

28 March 2011

STERLING ENERGY PLC

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

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

2010 SUMMARY

- Sangaw North-1 exploration well testing the potential of the Sangaw North block.
- Received \$15.6 million of net cash flow from Chinguetti field operations during 2010 (2009: \$13.3 million).
- Cash resources as at 31 December 2010 \$111.7 million including partner funds (2009: \$113.9 million).
- Company remains debt free.

CHAIRMAN'S STATEMENT

During 2010 Sterling's primary focus was the drilling activity at Sangaw North-1; an exploration well testing a large prospective structure in the Kurdistan autonomous region of Iraq. We have encountered many geological and mechanical challenges while drilling this well, however the expertise of our drilling team, with the support of our joint venture partners, has meant we could continue operations in a safe and controlled manner, albeit at a slower overall pace. The delay to the drilling program caused by the geological and mechanical events was further extended by the 'crowning incident' on the rig caused by the rig contractor. However frustrating these delays may be, the financial impact for Sterling has been mitigated as our drilling costs for Sangaw North-1 well are carried by Addax. I thank all the stakeholders in the Sangaw North project for their assistance and support during a very exciting and challenging drilling operation.

Financial

As a result of the re-structuring undertaken at the end of 2009, the Company remains in a very strong financial position with some \$101.6 million of own funds at the end of 2010; our approved work programme for 2011 is fully funded and we have funds available for new venture activity. As an explorer without significant production we generally fund our day to day activities from our cash resource; our \$15.6 million of net cash flow during 2010 from the Chinguetti field operation in Mauritania exceeded our general overhead costs and made a significant contribution towards our cost of operations.

Board and management changes

On 9 November 2010 Angus MacAskill was appointed as Sterling's Chief Executive Officer and a Director; Angus has some 30 years of hands-on experience covering many aspects of exploration, development and production activity and thus the management of Sterling's field operations is now one of his direct responsibilities. On 15 November 2010, Malcolm Pattinson was appointed a non-executive Director; Malcolm has spent most of his career as a geo-scientist and his experience will greatly assist in our new venture activity. On 31 December 2010, Richard Stabbins stepped down as a non-executive Director; we thank Richard for his contribution over the years and wish him well in his retirement.

Outlook for 2011 and beyond

There remain some further tasks to complete to fully evaluate the results seen at the Sangaw North-1 exploration well and we shall report on these when appropriate. Sterling also has other assets to move forward. Whilst we have little control over the resolution of the border dispute between Cameroon and Equatorial Guinea, the large prospects identified from 3D seismic are ready to drill when force majeure can be lifted; the Ntem block contains significant potential value waiting to be tested with the drill bit.

With the challenges at Sangaw North being overcome we have re-focused some of our skills and resources towards new ventures; the management of operations is now under Angus MacAskill and Andrew Grosse will lead our exploration and new venture activities. During 2011 one of our key objectives is to add to our portfolio of assets; additions will be sought to broaden our exposure to opportunities in Africa and the Middle East; however outstanding opportunities outside of these areas will also be considered.

I would like to thank all Sterling's staff for their diligent efforts during 2010 and hope the rewards for all stakeholders will come in 2011 and beyond.

Alastair Beardsall

Chairman

CHIEF EXECUTIVE'S REVIEW

The Company is focused in Africa and the Middle East and holds high potential interests in three areas, Kurdistan, Cameroon and Madagascar. During 2010, the Company made considerable progress in testing one of the very large exploration projects within its current portfolio, with drilling commencing on the Sangaw North-1 well in Kurdistan on 1 February 2010. Drilling operations have been very challenging but, by the end of the year, the well had been drilled to the base of the Cretaceous aged formations, two flow tests had been completed, and operations were being conducted to allow drilling to the deeper Jurassic targets.

The prospectivity being tested by this well is highly material. Prior to drilling, the gross un-risked prospective resources within the Cretaceous formations were independently estimated to be some 800 million barrels in the case of oil, with gas at least as likely to be discovered. While it is disappointing that the two flow tests within the Cretaceous did not establish commercial amounts of hydrocarbons in the intervals tested, they did establish the presence of gas within the shallower horizons of the Cretaceous formations in the structure.

Following the two flow tests the well was deepened and gas has also been identified during drilling operations in the upper section of the Jurassic formations, but not yet evaluated. We remain encouraged that there may be a very material prospective resource yet to be tested in 2011 by this well. Sterling's in-house estimates are some 3.8 trillion cubic feet of gross un-risked prospective resources in the case of gas and 500 million barrels in the case of oil within the Jurassic and deeper Triassic formations. In addition, we believe, based on gas shows while drilling, that there may be potential for further flow testing in the deeper horizons of the Cretaceous formations.

Sterling's exploration portfolio contains additional potential of a similar material scale. Further technical studies in the Company's deep-water Ntem licence in Cameroon have increased our confidence in the four Cretaceous aged prospects previously mapped, each with gross un-risked prospective resources of several hundred million barrels. These exciting prospects are in similar geological plays to those that have emerged as highly successful discoveries in West Africa over the last few years. We look forward to progressing activity in this licence once the maritime border which forms part of its boundary has been agreed between the neighbouring governments.

In the East African region, the Company has a material interest in the giant Sifaka prospect in the deep-water Ampasindava licence in Madagascar. This prospect has been independently assessed as having 1.2 billion barrels of gross un-risked prospective resources. The drilling of this prospect, operated by ExxonMobil, awaits resolution of the political situation in the country, with elections due to take place in 2011.

The Company has built a portfolio with highly material interests in large scale exploration projects in three emerging exploration areas in Africa and the Middle East. During 2010, focus has been on execution of the Company's first operated well in Kurdistan. In 2011, we look forward to delivery of the results from this well and, through the Company's expertise and experience in these regions, adding to the portfolio of exciting and material exploration opportunities.

Angus MacAskill,

Chief Executive Officer

OPERATIONS REVIEW

KURDISTAN

Sangaw North PSC (WI 53.33% & Operator)

The Sangaw North-1 exploration well, the first to be drilled on the Sterling operated Sangaw North Block, spudded on 1 February 2010. The well, targeting Cretaceous and Jurassic aged reservoir intervals has a planned depth of 3,660m and the well design allows drilling to a total depth of 4,160m to test deeper Jurassic and Triassic aged reservoirs. The decision to drill the additional deeper section will be based on drilling results encountered up to the decision point.

Whilst drilling the upper part of the Cretaceous reservoir section from 1,450m to 2,395m, through the carbonates of the Shiranish and Kometan Formations, gas shows and drill cuttings with fluorescence were observed, indicating the presence of hydrocarbons in the wellbore. The analysis of open hole wireline and image log data further suggested potential hydrocarbon bearing zones and open hole drill stem tests ("DST") were undertaken over two prospective intervals.

DST-1 tested an open-hole interval within the Cretaceous age Kometan formation. During the 6 hour flow period, an initial recovery of gas was followed by flowing water with minor gas content.

DST-2 tested an open-hole interval of the Shiranish formation, initially producing gas at an estimated flow rate of 4 mmscf/d along with some drilling fluids. However the gas flow decreased and was replaced with water, believed to be formation water, flowing at an estimated rate of 4,300 bbl/d. During a second flow period, the well initially produced water followed by gas at an estimated flow rate of 1 mmscf/d. However again the gas flow decreased and was replaced with water at an estimated rate of 750 bbl/d.

Following the intermediate testing program, the well was drilled below 2,395m to evaluate the lower part of the Cretaceous reservoir section. Whilst drilling at 3,396m, approaching the planned depth for setting a liner prior to drilling into the Jurassic reservoir targets, the well encountered a zone of high formation pressure. As a result hydrocarbon gas, containing approximately 0.5% hydrogen sulphide, entered into the wellbore and pressure was observed at surface.

The gas influx was contained, removed from the wellbore and flared. The drilling fluid in the wellbore was also replaced with heavier fluid to control the higher formation pressure encountered at the base of the well. During these operations, the drill pipe was adversely affected by the hydrogen sulphide within the gas, leading to the drill pipe parting at a depth of approximately 850m. Operations to retrieve the parted drill pipe resulted in the recovery of 1,100m of drill pipe, with no further recovery being possible.

The well was then side tracked in the open hole from a depth of 1,750m. The side track has been drilled to approximately 3,360m, and a liner has been run and cemented in place. The well is preparing to drill ahead to evaluate the Jurassic formations to 3,660m and is expected to penetrate the same formations from which gas containing hydrocarbons and hydrogen sulphide entered the well in the previous wellbore. Operations are being conducted using drill pipe resistant to the effects of hydrogen sulphide.

Drilling of the Sangaw North-1 exploration well has taken longer than initially anticipated due to the difficult drilling conditions encountered in the well. While the presence of commercial hydrocarbons has not yet been demonstrated, the Company is encouraged by hydrocarbon shows observed in the deeper Cretaceous section and the hydrocarbon gas observed at 3,396m in the previous wellbore from below a thick sealing interval in the upper Jurassic.

Sterling's best estimate of gross un-risked prospective recoverable resources for the Jurassic and Triassic reservoir targets is 3.8 tcf in the case of gas, with the equivalent estimated to be 500 mmbbl in the case of oil. Following the influx of gas at 3,396m, Sterling considers the chance of finding hydrocarbons in the Jurassic formations to be materially higher than the independent estimate of around 10% prior to drilling, and that gas with condensate is the most likely hydrocarbon to be discovered. However, there is currently not sufficient information from the well to directly determine the volume or type of hydrocarbons present.

Exploration success experienced by other operators confirms the highly prospective nature of the Kurdistan region. Heritage recently announced a major gas and condensate discovery at Miran West, 45km to the north, with gas in-place of 9 tcf and well flow rates from individual Jurassic intervals of 26 mmscf/d. Western Zagros reported contingent resources in Tertiary formations of 850 bcf of gas and 33 mmbbl of condensate following flow testing of the Kurdamir-1 well, 20km to the southeast of Sangaw North-1, at rates of 27 mmscf/d and 1,170 bopd condensate.

The first sub-period of the exploration phase of the PSC has been extended by one year to allow for the completion of drilling operations in the Sangaw North-1 well and the evaluation of the results of this well. The first sub-period, including the one year extension, will now continue until November 2011. The second, and final, sub-period of the exploration phase of the PSC has duration of 2 years.

CAMEROON

Ntem (WI 100% & Operator)

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

Sterling's financial obligations and work programme for the Ntem concession area are currently suspended under the force majeure provisions of the licence owing to an overlapping maritime border claim between Cameroon and Equatorial Guinea. However, both countries are actively working to resolve this issue and Sterling understands the border dispute may be resolved soon.

This large block is undrilled and is well placed with respect to both Tertiary and Upper Cretaceous plays. 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 reveal the presence of large and widespread submarine fans with good exploration potential. Sterling estimates that four of the Cretaceous prospects mapped so far have prospective recoverable resources of several hundred million barrels each. Sterling intends to farmout an interest in this licence.

Tertiary oil, gas and condensate discoveries made by Noble Energy to the north of the block are now under development, and further discoveries have been reported this year by Euroil (Bowleven); extending both the Tertiary and Cretaceous plays. These results highlight the prospectivity of these plays which are well developed in the Ntem block.

MADAGASCAR

Sterling's Ambilobe and Ampasindava blocks are located in the deepwater basin offshore north-west Madagascar. Progress of the exploration programmes has remained slow during 2010 due to the political situation in the country. Since the coup in March 2009, the government of Madagascar has not been recognised by its African neighbours or the United Nations. Government and presidential elections are planned to take place during 2011.

Prior to November 2010, discussions commenced with OMNIS, the state regulator, to prolong the current exploration period of both the Ambilobe and Ampasindava production sharing contracts. The outcome of these discussions is expected in 2011.

Ampasindava (WI 30%)

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

Following the farm-in by ExxonMobil in 2005, Sterling's costs are carried up to a fixed amount. The cost to drill the Sifaka prospect is estimated to exceed the remaining carry and the Company intends to farm down the current working interest to cover these costs. It is currently unlikely that an exploration well will commence drilling before 2013.

Ambilobe (WI 100% & Operator)

The PSC for Ambilobe is in the second phase of the exploration period. All work commitments have been fulfilled by completing geological and geophysical studies and acquiring approximately 1,000km of 2D seismic. A number of leads of Cretaceous and Tertiary age have been identified, located in both shallow

and deep waters. During 2010, further technical studies have been conducted and the planning of an environmental impact assessment for a 3D seismic survey has been initiated.

MAURITANIA

Chinguetti (Economic Interest via Funding and Royalty Agreements)

Gross production continued to decline during 2010, but at a reduced rate. Production declined from 8,600 bopd in January to 7,400 bopd in December. The average production net to Sterling during 2010 was 654 bopd.

As a result of the lower observed decline rate, Sterling estimates that at the end of 2010 Chinguetti held a remaining 6.1 mmbbl of gross 2P reserves that could be accessed with the existing wells. This is reflected in the upwards revision of Sterling's net reserves to 0.42 mmbbl.

No in-fill drilling or work-over activity took place on the Chinguetti field during 2010. The annual planned FPSO shutdown was postponed until 2011.

Petronas, the operator, continues to investigate the potential for a Phase 3 drilling campaign to access contingent resources from the Chinguetti field. However further development may not be economic and, in the absence of Phase 3, the field could be abandoned earlier than originally planned.

The joint venture partners in PSC A and PSC B are reportedly negotiating the extension of both contracts with the Mauritanian Government, as well as discussing potential development options and gas markets for the Banda gas field. In the event these are extended, Sterling would be entitled to revenue under its royalty interest agreements with Premier Oil from any commercial development of Banda or other discoveries within these contract areas.

GABON

Iris Marin (WI 32%)

The Iris Marin Production Sharing Contract (Sterling 32% WI) expired on 13 May 2010.

Ibekelia (WI 40% & Operator)

Sterling (40% WI, operator) and its joint venture partners have discontinued negotiations for a production sharing contract for the Ibekelia block.

FINANCIAL REVIEW

SELECTED FINANCIAL DATA

		2010	2009
Chinguetti production	bopd	654	906
Year end 2P reserves	000 boe	421	340
Revenue (continuing operations)	\$million	25.3	22.7
Revenue (discontinued operations)	\$million	-	50.2
EBITDA ⁽¹⁾	\$million	11.3	10.5
Profit/(loss) after tax	\$million	5.8	(202.5)
Net cash investment in oil & gas assets	\$million	12.2	31.7
Year end cash (including partner funds)	\$million	111.7	113.9
Year end debt	\$million	-	-
Year end net cash (including partner funds)	\$million	111.7	113.9
Average realised oil price (net of hedges)	\$/bbl	80.44	62.02
Average realised gas price (net of hedges)	\$/mcf	-	5.93
Total cash operating costs per boe (produced)	\$/boe	38.15	26.52 ⁽²⁾
Year end share price	Pence	84	155
Share price growth/(contraction)	%	(46)	63
Year end share price *	Pence	155	95
Share price growth (based on year end share price)	%	63	(81)

⁽¹⁾ EBITDA is calculated as earnings before interest, taxation, depreciation, amortisation, impairment, pre-licence expenditure and share-based payments on continuing operations.

⁽²⁾ Excludes discontinued operations.

HIGHLIGHTS

- Net profit of \$5.8 million in 2010;
- Cash balances at year end were \$111.7 million (2009: \$113.9 million);
- Average 2010 Chinguetti production 654 bopd (2009: 906 bopd);
- Debt free throughout 2010.

REVENUE AND COST OF SALES

2010 production averaged 654 bopd, including Royalty barrels, a decrease of 28% from the 906 bopd averaged in 2009. Currently, all of the Group's production is from the Chinguetti field and the Group's net production is approximately 623 bopd.

Group turnover from continuing operations was \$25.3 million (2009: \$22.7 million) based on 315,000 barrels sold. This was primarily as a result of an increased average realised oil price from the Chinguetti liftings during the year to \$80.44 per bbl (2009: \$68.62 per bbl). Volumes lifted were down 7% compared to 2009.

PROFIT FROM OPERATIONS

The 2010 profit from operations amounted to \$7.3 million (2009 loss from continuing operations: \$18.0 million).

Chinguetti cost of sales amounted to \$13.6 million (2009: \$13.5 million) averaging \$43.11/bbl (2009: \$40.79/bbl).

A \$0.2 million (2009: \$22.0 million) impairment charge was made in relation to African exploration assets.

Pre-licence exploration costs of \$0.7 million (2009: \$0.5 million) were written off as required under IFRS.

Administrative costs for continuing operations, after capitalised costs and partner recharges, fell by \$1.0 million to \$3.7 million in 2010 (2009: \$4.7 million). This was due to an increase in costs recovered from joint venture partners, and reduced head office costs. This was after a non-cash share option charge of \$1.9 million (2009: \$0.7 million). The non-cash share option charge has increased compared to the 2009

charge due to the increased number of options under the All Staff LTIP and an increase in the share price volatility used to calculate the option value.

EBITDA AND NET PROFIT

EBITDA for continuing operations totalled \$11.3 million (2009: \$10.5 million).

Net profit after tax totalled \$5.8 million (2009: \$202.5 million loss). The basic profit per share was \$0.03 per share (2009: US\$2.10 loss per share).

Interest revenue and finance costs were a net expense of \$1.4 million (2009: net expense \$13.6 million) reflecting foreign exchange losses of \$0.6 million on GBP cash balances held at 31 December 2010 which are reported in US Dollars. Non-cash finance costs of \$1.0 million relate to the unwinding of the decommissioning discount on the Chinguetti abandonment provision. Interest revenue was \$0.2 million.

No dividend is proposed to be paid for the year ended 31 December 2010.

CASH FLOW

Net Group cash inflow generated from operating activities was \$10.5 million (2009: \$33.9 million, including discontinued North America segment).

Net cash investments in oil and gas assets totalled \$12.2 million (2009: \$31.7 million) primarily comprising of \$9.0 million invested in Kurdistan relating to testing costs on the Sangaw North-1 well, \$1.8 million invested in Cameroon, and \$1.0 million invested in Madagascar. The Group's exploration drilling expenditure for Sangaw North-1 is carried by Addax, with Sterling paying its share of testing costs.

STATEMENT OF FINANCIAL POSITION

Cash and cash equivalents were \$111.7 million at the year end (2009: \$113.9 million) of which \$10.1 million was held on behalf of partners, leaving a cash balance of \$101.6 million available for Sterling's own use at 31 December 2010. At the end of 2010, net assets/total equity stood at \$95.8 million (2009: \$88.1 million), and non-current assets were \$21.8 million (2009: \$11.1 million). This increase was primarily as a result of investment in the Kurdistan and Cameroon assets. Net current assets decreased to \$96.3 million (2009: \$98.3 million).

The Group's Chinguetti decommissioning provision increased during the year by \$1.0 million to \$22.0 million (2009: \$21.0 million).

HEDGING

At the end of 2010 the Group did not have any oil and gas price derivatives in place.

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.

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Ticker Symbol: SEY

STERLING ENERGY PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2010

	Note	31st December 2010 \$000	31st December 2009 \$000
Continuing operations			
Revenue		25,314	22,709
Cost of sales		(13,565)	(13,498)
Gross profit		11,749	9,211
Other administrative expenses		(3,649)	(4,684)
Impairment of oil and gas assets		(152)	(22,055)
Pre-licence exploration costs		(698)	(512)
Total administrative expenses		(4,499)	(27,251)
Profit/(loss) from operations		7,250	(18,040)
Finance income		224	13
Finance costs		(1,629)	(13,605)
Profit/(loss) before tax		5,845	(31,632)
Tax		-	-
Profit/(loss) for the year from continuing operations		5,845	(31,632)
Discontinued operations			
Loss for the year from discontinued operations		-	(170,851)
Profit/(loss) for the year attributable to the owners of the parent		5,845	(202,483)
Other comprehensive income/(expense)			
Hedge movement		-	(15,574)
Currency translation adjustments		(127)	1,155
Revaluation of investments		(12)	12
Total other comprehensive expense for the year		(139)	(14,407)
Total comprehensive income/(expense) for the year attributable to the owners of the parent		5,706	(216,890)
Basic profit/(loss) per share (USc)			
From continuing operations	4	2.66	(32.75)
From continuing & discontinued operations	4	2.66	(209.66)
Diluted profit/(loss) per share (USc)			
From continuing operations	4	2.65	(32.75)
From continuing & discontinued operations	4	2.65	(209.66)

STERLING ENERGY PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 DECEMBER 2010

	Note	31st December 2010 \$000	31st December 2009 \$000
Non-current assets			
Intangible royalty assets	5	824	1,818
Intangible exploration and evaluation assets	6	20,793	8,957
Property, plant and equipment	7	175	305
Investments		-	18
		21,792	11,098
Current assets			
Inventories		901	4,367
Trade and other receivables		17,695	2,578
Cash and cash equivalents		111,679	113,859
		130,275	120,804
Total assets		152,067	131,902
Equity			
Share capital		148,573	148,537
Share premium		378,859	378,859
Investment revaluation reserve		-	12
Currency translation reserve		(235)	(108)
Retained deficit		(431,380)	(439,161)
Total equity		95,817	88,139
Non-current liabilities			
Long-term provisions		22,231	21,238
		22,231	21,238
Current liabilities			
Trade and other payables		34,019	22,525
		34,019	22,525
Total liabilities		56,250	43,763
Total equity and liabilities		152,067	131,902

STERLING ENERGY PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
31 DECEMBER 2010

	Share capital \$000	Share premium \$000	Investment revaluation reserve \$000	Currency translation reserve \$000	Hedge reserve \$000	Retained deficit* \$000	Total \$000
At 1 January 2009	42,749	351,334	-	(1,263)	15,574	(237,178)	171,216
Loss for the year	-	-	-	-	-	(202,483)	(202,483)
Investment revaluation	-	-	12	-	-	-	12
Currency translation adjustments	-	-	-	1,155	-	-	1,155
Hedge movement	-	-	-	-	(15,574)	-	(15,574)
Issued share capital	105,788	27,525	-	-	-	-	133,313
Share option charge for the year	-	-	-	-	-	500	500
At 31 December 2009	148,537	378,859	12	(108)	-	(439,161)	88,139
Profit for the year	-	-	-	-	-	5,845	5,845
Investment revaluation	-	-	(12)	-	-	-	(12)
Currency translation adjustments	-	-	-	(127)	-	-	(127)
Issued share capital	36	-	-	-	-	-	36
Share option charge for the year	-	-	-	-	-	1,936	1,936
At 31 December 2010	148,573	378,859	-	(235)	-	(431,380)	95,817

* The share option reserve has been included within the retained deficit reserve.

STERLING ENERGY PLC

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2010

	Note	31st December 2010 \$000	31st December 2009 \$000
Operating activities			
Cash generated from operations	8	10,460	33,936
Net cash flow from operating activities		10,460	33,936
Investing activities			
Interest received		224	837
Purchase of property, plant and equipment		(178)	(23,567)
Exploration and evaluation costs		(12,030)	(8,121)
Proceeds on disposal of subsidiaries		-	85,812
Proceeds on disposal of available for sale assets		20	-
Proceeds on disposal of fixtures and fittings		8	9
Net cash (used in)/generated from investing activities		(11,956)	54,970
Financing activities			
Net proceeds from issue of ordinary shares		36	133,314
Repayments on loan facilities		-	(122,909)
Interest paid and banking charges		(14)	(8,768)
Net cash flow generated from financing activities		22	1,637
Net (decrease)/increase in cash and cash equivalents		(1,474)	90,543
Cash and cash equivalents at beginning of year		113,859	23,854
Effect of foreign exchange rate changes		(706)	(538)
Cash and cash equivalents at end of year		111,679	113,859

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The preliminary results announcement is for the year ended 31 December 2010.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2010 or 2009, but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

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 (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company has today published its Annual Report and Accounts on its website, www.sterlingenergyplc.com, these contain the full financial statements for the year ended 31 December 2010 that comply with the IFRSs. The Annual Report and Accounts will be posted to Shareholders on or about 31 March 2011. The Annual Report and Accounts contains the notice for the Company's Annual General meeting which is to be held at 11.00 a.m on 28 April 2011.

2. GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the operations review. The financial position of the Company, its cash flows and liquidity position are described in the financial review.

The Company 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 the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

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

3. OPERATING SEGMENTS

	Africa		Middle East		North America (discontinued)		Total	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Income Statement								
Revenue	25,314	22,709	-	-	-	50,199	25,314	72,908
Cost of sales	(13,565)	(13,498)	-	-	-	(44,104)	(13,565)	(57,602)
Gross profit	11,749	9,211	-	-	-	6,095	11,749	15,306
Impairment provision	(152)	(22,055)	-	-	-	(72,085)	(152)	(94,140)
Pre-licence exploration costs	(698)	(512)	-	-	-	(18)	(698)	(530)
Loss on disposal of assets	-	-	-	-	-	(682)	-	(682)
Segment result	10,899	(13,356)	-	-	-	(66,690)	10,899	(80,046)
Unallocated corporate expenses							(3,649)	(15,487)
Profit/(loss) from operations							7,250	(95,533)
Profit/(loss) on disposal of subsidiary							-	(118,820)
Finance income							224	837
Finance costs							(1,629)	(14,979)
Profit/(loss) before tax							5,845	(228,495)
Tax							-	26,012
Profit/(loss) attributable to owners of the parent							5,845	(202,483)
Profit/(loss) for the year from continuing operations							5,845	(31,632)
Profit/(loss) for the year from discontinued operations							-	(170,851)
							5,845	(202,483)

	Corporate		Africa		Middle East		North America (discontinued)		Total	
	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000	2010 \$000	2009 \$000
Other segment information										
<u>Capital additions</u>										
Property, plant and equipment	178	210	-	1,048	-	-	-	22,309	178	23,567
Exploration and evaluation	-	-	3,045	2,001	8,985	189	-	5,231	12,030	7,421
Depreciation & amortisation	(299)	(294)	(1,003)	(5,193)	-	-	-	(28,391)	(1,302)	(33,878)
Impairment provision	-	-	(152)	(22,055)	-	-	-	(72,085)	(152)	(94,140)
Statement of financial position										
Non-current assets*	159	297	12,268	10,421	9,365	380	-	-	21,792	11,098
Segment assets**	102,004	108,488	7,841	5,500	20,430	6,816	-	-	130,275	120,804
Segment liabilities***	(1,873)	(3,299)	(34,692)	(34,100)	(19,685)	(6,364)	-	-	(56,250)	(43,763)

Revenue from continuing operations includes amounts of \$24.0 million from one single customer (2009: \$17.4 million).

*Segment non-current assets include \$9.4 million in Cameroon (2009: \$7.6 million) and \$9.4 million in Kurdistan (2009: \$0.4 million).

**Carrying amounts of segment assets exclude investments in subsidiaries.

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

4. PROFIT/(LOSS) PER SHARE

The calculation of basic profit per share is based on the Group consolidated profit for the financial year of \$5,845,000 (2009: loss \$202,483,000) and on 219,332,806 (2009: 96,577,765) ordinary shares, being the weighted average number of ordinary shares in issue. For the year ended 31 December 2010, the basic earnings per share were 2.66 US¢ per share (2009: loss 209.66 US¢ per share).

For the year ended 31 December 2010, the fully diluted earnings per share were 2.65 US¢ per share (2009: n/a). This is computed based on 220,865,039 (2009: 96,577,765) ordinary shares, being the total used for the computation of the basic earnings per share as adjusted in assuming the exercise of 1,532,233 of the 7,745,726 options granted or approved for grant as at 31 December 2010.

For the year ended 31 December 2010, the basic and diluted earnings per share from discontinued operations were nil US¢ per share (2009: loss 176.91 US¢ per share). The calculation of basic and diluted loss per share from discontinued operations for the financial year is based on a discontinued profit for the year of \$nil (2009: loss \$170,851,000) and on 219,332,806 (2009: 96,577,765) ordinary shares, being the weighted average number of ordinary shares in issue.

5. INTANGIBLE ROYALTY ASSETS

	Group \$000
Net book value at 1 January 2009	3,791
Amortisation charge for the year	(1,147)
Impairment charge for the year	(826)
Net book value at 31 December 2009	<u>1,818</u>
Amortisation charge for the year	(994)
Net book value at 31 December 2010	<u>824</u>

Group net book value at 31 December 2010 comprises the value of rights to future royalties in respect of the Group's agreements covering licences PSC A and PSC B in Mauritania. The value of these royalty interests is dependent upon future oil and gas prices and the development and production of the underlying oil and gas reserves.

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

6. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	Group \$000
Net book value at 1 January 2009	125,756
Additions during the year	7,422
Transfer to PPE	(700)
Disposals during the year - US sale	(45,743)
Amortisation charge for the year	(4,520)
Impairment charge for the year	(73,258)
Net book value at 31 December 2009	<u>8,957</u>
Additions during the year	12,030
Impairment charge for the year	(194)
Net book value at 31 December 2010	<u>20,793</u>

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 of \$0.2 million (2009: \$3.3 million), and in the US of \$nil (2009: \$69.9 million) where the estimated recoverable amount of the property, plant and equipment and E&E in the pool was insufficient to cover the carrying amount.

7. PROPERTY, PLANT AND EQUIPMENT

Group	Oil and Gas assets \$000	Computer and office equipment \$000	Total \$000
Cost			
At 1 January 2009	511,951	4,811	516,762
Additions during the year	35,369	265	35,634
Disposals during the year	(361,449)	(2,305)	(363,754)
At 31 December 2009	185,871	2,771	188,642
Additions during the year	-	178	178
Adjustments during the year	(42)	-	(42)
At 31 December 2010	185,829	2,949	188,778
Accumulated depreciation and impairment			
At 1 January 2009	(325,471)	(3,531)	(329,002)
Disposals during the year	187,506	1,427	188,933
Charge for the year	(27,850)	(362)	(28,212)
Impairment charge for the year	(20,056)	-	(20,056)
At 31 December 2009	(185,871)	(2,466)	(188,337)
Charge for the year	-	(308)	(308)
Impairment reversal for the year	42	-	42
At 31 December 2010	(185,829)	(2,774)	(188,603)
Net book value at 31 December 2010	-	175	175
Net book value at 31 December 2009	-	305	305
Net book value at 31 December 2008	186,480	1,280	187,760

8. CASH FLOWS FROM OPERATING ACTIVITIES

Group	2010 \$000	2009 \$000
Operating activities:		
Profit/(loss) before tax from continuing operations	5,845	(31,632)
Loss before tax from discontinued operations	-	(196,866)
Finance income and other finance gains/ losses	(224)	(572)
Finance costs	1,629	14,714
Depletion and amortisation	1,302	33,878
Impairment expense	152	94,140
(Gain)/loss on disposal of property, plant and equipment	(8)	682
Loss on disposal of subsidiary	-	118,820
Gain on disposal of available for sale assets	(14)	-
Share-based payment charge	1,936	500
Operating cash flow prior to working capital movements	10,618	33,664
Decrease in inventories	3,466	626
(Increase)/decrease in trade and other receivables	(15,117)	21,964
Increase/(decrease) in trade and other payables	11,493	(22,317)
	10,460	33,936
Cash generated/(outflow) from continuing operations	10,460	(4,517)
Cash generated from discontinued operations	-	38,453
	10,460	33,936

DEFINITIONS AND GLOSSARY OF TECHNICAL TERMS

\$	US dollars
2006 Act	The Companies Act 2006, as amended
2D	two dimensional
2P	the sum of Proven and Probable reserves or in-place quantities depending on the context
3D	three dimensional
AIM	Alternative Investment Market of the London Stock Exchange
All Staff LTIP	the All Staff Long-Term Incentive Plan adopted in 2009
bbl	barrel, equivalent to 42 US gallons of fluid
bbl/d	barrel per day
bopd	barrel of oil per day
boe	barrel of oil equivalent, a measure of the gas component converted into its equivalence in barrels of oil
boepd	barrel of oil equivalent per day
bcf	billion cubic feet of gas
Board	the Board of Directors of the Company
Company or Sterling	Sterling Energy Plc
Contingent Resources	those quantities of petroleum estimated, as at a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies, Contingent Resources are a class of discovered recoverable resources.
Directors	the Directors of the Company
DST	drill stem test, a method of flow testing a well
E&E	exploration and evaluation assets
EBITDA	earnings before interest, taxation, depreciation, depletion and amortisation, impairment, share-based payments and pre-licence expenditure
farmin & farmout	a transaction under which one party (farmout party) transfers part of its interest to a contract to another party (farmin party) in exchange for a consideration which may comprise the obligation to pay for some of the farmout party costs relating to the contract and a cash sum for past costs incurred by the farmout party
FPSO	Floating, Production, Storage and Offloading vessel
GBP	pounds sterling
Group	the Company and its subsidiary undertakings
H ₂ S	hydrogen sulphide
hydrocarbons	organic compounds of carbon and hydrogen
km	kilometre(s)
km ²	square kilometre(s)
lead	indication of a possible exploration prospect
m	metre(s)
mmbbl	million barrels
mmscf/d	million cubic feet at standard pressure and temperature per day

Ordinary Shares	Sterling ordinary shares of 40 pence each
P90, P50, P10	90%, 50% and 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively
Petroleum	oil, gas, condensate and natural gas liquids
Petronas	PC Mauritania I PTY LTD
PP&E	Property, Plant & Equipment
Prospect	a potential sub-surface accumulation of hydrocarbons which has been identified but not drilled
Prospective Resources	those quantities of petroleum which are estimated, as at a given date, to be potentially recoverable from undiscovered accumulations
PSC	production sharing contract
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
RI	royalty interest
RISC	RISC (UK) Limited of Golden Cross House, 8 Duncannon Street, London WC2N 4JF
Scf	standard cubic feet of gas (measured at 60 degree Fahrenheit and 14.7 psia)
Seismic	data, obtained using a sound source and receiver, that is processed to provide a representation of a vertical cross-section through the subsurface layers
Shares	40p Ordinary Shares
Shareholders	Ordinary shareholders of 40p each in the Company
spud	to commence drilling a well
Subsidiary	a subsidiary undertaking as defined in the 2006 Act
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
Tcf	trillion cubic feet of gas
United Kingdom or UK	the United Kingdom of Great Britain and Northern Ireland