these monthly repayments, the next Borrowing Base review due in August 2009 is forecast to require a further debt repayment in September. In order to secure the future of Sterling, we are endeavouring to resolve this issue as soon as possible.

Whilst our revenues for 2008 were up 7% at over \$103.6 million, Group production from our fields in the USA and Mauritania was down 17% at 4,809 boe/d. EBITDA was up 15% at \$65.1 million, administrative costs were reduced by 9% and cash inflow from operating activities increased by 18% to \$56.7 million. An operating profit before tax and impairment charges in 2008 of \$7.7 million was achieved, compared with \$1.8 million in 2007. The statutory operating loss for the year was \$175.2 million (2007: profit \$1.8 million).

From their peaks in 2008 oil prices fell by 75% and gas prices by 58%. We, along with the industry, have to assess the carrying value of our assets with year-end prices in mind. In common with many companies this review has resulted in a non-cash write-down, which is shown in the financial statements as an impairment charge to oil and gas assets of \$180.1 million. Of this, approximately 44% was in the USA and 56% was in Mauritania / West Africa.

Sterling's proved plus probable oil and gas reserves at the end of 2008 were 18.3 million boe, of which proved reserves were 60% and probable reserves were 40%. There were an additional 9.3 million boe of possible reserves and 0.4 million boe of contingent resources. An independent review by RISC on two of our prospects in Kurdistan and Madagascar has indicated net unrisks best estimate prospective resources of 460 million boe. For the Kurdistan prospect this review was conducted prior to the recent seismic survey and we expect the results of the seismic survey to increase the estimate of the prospective resources and decrease the exploration risk. Drilling was successful in Mauritania but mixed in the USA, although since year-end there has been a marked improvement in the success rate there.

On the exploration front, I am very excited about the carried well in Kurdistan that we plan to drill in the fourth quarter of 2009. This has the potential to transform the group's outlook, as have our interests in Cameroon and Madagascar, where activity is expected to accelerate. We look to farmout both African licences.

I wish to record my thanks to the staff and my fellow directors for their unstinting efforts during a period of rapidly changing market conditions. Paul Griggs and Chris Callaway left the board in April 2008 and May 2009 respectively. I would like to express my sincere thanks to them both. We have also reduced our staff by 4% despite commencing operations in Kurdistan, and our manpower costs by 22%, on a like-for-like basis since the start of 2008.

Our near-term aims are clear. We must adapt to the new conditions, and difficult choices lie ahead. I am grateful for the support given by everyone over the last difficult year. You may rest assured that no effort will be spared to achieve our objectives in 2009.

## **CHIEF EXECUTIVE OFFICER'S REVIEW**

### **Adapting our Strategy**

The last year or so has been the most volatile and difficult period in my considerable time in the oil industry, but I believe there are many reasons to be optimistic about the future, not least Sterling's interests in potentially 'company making' assets such as Kurdistan, Cameroon and Madagascar, of which I will say more later.

The falls in energy prices from their high points in July to the December 2008 closing prices - gas down 58% and oil down 75% - have had a well documented impact on the industry and the companies operating within it. The impact on Sterling has been no less marked.

In common with our peers, we are making adjustments to our business structure and strategy aimed at ensuring a sustainable future with good near-term upside potential.

### **Energy prices have tumbled - costs are lagging**

Although we are now getting lower revenue from our production, we did take out hedges prudently for 2009 of around 75% of our proved developed estimated sales volumes at prices well ahead of current ones. Operating costs, which followed energy prices and the consequent increase in industry activity to high levels, have not generally fallen; indeed items like insurance have increased. However, there are signs that capital costs are now starting to reduce with costs such as rig rates, steel and services all reacting to the industry's inability to sustain previous cost levels.

### **Reducing our debt gap is the current priority**

Since the start of 2008, Sterling has repaid \$41.4 million (27%) of its debt, which now stands at some \$112.2 million. A bank waiver has also been agreed and is in place until mid-August 2009. We continue to work very hard to reduce the outstanding debt and to eliminate the debt gap which currently stands at \$25.3 million. The debt gap is the amount of actual debt in excess of the syndicated loans Borrowing Base as reassessed under the reserve based lending facility assumptions every six months. The debt gap is also the amount of debt repayment temporarily deferred by our lending banks as a result of the waiver.

The sale of our USA assets has not yet been achieved. This is due primarily to the fall in energy prices and the crisis in the banking sector, which has meant that the conditional buyer we had announced in September 2008 could not complete the transaction. The market place for USA deals has virtually ceased to operate since then, but we continue to seek a buyer for part or all of these assets.

In parallel, we are also seeking a debt solution that will enable the Group to resume its expansion. This could include an injection of capital and people, of assets or a combination, or indeed a full takeover. Shareholders can be assured that senior management is fully committed to securing a resolution to this issue, in the interests of all stakeholders, as soon as possible.

### **Great upside in the exploration and drilling portfolio**

In 2008 we achieved two important farmouts, on the Iris well offshore Gabon and on our highly promising licence onshore in Kurdistan, which are described in more detail elsewhere.

Our policy is almost always to farmout international wells and minimise our net costs, including drilling. Whilst the Gabon well in July 2008 was dry, it was drilled at no cost to us. Our bank waiver sets clear limitations on our international costs, but our policy on existing assets remains as it was last year – to farmout.

Our first well in Kurdistan is expected to commence drilling in the fourth quarter of 2009. When we farmed out this asset in September 2008, we got back our past costs (which helped with debt repayments) and we will also benefit from a carry on costs of drilling the first well until we reach the point of testing. We retained a 53.33% interest (40% fully diluted, if the government backs in) and operatorship. Recent interpretation work on the seismic acquired in late 2008 has led us to increase our expectations of the size of the prospect and to lower our assessment of the associated risks. There has been successful drilling in Kurdistan recently which, according to the Kurdistan oil minister, has added 4-5 billion in reserves – which would indicate a truly a world class oil region in the making.

In Madagascar, we now expect drilling in 2010, the delay being due to the recent local political changes following a period of unrest. Our partner and operator, ExxonMobil, is focused on drilling a major structure on the Ampasindava block where we retain a 30% working interest and are partially carried. A participation decision is currently required by the end of July and we continue to seek farm-in parties to enable the company to participate.

Offshore in Cameroon, we have been expediting our studies of the prospectivity of the Ntem block (Sterling 100%) and are very encouraged by the number and size of the prospects identified. We aim to seek farm-in parties at the appropriate time and understand that the border dispute may be settled soon. We intend to drill as soon as we can after that.

In Mauritania there is no material Phase 2 capital expenditure budgeted in 2009. Phase 3 is currently being evaluated and any work would not commence until 2010.

In the USA, the focus of our drilling is low risk wells which can result in short term reclassification of reserves into proved and producing, whilst farming out higher risk wells. We have cut our capex programme for 2009 by 41% to no more than \$27.7 million, intending to balance cash generation with the twin aims of bank debt repayment and achieving commercial objectives.

### **Good people in volatile times**

It is hard from the outside to gauge the effort made within a company like ours during such a difficult time but I can tell you it has been huge. The major challenges in a highly volatile time are many and varied, but the staff and all of the Directors have worked tirelessly for the Company. Much has been achieved, but it has also been very frustrating. For example, our placing in October 2008 had given the Group resources to meet the then estimated debt repayments through to at least early 2010. The falls in energy prices since then have meant that the re-assessed bank debt Borrowing Base is lowered and we are dealing with the results.

Volatile times require fortitude, boldness and no little luck. I am grateful to all stakeholders, staff, banks, shareholders, suppliers and others for their support and I trust, in time, that support will yield its rewards.

2009 is a year of challenge and we are focused on achieving our stated objectives, to resolve the debt issue and get Sterling back on a growth path.

## **OPERATIONAL**

### **Kurdistan, Iraq**

#### **Sangaw North on track for 2009 drilling**

2008 represented a period of intense exploration activity on the Sangaw North PSC. Having only signed the contract with the Kurdistan Regional Government (KRG) in November 2007 Sterling completed a 325km 2D seismic programme over the block in November 2008. This mixed vibroseis and dynamite sourced survey represented the first subsurface data in the block.

The survey was a great success since it confirmed that the extensive anticline evident at the surface is also present in the subsurface where a very large structural closure is evident. The seismic operation was carried out with an excellent HSE record and with minimal social and environmental impact.

In parallel with the seismic acquisition programme we also farmed out a 33.33% interest in the Sangaw North PSC to Addax Petroleum Sangaw Limited ("Addax"). Under the terms of this deal, Addax paid Sterling's past costs, Sterling's seismic acquisition costs, plus a carry for Sterling's costs for drilling the first well on the block, up to the point of testing.

Following this farmout, the KRG assigned a 20% Third Party Interest in the PSC to the Korea National Oil Corporation. Sterling's interest has thus now been reduced to 53.33%, Addax's to 26.67% and Sterling remains operator of the PSC. Sterling's fully diluted interest will be 40%, should the KRG exercise its government back-in rights.

In conjunction with the seismic operation Sterling also undertook an extensive programme of geological fieldwork involving both surface mapping and rock sample collection for subsequent analysis. This data is being combined with the subsurface seismic data to identify the optimal drilling location for the Sangaw North exploration well planned for the fourth quarter of 2009, subject to rig availability.

Further analysis of the surface oil seeps, typical of the area, confirms that the area is charged by the same source rock that is responsible for the majority of the multi billion barrels of Iraqi reserves including the Kirkuk Field, only 50km to the west. Sangaw North represents a moderate risk but potentially high reward exploration project within this prolific hydrocarbon province.

In recent weeks the potential of this province has been highlighted by the exciting news of Heritage's announcement of its Miran West discovery, located 30km to the north of the Sangaw Block, and the announcement by the KRG that crude oil exports to Turkey from DNO's Tawke Field and the Taq-Taq field will commence in June 2009.

In-country operations continue to be directed from Sterling's office in Suleimaniah, Kurdistan's second city, optimally located only 40km from the project area. A demographic and social survey of villages in the Sangaw area was undertaken in order to obtain feedback on the most appropriate support Sterling can provide to the local community. During the duration of the seismic operation medical clinics were conducted in many villages as part of our local liaison work and we plan to increase our support to the community as the project progresses.

### **Cameroon**

#### **Ntem**

The Ntem permit is a highly prospective deepwater block situated in the southern Douala/Rio Muni Basin and lies adjacent to the northern border of Equatorial Guinea. The financial obligations and work programme for the Ntem concession area (100% WI) are currently suspended owing to overlapping maritime border claims between Cameroon and Equatorial Guinea; however, both countries are actively working to resolve this issue. Sterling is re-evaluating the area in the light of recent Tertiary discoveries made by Noble Energy to the north of the block and understands the border dispute may be resolved soon. Sterling intends to farmout an interest in this licence.

This large block remains undrilled and is well placed with respect to both Tertiary and Upper Cretaceous plays. As a result, it is attracting a good level of industry interest. Many large leads and prospects have been identified

following a detailed interpretation of the extensive 2D and 3D seismic database. Recent seismic attribute analysis and inversion studies on this dataset reveal the presence of large and widespread submarine fans with good exploration potential.

## **Madagascar**

The potential of the Ambilobe and Ampasindava blocks has continued to grow this year, building on from the identification of the giant Sifaka prospect last year. In Ampasindava, where water depths range from 200m to 3,000m, two further large leads have been confirmed within the Sifaka Jurassic trend. In Ambilobe, numerous leads of Cretaceous and Tertiary age have been identified, including several large Cretaceous leads.

Preparations for the drilling of the Sifaka prospect have continued through the year. A site survey was acquired in mid-2008 from which a drilling location was chosen at the end of the year. This location is on the flank of the structure where other studies suggest the main Jurassic target sandstones are expected to be encountered at approximately 3,400m below seabed. Our estimates remain in line with those previously stated; unrisks mean prospective resources of 2 billion barrels. Following the completion of the environmental impact assessment in the first half of 2009, the Sifaka prospect should be ready to drill from the second half of 2009. However, following recent local political changes and a period of civil unrest we now expect to be drilling in 2010.

Seismic reprocessing of over 8,000km of 2D data is currently being undertaken to identify additional exploration potential in both blocks, and is expected to be completed mid-2009. In the Ambilobe PSC, where water depths range from zero to 3,000m, an additional 550km of 2D was purchased in 2008 and a major fieldwork campaign was successfully completed. These field results have improved our understanding of the Jurassic and Cretaceous source-rocks and reservoirs in outcrop, and our ability to predict their presence in the undrilled offshore basins.

In November 2008 the Ampasindava PSC entered Phase 3 of the exploration period which includes a commitment well. We expect the costs of the well to materially exceed the value of our remaining carry. A participation decision is required by the end of July and we continue to seek to further farm-down our interest in the PSC to cover our costs.

In the Ambilobe PSC, ExxonMobil withdrew from the joint venture on 28 May 2009. Sterling now has a 100% WI in the permit and we plan to farmout the block to reduce our cost exposure. Sterling has been offered an extension to the current exploration phase by OMNIS and we are currently finalising the terms of this extension with OMNIS.

## **Mauritania**

### **Chinguetti Phase 2B development work completed**

During 2008 the operator, Petronas, completed Phase 2B of the development programme with the Atwood Hunter rig. This phase consisted of drilling two new production wells, C-19 and C-20, and interventions into three existing production wells. These interventions involved running production logs, installing a plug to isolate a water producing zone in one well, and installing larger capacity gas lift valves in all three wells. The two new wells added around 6.5 mmbbl of 2P field reserves and were brought on stream at around 3,500 bo/d each. On completion of the phase 2B programme, the total field production rate was increased to 16,500 bo/d, with half this due to Phase 2B itself. Current production is 10,800 bo/d.

Sterling estimates that, at the end of 2008, Chinguetti held a remaining 11.4 mmbbl of gross 2P reserves to be accessed with the existing wells, and 4.08 mmbbl of contingent resources. Evaluation work carried out in 2009 may culminate in a potential Phase 3 to access these contingent resources in 2010.

During 2008, Sterling received a share of sales of 373,000 bbls from its interests in the Chinguetti field through the Funding Agreement and its Royalty interest which together generated over \$29.1 million gross revenue (\$20.4 million net after hedges) from four cargo liftings.

### **Other development potential**

Two appraisal wells on the Banda gas discovery straddling PSC's A and B were drilled in 2008. These wells encountered gas and oil columns with similar contacts to those seen in the discovery well, and confirm gas in place estimates of 1.1 tcf in the most likely case, with over 4 tcf in the upside case. On the back of these results, the

operator, Petronas, is understood to be preparing a Field Development Plan which it expects to submit to the government by mid 2009. Sterling would be entitled to revenue under its royalty interest from any development of Banda.

## **AGC**

### **Dome Flore extension sought**

The Dome Flore concession lies within the AGC, a joint exploration zone between Senegal and Guinea Bissau. Sterling holds a 30% WI and Markmore, a Malaysian company with interests in bitumen refining, is the operator.

An exploration well to drill two stacked Maastrichtian light oil reservoirs is being planned. The shallower heavy oil accumulation will also be penetrated by this well and the interval cored to evaluate its production potential. The heavy oil deposits within the licence, on Dome Flore and Dome Gea, contain an estimated gross 0.8 to 1 billion bbls in place. Sterling's share of the drilling costs will be carried by Markmore for this exploration well.

A site survey has been conducted, but a rig could not be secured to allow the well to be drilled prior to the end of the exploration phase in January 2008. A licence extension has not yet been granted and is still being sought.

## **Gabon**

### **Iris Marin**

The Iris Marin Production Sharing Contract (PSC) is situated in the Southern Gabon Basin, adjacent to the Gamba and Ivinga producing oil fields and the Olowi oil field development. The permit extends from the shoreline to a water depth of 60m. Sterling holds a 32% working interest, and sold an 18% interest to Addax Petroleum and also transferred the operatorship to Addax in June 2008. The Iris Charlie Marine-1 well was drilled in July 2008, but failed to find hydrocarbons and was abandoned as a dry hole. A thick Gamba Sandstone Formation was encountered by the well, confirming the prospectivity of the area. The operator's forward plan is to undertake geological studies in 2009.

### **Ibekelia**

Sterling and its partners are in advanced negotiations to convert Ibekelia from a TEA into a PSC. The TEA covers an area of approximately 673km<sup>2</sup> adjacent to Gamba, Ivinga fields and Olowi. Sterling holds a 40% working interest and is the operator.

## **United States of America**

### **Asset disposal process initiated**

In April 2008, Sterling's Board took the decision to sell its USA assets following a review of all of all the Group's assets and its forward capital expenditure programme. Responding to current market conditions and the progress made on other licences over the last year, Sterling has sought to redeploy its capital to existing and other higher potential assets and to repay its debt. The sales process is ongoing but timing has been impacted by falling commodity prices and the world-wide economic downturn.

### **Reserves and production**

At the end of 2008, Sterling USA had 2P reserves of 103 bcfge (17.1 mmboe) compared to year-end 2007 2P reserves of 111 bcfge (18.5 mmboe). Possible and contingent resources were in excess of 47 bcfge (7.9 mmboe). Approximately 60% of the 2P reserves were categorised as proven. Within this portfolio Sterling has an inventory of identified drilling prospects budgeted to be drilled over the next four years, most of which are already leased and many already have the necessary permits in place.

During the year, Sterling divested of a group of non-core assets. This allowed Sterling to exit activities located in Oklahoma, New Mexico, Wyoming and California. Net proceeds were \$8.7 million and were utilized to pay down existing debt. Net reserves sold were 7.2 bcfge (1.2 mmboe). In addition, the sales released the Group from future abandonment obligations of \$4.8 million.

Sterling had a hurricane affected net production of 8.3 bcfge during 2008 (22.7 mmcfge/d). After accounting for the reserves associated with its divestitures and all reserve additions and adjustments, Sterling replaced 86% of its net production for the year. Year-end reserves were adversely impacted by the lower commodity price environment which accounted for approximately 6 bcfge of the reduction. Without this revision, Sterling would have replaced over 150% of its net production for 2008.

During 2008, Sterling participated in 18 new wells and over 30 recompletions. Nine of these new wells and 25 of the recompletions were successful. The Group also participated in the shooting of two new 3D surveys (15 sq mi and 35 sq mi) one of which was completed and processed by year-end. Two drilling locations have already been identified from the first survey.

At year-end, production from our USA assets was 22 mmcfge/d compared to year-end 2007 of 28.5 mmcfge/d, with the decrease due to the impact of Hurricane Ike, disposals undertaken during the year (approximately 1 mmcfge/d) and a reduction in drilling activity due to lower commodity prices. Over half of the production is operated by Sterling and approximately 75% is natural gas.

Since the end of the year, Sterling's USA division has been active with 5 wells successfully drilled and several workovers completed. Net production in 2009 has averaged 21.0 mmcfge/d.

At the end of the first quarter of 2009 production had increased to over 23 mmcfge/d from 202 wells with nearly 70% of this production coming from eleven fields.

#### **Diversified Asset Base**

##### **Giddings Austin Chalk**

Sterling currently has Austin Chalk production from five wells and current net production of over 1 mmcfge/d. This programme located in Grimes and Burleson Counties began in early 2007 and the first 5 wells have proved successful with net production increasing rapidly. Two wells planned for 2009 with a total of 20 locations remaining.

##### **Texas/Louisiana Onshore Gulf Coast**

Sterling currently has production from 133 wells of over 11 mmcfge/d. This area includes the drilling programme conducted with Viking Petroleum, a private Houston company, which generates prospects primarily in South East Texas. Eight such wells were drilled in 2008 with two successful and one lost due to mechanical problems (re-drilled in the first quarter of 2009). Five additional wells are scheduled for 2009. Sterling was also active in its operated Westhoff field, with three wells successfully drilled in the fourth quarter of 2008.

##### **Windham Field**

Sterling has production from fifteen wells with over 1.4 mmcfge/d of net production. During 2008, Sterling was active with five recompletions which increased production by over 500 mcfge/d. Three additional recompletions are planned for 2009.

##### **Offshore Gulf of Mexico**

Sterling currently has interests in a total of 15 wells in the Gulf, producing approximately 8 mmcfge/d. In 2008 it sold its operated interest in the Sherman (MAT720) field and facilities in return for assumption of plugging and abandonment costs. The Company was active in this region with significant upgrades made to the production facilities in the El Gordo (MI 520) field and a recompletion that added over 500 mcfge/d. Sterling also attempted to sidetrack an inactive well in the N. Mustang Island field. This was unsuccessful due to mechanical problems.

##### **South Texas**

Sterling currently has production of nearly 2.5 mmcfge/d from a total of 34 wells. In addition, the Company recently participated in the shooting of a new 35 sq mi 3D survey in LaSalle County, Texas. In addition to the targeted deeper formations, Sterling's acreage is positioned along the highly competitive Eagleford Shale play. The Eagleford is found at approximately 11,000 ft and several operators have had success with horizontal drilling and multi-stage fracs. During the first quarter of 2009, the Company farmed out a portion of its Eagleford rights in

exchange for a partial carry including completion of the first well and reimbursement of seismic and land costs. The first well is currently drilling.

### **Hurricane Ike**

In September 2008, Hurricane Ike made landfall near Galveston, Texas after travelling through the northern Gulf of Mexico. This was a major storm that caused widespread damage both onshore and offshore. Sterling's Eugene Island 268 (EI268) platform and its single producing well were seriously damaged in the storm and the well has been shut in since that time. Net production lost was 400 mcfge/d. All subsea safety systems appear to be in service and the well and platform are expected to be abandoned during the second quarter of 2009. We expect that all of the required remedial work will be covered by Sterling's insurance policies.

Although no other significant damage was experienced by our facilities, production was significantly curtailed during September and October 2008 due to third party downstream repairs and pipeline inspections. Total curtailed production was estimated at 6 mmcfge/d immediately after Hurricane Ike and approximately 4 mmcfge/d for October 2008 with the permanent impact on production being 0.4 mmcfge/d.

## FINANCIAL REVIEW

Selected financial data		2008	2007
USA production	boe/d	3,784	4,297
Chinguetti production	boe/d	1,025	1,463
Total production	boe/d	4,809	5,760
Year-end 2P reserves	000 boe	18,332	21,294
Revenue	\$million	103.6	97.2
EBITDA <sup>1</sup>	\$million	65.1	56.6
Loss after tax	\$million	(156.8)	(2.3)
Net cash investment in oil & gas assets	\$million	57.4	233.2
Year end cash	\$million	23.8	44.1
Year end debt	\$million	(119.3)	(153.3)
Year end net (debt)/cash	\$million	(95.5)	(112.2)
Average realised oil price per bbl (net of hedges)	\$/bbl	67.21	54.95
Average realised gas price per mcf (net of hedges)	\$/mcf	8.82	7.16
Total cash operating costs per boe	\$/bbl	18.55	12.91

<sup>1</sup> EBITDA is calculated as earnings before interest, taxation, depreciation, amortisation, impairment and pre-licence expenditure

2008 has been a challenging year for Sterling financially. Early in 2008, against a background of difficulties in the wider credit and stock markets, Sterling took the decision, in shareholders' interests, to reduce or eliminate its debt, and to focus on its highly prospective assets and opportunities.

In April 2008, Sterling announced that it had retained BMO Capital Markets to manage a sales process for its USA oil and gas exploration and production business. The rationale for the disposal was to reduce its debt level and improve the working capital position, with the aim of enabling Sterling to redeploy some of this capital on its high impact exploration projects, as well as to seek similar new business opportunities.

During the year, and consistent with these goals, Sterling farmed down its interests in two of its exploration projects in Sangaw North (Kurdistan) and Iris Marin (Gabon) to Addax Petroleum.

With weakening global commodity prices during the third quarter of 2008, and following a \$20.3 million reduction in debt availability under its Borrowing Base Facility, Sterling undertook a placing to raise £13.5 million during October 2008. At the same time Sterling also announced a conditional sale of its USA business. With a continued deterioration in the global economy during the fourth quarter of 2008, commodity prices were further adversely impacted and debt / equity dried up. As a result Sterling was unable to complete the conditional sale of the USA business, but remains committed to this process.

Following a Borrowing Base redetermination in February 2009 Natixis, as agent and technical bank, indicated that reflecting a major fall in commodity prices since the previous redetermination, Sterling's debt availability under the Borrowing Base Facility would be reduced further to \$76.3 million. This recent determination resulted in a debt gap between the amount already drawn and the reduced available facility. The debt gap is currently \$25.3 million, under the Borrowing Base Facility, after principal repayments of \$11.0 million to date in 2009. As a result of this debt gap, Sterling required a repayment waiver from its banking syndicate. Sterling expects to service its adjusted cash flow obligations at least until the next Borrowing Base re-determination which is due in mid-August 2009. Based on the banking syndicate's latest Borrowing Base model, the Borrowing Base debt availability is forecast to reduce further to \$58.5 million in August 2009. The waiver includes various changes to the terms of the loan, including fees dependent on the timing of the elimination of the debt gap, prior bank approvals of capital costs and a monthly repayment of not less than \$1.0 million under a cash sweep mechanism. Sterling continues to work on a longer term solution with its banks and its strategic partners and stakeholders. Since the start of 2008 to date Sterling has repaid \$41.4 million of debt under the Borrowing Base Facility.

Additionally, Sterling has a subordinated \$15 million corporate facility, with Natixis, of which \$11 million has been drawn down.

### **Revenues up 7% to \$103.6 million in 2008**

Revenues increased by 7% to \$103.6 million in 2008 (2007: \$97.2 million), with high average oil and gas prices for 2008 offsetting the impact of declining Chinguetti field production and lower than forecast production from the USA portfolio.

USA production decreased by 12% to an average of 22.7 mmcfge/d (2007: 25.8 mmcfge/d), gas accounting for 75% of this production (2007: 74%). USA production was significantly affected in the third quarter of 2008 (20.3 mmcfge/d) and Q4 (19.0 mmcfge/d) as a result of Hurricane Ike. Currently USA production is 22 mmcfge/d, as a result of new wells coming on stream in early 2009. Revenues from USA operations increased 23% to \$83.2 million (2007: \$67.8 million) with an average realised price of \$10.04/mcfge (2007: \$7.02/mcfge). Third party income from Sterling operated pipelines fell 23% to \$1.2 million (2007: \$1.6 million), before related costs, due to a decline in throughput from the wells. Throughput volumes in 2008 were 0.2 mmcfge and 401,000 bbl compared to throughput volumes in 2007 of 0.4 mmcfge and 400,000 bbls.

The Group's entitlement to Chinguetti field production in 2008 totalled 0.4 million bbls (2007: 0.5 million bbls). Revenue from the Chinguetti field interests totalled \$20.4 million (2007: \$29.3 million), net of the cost of related settlements of hedge contracts crystallising which totalled \$8.7 million (2007: \$5.9 million) and including royalty income amounting to \$2.0 million (2007: \$4.6 million). The average cargo sale price was \$85.01/bbl (2007: \$68.08/bbl), an average discount to Brent of \$7.02/bbl (2007: \$4.72/bbl).

### **Operating loss \$175.2 million after non cash impairments**

2008 operating loss amounted to \$175.2 million (2007: profit \$1.8 million) after pre-tax impairment charges of \$183.0 million. Due to the deferred tax credit of \$24.2 million relating to the impairment, the post-tax impairment charge was \$158.8 million. Adjusting for these impairment charges gives an adjusted operating profit of \$7.7 million. Cost of sales increased to \$87.0 million (2007: \$75.2 million), largely reflecting an increased depletion charge in the year of \$53.9 million (2007: \$49.2 million) and the increase in operating costs in the year of \$32.6 million (2007: \$27.1 million).

During the year we have recognised \$180.1 million impairment of oil and gas assets, which was predominately due to the dramatic decline in oil and gas prices at the end of 2008, and to a lesser extent due to field performance. This impairment comprises the following;

(A) A \$75.9 million impairment of Chinguetti producing field, \$4.3 million impairment of the Chinguetti royalty asset, \$7.0 million impairment of the Tiof royalty asset, \$6.3 million impairment of the Dome Flore exploration and evaluation (E&E) assets, and \$6.5 million impairment of the Gabon and Guinea Bissau E&E assets where there is no longer head-room in the Africa E&E pool.

(B) Additionally, there is an \$80.1 million impairment of USA assets. \$77.3 million of this impairment relates to the impairment of onshore assets. \$2.8 million relates to impairment associated with write off of EI268 reserves. EI268 suffered significant damage to the platform and jacket from Hurricane Ike. This well is currently in the process of being plugged and abandoned, the cost for the removal of wreck, plugging and abandonment is covered by the Group's insurance.

USA costs of sales rose to \$59.7 million (2007: \$49.9 million) averaging \$7.20/mcfge (2007: \$5.30/mcfge). Operating expenses increased to \$2.61/mcfge (2007: \$1.93/mcfge) and depletion charges increased to \$4.59/mcfge (2007: \$3.37/mcfge) reflecting the higher depletion rate of reserves (9.88% in 2008 compared to 7.01% in 2007)

Chinguetti cost of sales were \$27.4 million (2007: \$25.3 million) averaging \$73.14/bbl (2007: \$47.0/bbl), of which \$32.33/bbl related to production costs and \$40.82/bbl to depletion charges. This increase in unit of production costs reflects the absolute increase in cost of sales mainly relating to increased fuel costs in combination with reduced production from the Chinguetti fields.

Pre-licence costs of \$2.7 million (2007: \$4.5 million) were written off as required under IFRS.

Administrative expenses decreased by 9% to \$14.3 million (2007: \$15.7 million). This is stated after capitalisation of fixed assets, recoveries from partners in operated joint ventures, and non cash share option charge of \$1.5 million (2007: \$1.9 million). This has decreased from 2007 because of a reduction in employee costs during the year.

During the year Sterling sold non-core assets in the USA realising a profit on disposal of \$3.1 million, and realised a \$2.2 million profit in respect to the farmout of its interests held in the Sangaw North licence.

### **EBITDA and net loss**

EBITDA totalled \$65.1 million (2007: \$56.6 million) which equates to \$37.1/boe (2007: \$26.9/boe).

Interest revenue from cash deposits, less finance costs on the bank loans, were a net cost of \$9.5 million (2007: \$9.4 million). This reflects the interest and other costs related to the loan financing for and cash investment in Whittier Energy Corporation, acquired in 2007.

A taxation credit of \$27.9 million arose in 2008 (2007: \$0.7 million credit), reflecting a deferred tax credit of \$27.9 million, including \$24.2 million which partly offsets the USA impairment charge in the year.

Net loss after tax totalled \$156.8 million (2007: \$2.3 million loss). Fully diluted loss per share was 8.63 USc per share (2007: 0.14 USc loss per share).

### **Net cash flow from operating activities**

Cash inflow from operating activities increased to \$56.7 million (2007: \$48.5 million).

Net Cash investments in oil and gas assets totalled \$57.4 million (2007: \$233.3 million), including key investments of \$35.0 million invested in the USA business producing assets, and \$22.7 million invested in the Chinguetti field producing asset. \$11.2 million was invested in USA non-producing assets, \$5.0 million invested in Gabon, \$0.4 million in Cameroon, \$0.3 million in Madagascar and \$36.6 million in Kurdistan. During the year the Sangaw North block was successfully farmed out and as a result Addax Petroleum paid all past costs, and agreed to carry Sterling's costs for the planned exploration work programme of 2D seismic and the first exploration well up to the point of testing. \$4.9 million in respect of plugging and abandonment costs during the year. Proceeds from disposals and farm outs totalled \$55.5 million

A net amount of \$20.9 million was raised in October 2008 from an equity placing to strengthen the Company's balance sheet. This was required to ensure Sterling was in compliance of its banking covenants.

### **Bank facility**

The Company has a \$125.0 million reserve-backed revolving facility with Natixis as agent and technical bank. As discussed previously, Natixis has indicated that following the major fall in energy prices over the last few months, the Company's Borrowing Base under its syndicated debt facility is currently calculated at \$76.3 million and, at the last Borrowing Base review, was forecast to be \$58.5 million at the next Borrowing Base review in August 2009. Under this facility, at the end of May 2009, Sterling had an outstanding balance of \$101.2 million, giving rise to a debt gap of \$25.3 million. In April 2009, Sterling signed a waiver agreement with the banks which allowed Sterling to reschedule its loan repayments until the next Borrowing Base review in mid August 2009. The waiver includes various changes to the terms of the loan, including fees dependent on the timing of the elimination of the debt gap, prior bank approvals of capital costs and a monthly repayment of not less than \$1.0 million under a cash sweep mechanism.

Additionally, Sterling has a subordinated \$15.0 million corporate facility, with Natixis, of which \$11.0 million has been drawn down.

At the end of 2008, net debt stood at \$95.5 million (2007: \$103.5 million) with total cash balances of \$23.8 million (2007: \$44.1 million).

### **Balance Sheet**

At the end of 2008, net assets stood at \$171.2 million (2007: \$278.3 million), with current assets less current liabilities of negative 16.2 million (2007: \$4.7 million). Non-current assets, primarily oil and gas assets totalled \$318.3 million (2007: \$527.8 million). Total debt was \$119.3 million (2007: \$153.3 million).

The decommissioning provision of \$26.5 million (2007: \$22.1 million) has increased during the year as a result of a \$4.6 million increase in the provision for decommissioning of Eugene Island 268, and a \$3.4 million increase to Mauritania decommissioning provision. The \$5.9 million total decommissioning cost for EI268 is expected to be

fully covered by Sterling's insurance. This increase in the decommissioning provision is partly offset from the release of \$4.8 million in the USA decommissioning provision from fields sold during the year.

### **Hedging**

In October 2007, the Group entered into a number of oil and gas price derivatives, taking advantage of the then prevailing high prices to under-pin asset values and the loan Borrowing Base. The Directors continually review forward markets to identify opportunities to add value within the Group's hedging policy. No further hedges have been put in place since the end of 2007. In light of the fall in energy prices, the hedges in place throughout 2009 give rise to a derivative asset position of \$15.6 million (2007: \$14.6 million liability).

### **Financial strategy and outlook**

The Group will look to press ahead with its strategy to add value for its shareholders in a prudent and commercial manner.

While the debt gap on the Borrowing Base Facility remains, Sterling is required to ensure that its capital expenditure is predominately directed towards its Borrowing Base assets. Major exploration projects will continue on the expected timetables where Sterling is carried by its partners.

Between now and August 2009 Sterling will continue to work with its banks and stakeholders to put a robust long-term solution in place to this issue. Potential options are discussed further in the Chairman's Statement, CEO's Review and the Operational Review.

### **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.

### **For further information contact:**

#### **Sterling Energy plc +44 (0)20 7405 4133**

Graeme Thomson, Chief Executive Officer  
Jon Cooper, Finance Director

#### **Evolution Securities +44 (0)20 7071 4311**

Rob Collins / Chris Sim

#### **Citigate Dewe Rogerson +44 (0)20 7628 9571**

Media enquiries: Martin Jackson / Kate Lehane  
Analyst enquiries: George Cazenove

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

Ticker Symbol: SEY

<b>DEFINITIONS</b>	
\$	US Dollars
2P	proven and probable
bbls	barrels of oil
bbl	barrel of oil
bcf	billion cubic feet of gas
bcfge	billions of cubic feet gas equivalent
boe	barrels of oil equivalent
bo/d	barrels of oil per day
boe/d	barrels of oil equivalent per day
mbo/d	thousand barrels of oil per day
EBITDA	earnings before interest, taxation, depreciation, amortisation, impairment and pre-licence expenditure
mmboe	millions of barrels of oil equivalent
mcf	thousand cubic feet of gas
mcfge	thousand cubic feet of gas equivalent
mmbbl	millions of barrels
mmcfg/d	million cubic feet of gas per day
mcfge/d	thousand cubic feet of gas equivalent per day
mmcfge/d	millions of cubic feet of gas equivalent per day
nri	net revenue interest
orri	overriding royalty interest
tcf	trillion cubic feet of gas
WI	working interest
WEC	Whittier Energy Corporation
sq mi	square mile
TEA	technical evaluation agreement
PSC	production sharing contracts
km <sup>2</sup>	square kilometre
HSE	Health, Safety and Environment
RI	Royalty interest

**Sterling Energy plc**  
**Consolidated income statement**  
**Year ended 31 December 2008**

	Notes	31st December 2008 \$000's	31st December 2007 \$000's
Revenue		103,568	97,171
Cost of sales		(87,035)	(75,197)
<b>Gross profit</b>		<b>16,533</b>	<b>21,974</b>
Administrative expenses		(14,307)	(15,720)
Impairment of oil and gas assets	6,7,8	(180,142)	-
Other impairments		(2,833)	-
Profit on disposal of oil and gas assets		5,311	-
Profit on disposal of investment		2,871	-
Pre-licence exploration costs		(2,664)	(4,462)
<b>Operating (loss)/ profit</b>		<b>(175,231)</b>	<b>1,792</b>
Interest revenue and other finance gains/ losses		1,159	3,286
Gain on hedging instruments		-	4,618
Finance costs		(10,620)	(12,642)
<b>Loss before tax</b>		<b>(184,692)</b>	<b>(2,946)</b>
Tax	4	27,862	693
<b>Loss for the financial year</b>		<b>(156,830)</b>	<b>(2,253)</b>
<b>Loss per share (USc)</b>			
<b>Basic and diluted</b>	5	<b>(8.63)</b>	<b>(0.14)</b>

All operations were continuing throughout both years.

**Consolidated statement of recognised income and expense**  
**Year ended 31 December 2008**

	<b>31st December 2008 \$000's</b>	<b>31st December 2007 \$000's</b>
Currency exchange adjustments	(1,921)	965
Movement on value of quoted company investment	(657)	(4,082)
Movement on hedge reserve	29,995	(14,421)
	<hr/>	<hr/>
<b>Net income/(loss) recognised directly in equity</b>	<b>27,417</b>	<b>(17,538)</b>
<b>Loss for the financial year</b>	<b>(156,830)</b>	<b>(2,253)</b>
	<hr/>	<hr/>
<b>Total recognised loss for the year attributable to equity holders of the parent company</b>	<b>(129,413)</b>	<b>(19,791)</b>
	<hr/> <hr/>	<hr/> <hr/>

**Sterling Energy plc**  
**Consolidated balance sheet**  
**31 December 2008**

	Notes	As at 31st December 2008 \$000's	As at 31st December 2007 \$000's
<b>Non-current assets</b>			
Intangible royalty assets	6	3,791	16,600
Intangible exploration and evaluation assets	7	125,756	155,581
Property, plant and equipment	8	187,760	342,917
Investments		996	6,985
Other receivables - restricted bank deposits		3,145	5,765
		<b>321,448</b>	<b>527,848</b>
<b>Current assets</b>			
Inventories		4,994	5,036
Trade and other receivables		32,606	41,965
Derivative financial instruments		16,071	2,005
Current tax repayable		-	833
Cash and cash equivalents		23,854	44,101
		<b>77,525</b>	<b>93,940</b>
<b>Total assets</b>		<b>398,973</b>	<b>621,788</b>
<b>Current liabilities</b>			
Trade and other payables		(39,533)	(79,835)
Derivative financial instruments		(497)	(9,434)
Bank loan	9	(53,700)	-
		<b>(93,730)</b>	<b>(89,269)</b>
<b>Non-current liabilities</b>			
Bank loan	9	(65,570)	(153,318)
Deferred tax liabilities		(40,793)	(69,512)
Derivative financial instruments		-	(7,174)
Long-term provisions		(27,664)	(24,245)
		<b>(134,027)</b>	<b>(254,249)</b>
<b>Total liabilities</b>		<b>(227,757)</b>	<b>(343,518)</b>
<b>Net assets</b>		<b>171,216</b>	<b>278,270</b>
<b>Equity</b>			
Share capital		42,749	31,811
Share premium account		351,334	341,414
Share option reserve		9,869	8,368
Investment revaluation reserve		-	657
Currency translation reserve		(1,263)	658
Hedge reserve		15,574	(14,421)
Retained earnings		(247,047)	(90,217)
<b>Total Equity</b>		<b>171,216</b>	<b>278,270</b>

**Sterling Energy plc**  
**Consolidated cash flow statement**  
**Year ended 31 December 2008**

	Notes	31st December 2008 \$000's	31st December 2007 \$000's
<b>Operating activities</b>			
Cash generated from operations	10	56,745	48,131
Taxation received/(paid)		-	416
<b>Net cash flow from operating activities</b>		<b>56,745</b>	<b>48,547</b>
<b>Investing activities</b>			
Interest received		1,635	2,888
Capital expenditure		(112,874)	(87,945)
Corporate acquisitions		-	(145,368)
Increase in investment		(550)	-
Proceeds on disposal of property, plant & equipment		16,526	-
Proceeds on farmout of exploration and evaluation asset		38,960	-
Restricted cash		2,620	(5,765)
<b>Net cash used in investing activities</b>		<b>(53,683)</b>	<b>(236,190)</b>
<b>Financing activities</b>			
Net proceeds from issue of ordinary shares		20,858	72,521
(Repayments)/draw-downs on loan facilities		(30,409)	78,779
Interest paid		(8,347)	(11,354)
Decrease in overdraft		(3,781)	-
<b>Net cash flow (used in) /from financing activities</b>		<b>(21,679)</b>	<b>139,946</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(18,617)</b>	<b>(47,697)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>44,101</b>	<b>91,759</b>
Effect of foreign exchange rate changes		(1,630)	39
<b>Cash and cash equivalents at end of year</b>		<b>23,854</b>	<b>44,101</b>

# Notes to the consolidated financial information

## 1 General Information

The preliminary results announcement is for the year ended 31 December 2008.

The financial information set out in this announcement does not constitute the company's statutory accounts for the years ended 31 December 2007 or 2008, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their report for 2007 was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under s237(2) or (3) Companies Act 1985. Their report for 2008 did not contain a statement under s237(2) or (3) Companies Act 1985 and was not qualified but included an emphasis of matter in respect of going concern.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Company expects to publish full financial statements that comply with IFRS in June 2009. The accounting policies applied are consistent with those adopted and disclosed in the Group's annual financial statements for the year ended 31 December 2007.

This preliminary announcement was approved by a Board sub committee on 29 May 2009.

## 2 Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operational Review. The financial position of the Group at the year end, its cash flows, liquidity position and borrowing facilities are described further in the Financial Review.

As described in the CEO's report and the Financial Review, the current economic and operating environment remains challenging. The Group reported an operating loss of \$175.2 million for the year reflecting significant asset impairment charges, and following the dramatic commodity price weakening during 2008 and early 2009 Sterling has a current debt gap as at the date of the annual report representing outstanding debt in excess of the level available under the terms of its Borrowing Base facility of \$25.3 million for which Sterling has secured a waiver from repayment until the next Borrowing Base review in August. Based on current forecasts \$53.7 million falls due for repayment in 2009, of which \$11 million has already been repaid.

As previously explained, Sterling continues to work with its banks and stakeholders to put a long term solution in place to meet its repayment obligations, ahead of the expiry of the waiver and the next borrowing base redetermination in mid August 2009. These strategic solutions include:

- The sale of the USA business, for which the process continues;
- The sale of and farm out of certain exploration assets;
- An asset injection in exchange for equity that could increase the Borrowing Base;
- Raising equity from a combination of Sterling's current shareholders or new Shareholders including a strategic investor; and
- A takeover of Sterling. As announced on 4 November 2008, Sterling continues to discuss approaches from third parties regarding possible offers that may result in a change of control, however, there is no certainty that these could lead to an offer for Sterling.

The directors have concluded that the uncertainty as to the achievement of a strategic solution represents a material uncertainty that casts significant doubt upon the Group's and Company's ability to continue as a going concern, and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of trading. Nevertheless after making enquiries, and considering the options described above, the directors have a reasonable expectation that the Company and the Group will have adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual reports and accounts. The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern.

### 3 Geographical segments

The Group operates in one business segment; the exploration for and production of oil and gas. The Group currently has interests in two geographical segments; North America, and Africa and the Middle East. These divisions are the basis on which the group reports its primary segment information. Segment information about the business is presented below.

	North America		Africa + Middle East		Total	
	2008 \$000's	2007 \$000's	2008 \$000's	2007 \$000's	2008 \$000's	2007 \$000's
<b>Income Statement</b>						
Revenue	83,176	67,843	20,392	29,328	103,568	97,171
Cost of sales	(59,681)	(49,871)	(27,354)	(25,326)	(87,035)	(75,197)
<b>Gross Profit</b>	<b>23,495</b>	<b>17,972</b>	<b>(6,961)</b>	<b>4,002</b>	<b>16,533</b>	<b>21,974</b>
Impairment provision	(82,130)	-	(100,845)	-	(182,975)	-
Pre-licence exploration costs	(650)	(1,181)	(2,014)	(3,281)	(2,664)	(4,462)
Profit and loss on disposals of assets/investments		3,111	-	5,071	-	8,182
<b>Segment result</b>	<b>(56,174)</b>	<b>16,791</b>	<b>(104,749)</b>	<b>721</b>	<b>(160,924)</b>	<b>17,512</b>
Unallocated corporate expenses					(14,307)	(15,720)
<b>Operating (loss)/profit</b>					<b>(175,231)</b>	<b>1,792</b>
Interest revenue and finance gains					1,977	3,286
Gain on hedging instrument					-	4,618
Finance costs					(10,620)	(12,642)
Other losses					(818)	-
<b>Loss before tax</b>					<b>(184,692)</b>	<b>(2,946)</b>
Tax					27,862	693
<b>Loss attributable to equity holders of parent company</b>					<b>(156,830)</b>	<b>(2,253)</b>

	Unallocated		North America		Africa + Middle East		Total	
	2008 \$000's	2007 \$000's	2008 \$000's	2007 \$000's	2008 \$000's	2007 \$000's	2008 \$000's	2007 \$000's
<b>Other segment information</b>								
<u>Capital additions</u>								
Property, plant and equipment	224	374	35,616	54,970	22,697	8,063	58,537	63,407
E&E expenditure	258	600	7,271	10,668	21,080	24,437	28,609	35,705
Depreciation and amortisation	(487)	(461)	(38,621)	(32,405)	(15,559)	(17,444)	(54,667)	(50,310)
Impairment provision	-	-	(82,130)	-	(100,845)	-	(182,975)	-
<b>Balance sheet</b>								
Segment assets*	26,233	45,651	345,131	424,005	27,610	152,132	398,973	621,788
Segment liabilities	(123,510)	(175,666)	(78,290)	(128,261)	(25,957)	(39,591)	(227,757)	(343,518)

\*Carrying amounts of segment assets exclude intra-group financing

#### 4 Taxation

	<b>Total</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$000's</b>	<b>\$000's</b>
Current tax credit	(27,936)	(509)
Deferred tax - origination and reversal of timing differences	74	(184)
<b>Total credit</b>	<b>(27,862)</b>	<b>(693)</b>

The difference between the tax credit of \$27,862,000 (2007: credit of \$693,000) and the amount calculated by applying the applicable standard rate of tax is as follows:

	<b>Total</b>	
	<b>2008</b>	<b>2007</b>
	<b>\$000's</b>	<b>\$000's</b>
Loss on ordinary activities before tax	(184,692)	(2,946)
Tax on loss on ordinary activities at standard US corporation tax rate of 34% (2007: 34%)	(62,795)	(1,001)
Effects of:		
Expenses not deductible for tax purposes	25,581	(1,856)
Capital allowances lower than/(in excess of) depreciation	(2,350)	(82)
Difference in non-UK/US tax rates	6,027	127
Other temporary differences	8,849	-
Adjustment for tax losses	-	2,628
Adjustment in respect of prior years	-	(509)
State taxes	681	-
Change in tax rate	(3,855)	-
Tax credit for the year	<b>(27,862)</b>	<b>(693)</b>

#### 5 Loss per share

The calculation of basic and diluted loss per share is based on the loss for the financial year of \$156,830,000 (2007: loss \$2,253,000) and on 1,817,510,912 (2007: 1,565,678,397) ordinary shares, being the weighted average number of ordinary shares in issue. As the effect of any dilutive shares would decrease the loss per share, the basic and diluted losses per share are the same. In addition 135,656,000 (2007: 95,129,000) share options were in issue that could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share because they are antidilutive.

## 6 Intangible royalty assets

	<b>Group</b>
	<b>\$000's</b>
Net book value at 1 January 2007	18,000
Amortisation charge for the year	(1,400)
Net book value at 31 December 2007	<u>16,600</u>
Amortisation charge for the year	(1,508)
Impairment charge for the year	(11,301)
<b>Net book value at 31 December 2008</b>	<b><u>3,791</u></b>

Group net book value at 31 December 2008 comprises the value of rights to future royalties in respect of the Group's agreements covering licences PSCA and PSCB in Mauritania. The value of these royalty interests is dependent upon future oil and gas prices and the development and production of the underlying oil and gas reserves

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

## 7 Intangible exploration and evaluation (E&E) assets

	<b>Group</b>
	<b>\$000's</b>
Net book value at 1 January 2007	21,384
Additions during the year	36,233
Additions through acquisitions during the year	101,314
Amortisation charge for the year	(3,350)
<b>Net book value at 31 December 2007</b>	<b><u>155,581</u></b>
Additions during the year	28,609
Disposals during the year (farm-out)	(39,988)
Amortisation charge for the year	(5,829)
Impairment charge for the year	(12,617)
<b>Net book value at 31 December 2008</b>	<b><u>125,756</u></b>

The amount for intangible exploration and evaluation assets represents investments in respect of exploration licences.

Impairment tests on E&E assets are conducted on an individual cost pool basis when facts and circumstances suggest that the carrying amount in the pool may exceed its recoverable amount. The impairment recorded above relates to assets held in the Africa pool where the estimated recoverable amount of the property, plant and equipment and E&E in the pool was insufficient to cover the carrying amount.

During the year a \$2,200,000 profit on disposal was realised, relating to the farm-out of our Kurdistan interest.

## 8 Property, plant and equipment

Group	Oil and Gas assets \$000's	Computer and office equipment \$000's	Total \$000's
<b>Cost</b>			
At 1 January 2007	237,280	2,879	240,159
Additions during the year	62,612	795	63,407
Additions through acquisitions during the year	167,978	292	168,270
<b>At 31 December 2007</b>	<b>467,870</b>	<b>3,966</b>	<b>471,836</b>
Additions during the year	57,692	845	58,537
Disposals during the year	(13,611)	-	(13,611)
<b>At 31 December 2008</b>	<b>511,951</b>	<b>4,811</b>	<b>516,762</b>
<b>Accumulated depreciation</b>			
At 1 January 2007	(81,717)	(1,642)	(83,359)
Charge for the year	(44,452)	(1,108)	(45,560)
<b>At 31 December 2007</b>	<b>(126,169)</b>	<b>(2,750)</b>	<b>(128,919)</b>
Disposals during the year	3,471	-	3,471
Charge for the year	(46,549)	(781)	(47,330)
Impairment Charge for the year	(156,224)	-	(156,224)
<b>At 31 December 2008</b>	<b>(325,471)</b>	<b>(3,531)</b>	<b>(329,002)</b>
<b>Net book value at 31 December 2008</b>	<b>186,480</b>	<b>1,280</b>	<b>187,760</b>
Net book value at 31 December 2007	341,701	1,216	342,917

The impairment charge in the year for the group relates to the group's Mauritanian and US interests. Such impairment charge is calculated by reference to assessment of future discounted cash flows expected to be delivered from production of commercial reserves against the individual cash generating unit carrying values.

During the year the US disposed of a number of oil and gas assets realising an overall profit on disposal of \$3,111,000. The impairment charge in the year for the group relates to the companies Mauritanian interest. Such impairment charge calculated by reference to assessment of future discounted cash flows expected to be delivered from production of commercial reserves against the individual cash generating unit carrying values.

## 9 Long-term and short-term debt

	Group	
	2008 \$000's	2007 \$000's
Bank loan current	53,700	-
Bank loan non current	65,570	153,318
	<b>119,270</b>	<b>153,318</b>

At 31 December 2008 the Group had a bank loan facility of \$250,000,000 (2007: \$250,000,000) (the “borrowing-base facility”) of which \$112,170,000 (2007: \$144,818,000) had been drawn down. The amount that is available to be drawn under this facility is determined by a twice-yearly borrowing base review. The borrowing base review establishes a limit on the amounts which may be drawn down, based on the net present value of the oil and gas assets which comprise the borrowing base. As at 31 December 2008, the available amount was fully drawn, at \$112,170,000, based upon the September 2008 borrowing base redetermination. As disclosed in note 11, subsequent to the year end the facility amount has been reduced to \$125 million. In addition to the amounts drawn down, a further \$482,136 (2007: \$482,136) is pledged under a letter of credit. The facility is secured by a floating charge over certain of the property, plant and equipment of the Group. An intra-group loan of approximately \$56,242,000 (2007: \$74,393,600) is subordinated to the facility. Interest is payable at a margin 2.25%- 3% over US LIBOR rate. The facility also includes certain financial and non-financial covenants.

In addition to the borrowing-base facility, the Company has an unsecured corporate facility available of \$15,000,000 (2007: \$15,000,000) of which, at 31 December 2008, \$10,734,000 (2007: \$8,018,000) had been drawn. At 31 December 2008 \$3,639,000 (2007: \$4,523,000) of loan unamortised loan facility expenses are deducted from the bank loan balance in the balance sheet. These costs are being amortised over the remaining life of the facility.

## 10 Cash flow from operating activities

<b>Group</b>	<b>2008</b> <b>\$000's</b>	<b>2007</b> <b>\$000's</b>
<b>Operating activities:</b>		
Operating (loss)/profit	(175,231)	1,792
Depletion and amortisation	54,667	50,310
Impairment expense	180,142	-
Other impairments	2,833	-
Inventory revaluation	4,730	-
Gain on disposals	(8,182)	-
Share-based payment provision	1,501	1,918
<b>Operating cash flow prior to working capital</b>	<b>60,460</b>	<b>54,020</b>
Decrease/(increase) in inventories	(4,689)	(1,323)
Decrease/(increase) in trade and other receivables (reclassified)	1,938	(12,387)
(Decrease)/increase in trade and other payables (reclassified)	(964)	7,821
	<b>56,745</b>	<b>48,131</b>

Amounts of \$3,145,000 (2007: \$5,765,000) in the Group previously presented as cash equivalents have been presented as Other receivables - Restricted cash in these financial statements to better reflect restrictions over their availability to the Group. Prior year comparatives have been reclassified accordingly.

## **11 Post-balance sheet events**

Financing: Following a Borrowing Base redetermination in February 2009 Natixis, as agent and technical bank, indicated that following the major fall in energy prices over the last few months, the Company's available Borrowing Base under its syndicated debt facility is currently calculated at \$76.3 million and is currently forecast to be \$58.5 million at the next borrowing base review in August 2009. Under this facility, at the end of May 2009, Sterling had an outstanding balance of \$101.2 million, giving rise to a debt gap of \$25.3 million. In April 2009, Sterling signed a waiver agreement with the banks which allowed Sterling to reschedule its loan repayments until the next Borrowing Base review in mid August 2009. The waiver includes various changes to the terms of the loan, including fees dependent on the timing of the elimination of the debt gap, prior bank approvals of capital costs, a reduction in the total facility commitment amount from US\$250 million to US\$125 million, and a monthly repayment of not less than \$1.0 million under a cash sweep mechanism.