9 November 2015

# INTERIM MANAGEMENT STATEMENT

Sterling Energy plc (the 'Company') together with its subsidiary undertakings (the 'Group') is today issuing its Interim Management Statement and financial results for the third quarter ended 30 September 2015. All figures are unaudited unless stated otherwise.

**HIGHLIGHTS**

- Production, net to the Company (including Royalty barrels) from the Chinguetti field, averaged 303 barrels of oil per day ('bopd') (Q3 2014: 463 bopd).
- Adjusted Earnings before Interest, Tax, Depreciation and Amortisation and Exploration Expense ('EBITDAX') loss for the Group of $2.1 million (Q3 2014: $1.2 million earnings).
- Loss after tax of $1.6 million (Q3 2014: $373k).
- Cash (zero debt) as at 30 September 2015 of $101.3 million, including JV partner funds of $1.5 million.

**Mauritania, PSC C-3 & PSC C-10 blocks**

The sale and purchase agreement between the Company's wholly owned subsidiary, Sterling Energy Mauritania Limited ('SEML') with Tullow Mauritania Limited ('Tullow' and Operator) for the acquisition of a 40.5% working interest in PSC C-3 was completed on 30 July 2015. Société Mauritanienne Des Hydrocarbures et du Patrimoine Minier's ('SMHPM') 10% working interest is carried by both SEML and Tullow pro-rata to their working interest, during the exploration phases.

PSC C-3 is located in shallow water within the Nouakchott sub-basin, offshore Mauritania and covers some 9,800km². The PSC is in the first phase ('Phase 1') of the exploration period, which runs to June 2016, with a minimum work commitment of acquiring 1,600km of 2D seismic data, which was acquired in late 2014 and is being interpreted and integrated into the regional model. The new data will influence the decision on entry into Phase 2 with a commitment to acquire 700km² of 3D seismic and drill one exploration well.

Completion of the acquisition and processing of the 2D seismic data represents the minimum work obligation during Phase 1.

On 3 June 2015 SEML signed a sale and purchase agreement with Tullow (Operator) for the acquisition of a 13.5% working interest in PSC C-10. It is anticipated that the sale and purchase will complete in Q4 2015. Under the terms of the relevant documents, SMHPM's 10% working interest will be carried by both SEML and Tullow pro-rata to their working interest, during the exploration phases.

PSC C-10, awarded in 2011, comprises an area of approximately 10,725km$^2$ located in the Nouakchott sub-basin, offshore Mauritania and is in the second phase of the exploration period ('Phase 2'). The current phase will expire on 30 November 2017 and has a minimum work obligation of one exploration well.

The C-10 block surrounds the Chinguetti field and lies in water depths of 50m to 2,400m with full legacy 3D seismic data coverage. Tullow has identified a drill ready, Lower Cretaceous, Neocomian carbonate prospect in water depths of approximately 100m. The joint venture anticipates that an exploration well to test this prospect will be drilled in early 2017. The gross cost of the well is anticipated to be substantially less than the $77 million ($11.55 million net to SEML) currently budgeted, given prevailing market conditions. Technical work is focused on maturation of the prospect inventory on the merged, reprocessed and depth-migrated 3D seismic dataset.

Should the joint venture not fulfil the minimum work obligations, the gross liability owing to the Mauritanian government would be $7.5 million ($1.125 million net to SEML). Following the completion of Phase 2 the joint venture may elect to enter into Phase 3 (with a 3 year term) with a minimum work obligation of a further two exploration wells.

Entry by the Group into a significant footprint position in both the C-3 and C-10 blocks was made after an extensive re-evaluation of exploration data along the margin, following the 2014 Cairn SNE-1 discovery in Senegal to the south and more latterly the Kosmos Tortue-1 well discovery to the southwest.

These recent world class discoveries further emphasise the infancy and potential upside of the analogue hydrocarbon plays which the Group has gained material exposure to, with low entry cost exposure and flexible exit options.

**Mauritania, Chinguetti field**

The Company has economic interests in the Chinguetti field through a funding agreement with SMHPM, Mauritania's national oil company, and a royalty agreement with Premier Oil.

Chinguetti field production, net barrels of oil ('bbls') to the Group (including Royalty bbls), in the period totalled 27,904 bbls (Q3 2014: 42,587 bbls), an average of 303 bopd, compared to 463 bopd for the equivalent period in Q3 2014. The reduction in production is consistent with the Chinguetti field decline curve.

Production from the Chinguetti field is stored on location in a floating, production storage and offloading vessel ('FPSO'). One cargo lifting was undertaken during the period totalling 30,789 bbls net to the Company (Q3 2014: one cargo totalling 40,065 bbls net).

Production opex is being reviewed and further optimised by the Operator. The depressed oil price continues to have an onerous impact on the Chinguetti project and future joint venture economics.

Formative discussions continue amongst respective stakeholders with the objective to achieve an agreed and effective field decommissioning strategy and plan.

**Cameroon**

The Ntem Concession lies adjacent to the southern maritime border of Cameroon. Ntem is a large under-explored block, in water depths ranging from 400m to 2,000m. It is located in the offshore southern Douala - Rio Muni Basin. The block is well positioned with respect to both Tertiary and Upper Cretaceous play potential, both of which have proven commercially successful in Cameroon and Equatorial Guinea.

The Ntem Concession was subject to *force majeure* from June 2005 to January 2014 as a result of the overlapping maritime border claims (the 'Affected Area') by the Republic of Cameroon and the Republic of Equatorial Guinea. Following the lifting of *force majeure*, the current exploration period (the 'First Renewal Period') of the Ntem Concession re-commenced on 22 January 2014. At that date, the remaining term of the First Renewal Period was approximately 15 months (expiring April 2015). The minimum work obligation (one exploration well) was satisfied by the drilling of the Bamboo-1 exploration well in February 2014. As announced previously the Bamboo-1 well failed to find hydrocarbons and was plugged and abandoned on 16 April 2014.

On 6 May 2014, Murphy Cameroon Ntem Oil Co. Ltd ('Murphy'), as Operator and on behalf of the Ntem joint venture partners, notified Société Nationale des Hydrocarbures ('SNH'), the national oil company of Cameroon, of the joint venture's declaration of *force majeure* pending formal resolution of the overlapping maritime border claims.

In February 2015, Sterling Cameroon Limited ('SCL'), a wholly owned subsidiary of the Company, signed an agreement with Murphy whereby Murphy would transfer its 50% interest in, and Operatorship of the Ntem Concession to SCL. Ministerial approval for the transfer was granted in April 2015.

SCL received written notice, dated 22 April 2015, from SNH that it considers the First Renewal Period of the Ntem Concession to have expired on 22 April 2015 and the Ntem Concession to have lapsed.

The Group believes that, in accordance with the terms of the Ntem Concession, that the declaration of *force majeure* on 6 May 2014 remains valid. As such, the First Renewal Period has been suspended since 6 May 2014 and therefore has not expired.

SCL continues to work with SNH and the Ministry of Industry, Mines and Technological Development of Cameroon to determine a forward plan for the Ntem Concession, given the declaration of *force majeure* and the 22 April 2015 notice from the Ministry.

**Somaliland**

The Company's wholly owned subsidiary, Sterling Energy (East Africa) Limited ('SEEAL'), holds a 40% interest in the Production Sharing Contract ('PSC') of the Odewayne Block located onshore Republic of Somaliland. The joint venture partners in the PSC are Genel Energy Somaliland Limited ('Genel') (50% interest and Operator), SEEAL (40%) and Petrosoma (10%). The PSC, awarded in 2005, is in the Third Period and covers block SL6 and part of blocks SL7 and SL10, comprising an area of 22,840km$^2$.

During 2013, an aero-magnetic and gravity survey confirmed the presence of a large sedimentary basin over the Odewayne block, believed to be of Jurassic to Cretaceous origin and analogous to productive basins in Yemen. Geological fieldwork highlighted the presence of numerous oil seeps, giving encouragement that a working hydrocarbon system is present in this undrilled frontier basin.

SEEAL's 40% interest is carried by Genel for the costs of all exploration activities during both the Third Period of the PSC, expiring no earlier than November 2016, with an outstanding minimum work obligation of 500km of 2D seismic and the Fourth Period of the PSC, expiring no earlier than May 2018, with a minimum work obligation of 1,000km of 2D seismic and one exploration well.

Operational activities in Somaliland have been delayed while the Government of the Republic of Somaliland establishes a trained and equipped Oil Protection Unit that can provide the level of security required by in-country Operators to ensure all future seismic and drilling operations can be conducted safely. 2D seismic acquisition is currently scheduled for H2 2016.

**Madagascar**

The Ambilobe block, awarded in 2004, is in Phase 2 of the Exploration Period (expiring July 2016) with all minimum work commitments completed. In December 2013, the Company's wholly owned subsidiary, Sterling Energy (UK) Limited ('SEUKL') signed a Farmout Agreement with Pura Vida Mauritius ('Pura Vida') where all costs associated with the acquisition of a 3D seismic programme are carried by Pura Vida. SEUKL and Pura Vida each hold a 50% interest in the Ambilobe block with SEUKL as Operator.

The PSC covers approximately 17,650km$^2$ of the Ambilobe Basin in 30-3,000m water depths, a large under-explored area where Tertiary, Cretaceous and Jurassic plays have all been identified. Seismic contractor CGG completed the acquisition of approximately 1,175km$^2$ discretionary 3D broadband seismic data for the Company on 2 June 2015 over a high-graded central portion of the block. The 3D survey was acquired safely, on time and on budget. It is anticipated that processed time migrated data will be available for interpretation by end 2015 and pre-stack depth migrated data will follow in Q1 2016 to enable the 'drill or drop' decision required by July 2016.

**New Ventures & Growth**

Significant effort is being directed towards an active growth mandate, with a clear view to building a diverse exploration portfolio to allow for greater exposure to value accretion triggers in the near to mid-term.

The Company and Group will continue to maintain a disciplined approach to new venture activities, only pursuing and executing those growth options that the Company believes to have the best opportunity to ultimately deliver value for shareholders.

**Financial Position**

In the period, the Group reports the following results:

| | | **Q3 2015 (unaudited)** | Q3 2014 (unaudited) | FY 2014 (audited) |
|---|---|---|---|---|
| | | **$ '000** | $ '000 | $ '000 |
| Revenue | *(1)* | **1,414** | 4,188 | 15,990 |
| Adjusted EBITDAX | *(2)* | **(2,115)** | 1,208 | 5,075 |
| Loss after tax | *(3)* | **(1,562)** | (373) | (12,319) |
| Net to Group - cash and cash equivalents at period end | *(4)* | **99,817** | 106,427 | 107,035 |
| Partner held funds | | **1,477** | 1,118 | 1,113 |

(1) Revenue in the period is derived from income relating to interests in the Chinguetti field.

(2) Adjusted EBITDAX are (losses)/earnings before interest (plus other finance income and expense), tax, depreciation, depletion, amortisation, provisions and write-offs of oil & gas assets. Adjusted EBITDAX also excludes pre-licence award exploration costs and share based payments; the latter being a non-cash expense charged to the income statement under IFRS 2.

(3) Loss after tax in the period of $1.6 million compares to a loss after tax in Q3 2014 ($373k) mainly due to a reduced Chinguetti field lifting of 30,789 bbls (Q3 2014: 40,065 bbls) with a significantly lower realised oil price.

(4) Cash balances at the end of the period totalled $101.3 million, including $1.5 million of partner funds (Q3 2014: $107.5 million, including $1.1 million of partner funds). The Group continues to remain debt free.

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