

6<sup>th</sup> November 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 third quarter ended 30 September 2017. All figures are unaudited unless stated otherwise.

### Highlights

- Production, net to the Company (including royalty barrels) from the Chinguetti field, averaged 188<sup>1</sup> barrels of oil per day ('bopd') (Q3 2016: 351 bopd).
- Adjusted Earnings before Interest, Tax, Depreciation and Amortisation and Exploration Expense ('EBITDAX') loss for the Group of \$1.4 million (Q3 2016: \$992k loss).
- Loss after tax of \$4.3 million (Q3 2016: \$420k).
- Net cash (zero debt) to the Group as at 30 September 2017 of \$83.1 million (30 September 2016: \$91.0 million).
- Issued notice of contract surrender on 1 November to exit block C-10 ahead of 29 November 2017 expiry.
- Completion of 1,000 kms 2D Seismic acquisition program, Odewayne, Republic of Somaliland.
- Continued mandate to execute M&A driven transformational growth at both corporate and asset levels.
- Focus on capital discipline with move to a smaller office in early Q4 2017 and further reductions to achieve forecasted G&A of ca. \$2.9 million in 2018, a 20% decrease from the 2017 full year forecast.

<sup>1</sup>Operational shut-in during the period, detailed below.

### CEO Statement

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. As per Operator's plan the Chinguetti oil field is due to cease production 30 December 2017; decommissioning operations will commence with a temporary well suspension phase from late December 2017.

As soon as the Chinguetti A&D project is formally approved by the Government of Mauritania (expected Q4 2017), we will fully update the market of the A&D project costs and schedule for this asset.

The Operator group are pleased to have completed the Government sponsored 1,000 kms of full fold 2D seismic over the Odewayne block, on time and safely without incident in late August 2017. The initial fast track post stack migrated 2D data is encouraging and provides the first subsurface image of one of the last large untested frontier rift basins in East Africa. We expect the final workstation processed data for in-house interpretation by year-end / early Q1 2018.

On the C-10 Mauritania block, an extensive block wide evaluation has determined that a commercially viable hub scale drill-ready opportunity is not present. The next and final exploration period carries a commitment of two wells, which the Operator and JV partners consider not fully supported by the existing risked prospect inventory. As such, the Operator Tullow has, as of 1 November 2017, approached the Ministry of Petroleum, Energy and Mines and submitted a notice of intent to surrender the licence, which expires 29 November 2017. The exit penalty payment of \$1.125m net SEML will be due in December 2017. Whilst it is unfortunate that the joint venture partners have not been able to mature the block prospect inventory to drill-worthy status, it is equally important that a financially disciplined approach has prevailed, with this low cost exit by Sterling.

The primary focus of the Company over the last 18 months has been to continue to originate, conduct full due diligence and ultimately execute transformative growth driven M&A projects in North Africa and the Middle East. 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 to reduce the Group's administrative expenses in reaction to external market conditions and the business drivers. These efforts have, year on year, further reduced the Group's wages and salary expenses by ca.31%. As a result of continued focus on cost saving initiatives, Q3 2017 year to date total administrative expenses (excluding recharges) are forecast to be ca.26% lower than the corresponding period in 2016.

Looking forward, we continue in our efforts on limiting liability exposure on the Chinguetti A&D project, delivering on our remaining asset, optimising our overheads and most importantly pursuing and ultimately executing on 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 17,311 bbls (Q3 2016: 32,284 bbls), an average of 188 bopd, compared to 351 bopd for the equivalent period in Q3 2016.

The lower production in Q3 2017 was as a result of operational difficulties, which continued into Q4 2017. All Chinguetti field wells bar Banda Gas -2, were shut-in on 2 September 2017 due to an abnormally large loss of gas lift (LP1 & 2 lines shut-in 31 August 2017) and pressure drop. Subsequent to the successful the ROV vessel Ocean Intervention, the wells were opened up to resume normal production on the 17 October 2017. The Operator hopes to see sustained production in excess of 2,500 bopd once production has stabilised.

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 38,216 bbls net

(Q3 2016: one lifting totalling 34,167 bbls net). The realised oil price in the period was \$45.34 per bbl compared to \$41.69 per bbl for the equivalent period in Q3 2016.

The Operator Petronas is working constructively with the Government of Mauritania, joint venture partners and relevant stakeholders on A&D approval and then executing a safe, cost-effective and technically robust decommissioning and abandonment program from November 2017.

### **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). SEML and Tullow Oil, pro-rata to their working interests, carry SMHPM 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 to 2,000m below mean sea level.

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 both the regional 2D and block specific 3D seismic datasets. Despite this rigorous and broad ranging evaluation, it was determined that no commercially viable hub-scale prospects were mature for drilling.

Tullow Oil as Operator on behalf of the JV partners, has on 1 November 2017 sent a notice of intent to surrender the block and discharging any remaining obligations under the Exploration Production contract, as of the current Phase 2 expiry on 29 November 2017.

Given the JV has not fulfilled the minimum work obligations, the gross liability owing to the Mauritanian government will be \$7.5 million (\$1.125 million net to SEML).

## **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 1,000kms of 2D seismic and one exploration well. The Company's wholly owned subsidiary, Sterling Energy (East Africa) Limited ('SE(EA)L'), holds a 34% working interest in the PSA.

In 2016 the Ministry of Energy and Minerals initiated a directed speculative survey in Somaliland to allow the acquisition of regional 2D seismic data. The project has been 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 onshore blocks, including Odewayne.

The Odewayne part of the Government sponsored 2D seismic program commenced in early June 2017 and the acquisition of 1,000kms full fold data was completed on the 24 August 2017. This part of the campaign satisfies and exceeds the minimum (500km) work obligation for the current Third Period, for which Sterling is fully carried by Genel for all costs. The Company expects final processing results in late Q4 2017 to Q1 2018 and will thereafter complete its own technical evaluation of the data.

## Financial Summary

In the period, the Group reports the following results:

		<b>Q3 2017</b> <b>(unaudited)</b>	Q3 2016 (unaudited)	FY 2016 (audited)
		<b>\$ '000</b>	\$ '000	\$ '000
Revenue	(1)	<b>1,771</b>	1,499	4,815
Adjusted EBITDAX	(2)	<b>(1,377)</b>	(992)	(3,088)
Loss after tax	(3)	<b>(4,261)</b>	(420)	(8,529)
Net to Group - cash and cash equivalents at period end	(4)	<b>83,058</b>	90,959	88,058

(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 \$4.3 million compares to a loss after tax in Q3 2016 of \$420k.

(4) Cash balances at the end of the period totalled \$83.1 million (Q3 2016: \$91.0 million). The Group continues to remain debt free.

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

### For further information contact:

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

Eskil Jersing, Chief Executive Officer  
Michael Kroupeev, Chairman

#### **Peel Hunt LLP +44 20 7418 8900**

Richard Crichton  
Ross Allister

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

Ticker Symbol: SEY