

25 April 2017

## INTERIM MANAGEMENT STATEMENT

Sterling Energy plc (the 'Company' or 'Sterling') together with its subsidiary undertakings (the 'Group') is today issuing its Interim Management Statement and financial results for the first quarter ended 31 March 2017. All figures are unaudited unless stated otherwise.

### Highlights

- Production, net to the Company (including royalty barrels) from the Chinguetti field, averaged 342 barrels of oil per day ('bopd') (Q1 2016: 106 bopd).
- Adjusted Earnings before Interest, Tax, Depreciation and Amortisation and Exploration Expense ('EBITDAX') loss for the Group of \$784k (Q1 2016: \$2.0 million loss).
- Loss after tax of \$1.2 million (Q1 2016: \$5.0 million).
- Net cash (zero debt) to the Group as at 31 March 2017 of \$88.0 million (31 March 2016: \$94.7).
- Somaliland 2D seismic campaign expected to commence May/June 2017.
- Non-executive Directors appointed 19 January 2017.
- Continued mandate to execute M&A driven transformational growth (both corporate and at the asset level).
- Ongoing focus on capital discipline and evolution of the organisation to fit the strategic mandate.

### CEO Statement

As of 19 January 2017, Sterling Energy plc made the following Board appointments, namely, Mr Leo Koot as the Senior Independent non-executive Director and Mr Ilya Belyaev as a non-executive Director. Mr Michael Kroupeev assumed the role of non-executive Chairman (having been a director since May 2016).

On the Chinguetti oil field, we continue to persevere with Société Mauritanienne Des Hydrocarbures et de Patrimoine Minier ('SMHPM') and key stakeholders to safely and effectively implement the Abandonment and Decommissioning ('A&D') project, subject to Government of Mauritania approval. Chinguetti is due to cease production in late 2017, with decommissioning operations due to commence shortly thereafter. Once the A&D project is sanctioned, Sterling will update the market of the cost of the decommissioning and abandonment of this asset.

We have continued with our portfolio re-alignment efforts, most notably post Q1, by reducing our exposure on the Somaliland Odewayne block to the \$8 million deferred consideration payment to Petrosoma Limited ('Petrosoma'). In return, Sterling's participating interest will (subject to Government

consent) reduce from 40% to 34%. In parallel, we expect to see the Government sponsored 2D seismic campaign on the Odewayne block commence in Q2 2017.

We continue to mature our Mauritania C-10 exploration asset.

The primary focus of the Company has been to continue to originate, conduct full due diligence and ultimately execute transformative growth driven M&A projects. The Company remains confident that it can identify and source the right asset led or corporate solution to drive growth and shareholder value in the near term.

The Company continues its efforts to reduce the Group's administrative expenses in reaction to external market conditions. These efforts have, year on year, reduced the Group's wages and salary expenses by ca. 38%. As a result, Q1 2017 administrative expenses (excluding recharges) are ca. 33% lower than in Q1 2016 (based on current work programme and budget assumptions).

Looking forward, we will persist in our efforts on limiting liability exposure on Chinguetti, delivering on our current portfolio and pursuing transformative growth projects for the Company and its shareholders.

### **Mauritania**

#### **Chinguetti oil field (ca. 9.5% of cumulative production through the Funding Agreement and a 6% Royalty Agreement derived from Premier's WI).**

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 30,824 bbls (Q1 2016: 9,665 bbls), an average of 342 barrels of oil per day ('bopd'), compared to 106 bopd for the equivalent period in Q1 2016. Production in Q1 2016 was unusually low due to technical difficulties, hence the improvement compared to Q1 2017.

Production from the Chinguetti field is stored on location in the Berge Helene floating, production storage and offloading vessel ('FPSO'). One cargo lifting was undertaken during the period totalling 41,950 bbls net (Q1 2016: one lifting totalling 30,489 bbls net). The realised oil price in the period was \$48.7 bbl compared to \$23.3 bbl for the equivalent period in Q1 2016.

The Chinguetti JV (Petronas, Tullow Oil, SMHPM, Premier, Kufpec) are converging on the optimal solution to the current end of field life challenges. Discussions continue to be held with the Government of Mauritania and relevant stakeholders on how best to both manage current operations and agree on a plan for a safe, cost-effective and technically robust decommissioning and abandonment phase.

### **PSC C-10 (WI 13.5%) Exploration block**

Block C-10 covers an area of approximately 8,025km<sup>2</sup> and lies in water depths of 50 to 2,400m within the Nouakchott sub-basin, offshore Mauritania, and wholly surrounds the Chinguetti field. The C-10 production sharing contract ('PSC') is held by the Company's wholly owned subsidiary Sterling Energy Mauritania Limited ('SEML') (13.5% working interest), Tullow Oil (76.5% working interest and operator) and SMHPM (10% working interest). SMHPM is carried by SEML and Tullow Oil, pro-rata to their working interests, during the exploration phases. The PSC is in the second phase of the exploration period, which is due to expire on 30 November 2017 and has a minimum work obligation of one exploration well.

Following entry into the C-10 block in mid-2015, Sterling and its JV partners have been actively maturing and ranking the technical description of the play, prospect and lead portfolio on the 3D seismic dataset.

Since 2014, Kosmos Energy has discovered and appraised in deep water block C-8, immediately outboard of C-10, several world class LNG scale gas discoveries of Albian to Cenomanian age, with the Tortue West (Ahmeyim) structure alone reported to have Pmean gas resources of ca.15 Tcf. In 2017, Kosmos and new partner BP have continued exploration within the Cenomanian/Albian play with a focus on proving an oil fairway adjacent to the northwestern boundary of the C-10 block, through the drilling of 4 high impact exploration wells commencing with the Yakaar prospect in late March 2017.

Tullow Oil and the JV are in discussions with SMHPM and the Ministry with regards to the appropriate future path on the C-10 block, with a view to securing an extension and recognising that a well will not be drilled prior to the current Phase 2 expiry in November 2017.

Should the JV not fulfil the minimum work obligations, the gross liability owing to the Mauritanian government would be \$7.5 million (\$1.1 million net to SEML). Following the completion of Phase 2 the JV may elect to enter into Phase 3 (with a 3 year term) with a minimum work obligation of a further two exploration wells.

### **Somaliland**

#### **Odewayne (WI 34%\*) Exploration block**

This large, unexplored frontier acreage position comprises an area of 22,840km<sup>2</sup>. Exploration activity to date has been limited to the acquisition of airborne gravity and magnetic data, with no seismic coverage and no wells drilled on the block. Extensive geological field data provides strong encouragement for a deep sedimentary basin and has highlighted the presence of oil seeps at surface, suggesting that a working hydrocarbon system exists.

The Odewayne production sharing agreement ('PSA') was awarded in 2005 and is in the Third Period with an outstanding minimum work obligation of 500km of 2D seismic. The Third Period was recently extended in 2016 by two years to 2 November 2018. The minimum work obligation during the optional Fourth Period of the PSA (also extended by 2 years to May 2020) is for 1,000km of 2D seismic and one exploration well.

The Company's wholly owned subsidiary, Sterling Energy (East Africa) Limited ('SE(EA)L'), currently holds a 40% working interest in the PSA, subject to a transfer of 6% to Petrosoma (as set out below). Following the transfer (subject to Government consent), SE(EA)L will hold a 34% working interest.

In 2016 the Ministry of Energy and Minerals progressed a directed speculative survey in Somaliland to allow the acquisition of 2D seismic data. The project is led by the Ministry who in Q4 2016 signed a contract with BGP (a Chinese geophysical and drilling contractor) to acquire seismic data over a number of blocks, including Odewayne. The seismic data on Odewayne is scheduled to be acquired during Q2 to Q3 2017 and is intended to fulfil (at least) the minimum work obligation for the current phase and will be the first seismic data acquired on the block. Line clearance efforts started in late March, with the recording due to commence in May 2017.

\*Subsequently, as of the 3 April 2017, the Petrosoma Farmout Agreement has been amended such that the parties will cancel the US\$8 million contingent consideration in return for (i) a payment by SE(EA)L to Petrosoma of US\$3.5 million; and (ii) a transfer from SE(EA)L to Petrosoma of a 6% interest in the PSA. Completion of the transfer of the participating interest remains subject to approval of the Government of Somaliland. Upon such approval, SE(EA)L will retain a 34% interest in the Odewayne Block, fully carried by Genel Energy for its share of the costs of all exploration activities during the Third and Fourth Periods of the PSA.

## Financial Position

In the period, the Group reports the following results:

	<b>Q1 2017 (unaudited)</b>	Q1 2016 (unaudited)	FY 2016 (audited)
	<b>\$ '000</b>	\$ '000	\$ '000
Revenue	(1) <b>2,131</b>	725	4,815
Adjusted EBITDAX	(2) <b>(784)</b>	(2,021)	(3,088)
Loss after tax	(3) <b>(1,195)</b>	(5,046)	(8,529)
Net to Group - cash and cash equivalents at period end	(4) <b>88,008</b>	94,746	88,058
JV Partner held funds	<b>Nil</b>	419	Nil

(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 \$1.2 million compares to a loss after tax in Q1 2016 of \$5.0 million.

(4) Cash balances at the end of the period totalled \$88.0 million (Q1 2016: \$95.2 million, including \$419k of JV partner funds). The Group continues to remain debt free.

This announcement is inside information for the purposes of Article 7 of Regulation 596/2014.

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