

26th January 2017

CHINGUETTI OIL FIELD – TERMINATION OF FUNDING AGREEMENT

Sterling Energy Plc (“Sterling” or the “Company”), the AIM listed oil and gas exploration and production company (AIM: SEY), provides the following update with respect to its interest in the Chinguetti oil field, offshore Mauritania.

Background

The Company has had an economic interest in the Chinguetti oil field through a funding agreement with the Government of Mauritania and Société Mauritanienne Des Hydrocarbures et de Patrimoine Minier (Mauritania’s national oil company) (“SMHPM”) since 2004 (“Funding Agreement”). The Company has no direct equity interest in Chinguetti, but through the Funding Agreement the Company and SMHPM share in the revenue and costs related to SMHPM’s 12% equity interest in Chinguetti.

The Chinguetti oil field has been in production since February 2006. In the year ended 31 December 2016, Sterling recognised a loss of US\$2.0m in respect of the Chinguetti Field and a loss of US\$0.97m in the period to 30 September 2017. The Chinguetti oil field is now in the process of being decommissioned and abandoned. The Abandonment and Decommissioning (“A&D”) project is awaiting the final approval of the Government of Mauritania. The A&D Plan consists of two phases:

1. Cessation of Production (“CoP”) and Temporary Well Suspension (“TWS”), undertaken from early 2018 to Q2 2018; and
2. Final plugging and abandonment of the well stock in 2019-2020 (“Final P&A”).

Termination of Funding Agreement

In light of the cessation of production from the Chinguetti oil field, the Company, the Government of Mauritania and SMHPM have agreed to terminate the Funding Agreement (“Deed of Termination”).

The Deed of Termination provides for a payment by Sterling to the Government of Mauritania and SMHPM of a fixed sum to settle any and all claims under the Funding Agreement, including Sterling’s obligation to pay for its share of A&D costs and outstanding 2018 operational expenditures. The fixed sum payment will be made forthwith and Sterling will have no residual exposure to the A&D costs.

In the Company’s 2016 annual report, the Company reported that the present value of future decommissioning costs for Chinguetti, as at 31 December 2016, was USD\$31.45m (consisting of USD\$16.98m in short term provisions (2017) and USD\$14.47m in long term provisions (beyond 2017)).

The quantum of the payment under the Deed of Termination is confidential but is not materially different from that provided for in the Company’s 2016 annual report.

Cash Position and strategy

After the payment made pursuant to the Deed of Termination, the Company will have no residual exposure to the A&D costs under the Funding Agreement and will have cash reserves of approximately

USD\$48.9m (unaudited). In 2018, the Company will look to operationally progress the Odewayne asset in Somaliland and continue to pursue its strategic M&A driven mandate.

Comment

Eskil Jersing, the Company's Chief Executive Officer commented:

"Sterling has had a long standing and robust relationship with the Government of Mauritania and SMHPM on the Chinguetti oil field, since 2004. Sterling has additionally been a partner in the C3 and C10 offshore exploration blocks in Mauritania. Sterling would like to thank both the Government of Mauritania and SMHPM for the opportunity to be involved in all of those projects. The Company wishes them every success in the future development of the oil and gas industry in Mauritania.

For Sterling, this is the final part of a strategic exit from Mauritania; the settlement of the A&D costs for a fixed amount with no exposure to future operational risk and/or cost overruns creates certainty for the business as it plans for 2018 and beyond."

Further information:

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

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