25 April 2018

# 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 2018. All figures are unaudited unless stated otherwise.

**Operations**

- Odewayne block, Somaliland; trial line 2D processing ongoing.

**Corporate**

- Replacement CEO search ongoing.
- Continued merger and acquisition ('M&A') mandate for growth (asset and corporate options).

**Financial**

- Adjusted Earnings before Interest, Tax, Depreciation and Amortisation and Exploration Expense ('EBITDAX') loss for the Group of $476k (Q1 2017: $784k loss).
- Loss after tax of $497k (Q1 2017: $1.2 million loss).
- Net cash (zero debt) to the Group as at 31 March 2018 of $47.3 million (31 March 2017: $88.0 million).

**Chairman's Statement**

Following our full and final exit from Mauritania on 26 January 2018, through termination of the Chinguetti Funding Agreement, Sterling is a cleaner and simpler platform from which to grow the business.

Trial line 2D processing initiated by Sterling over the Odewayne block in Somaliland is showing encouraging signs and we will use the data to further develop our understanding of the asset potential ahead of a drilling decision.

I look forward to updating our shareholders in the coming year as we seek to maximise our value proposition.

## Somaliland

### Odewayne (WI 34%) Exploration block

### Overview

This large and unexplored frontier acreage position comprises an area of 22,840km$^2$, the equivalent of approximately 100 UK North Sea blocks. Exploration activity prior to the 2017 regional 2D seismic acquisition program has been limited to the acquisition of airborne gravity and magnetic data and surface fieldwork studies, with no wells drilled on block.

The Odewayne production sharing agreement ('PSA') was awarded in 2005. It is in the third period, with a minimum work obligation of 500km of 2D seismic. The third period has been extended to 2 November 2019, through the 6th deed of amendment. 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'), holds a 34% working interest in the PSA. SE(EA)L originally acquired a 10% position from Petrosoma Limited ('Petrosoma') in November 2013 and an additional 30% from Jacka Resources Somaliland Limited ('Jacka') in two transactions during 2014.

In April 2017, the Company agreed to revised farm-out terms to reduce the staged contingent consideration payments due to Petrosoma and reduce SE(EA)L's interest in the Odewayne asset by 6%. The farm-out agreement was amended such that the parties cancelled the $8.0 million contingent consideration in return for: (i) a payment by SE(EA)L to Petrosoma of $3.5 million; and (ii) a transfer from SE(EA)L to Petrosoma of a 6% interest in the PSA. Post Government of Somaliland approval, SE(EA)L holds a 34% interest in the Odewayne Block, fully carried by Genel Energy Somaliland Limited ('Genel Energy') for its share of the costs of all exploration activities during the Third and Fourth Periods of the PSA.

In June 2017, the Somali Government (Ministry of Energy and Minerals) contracted BGP (Geophysical contractor) to undertake a 1,000km (full fold, 1,076km surface) 10km by 10km, 2D seismic campaign, to both satisfy and exceed the 500km minimum work program for the current Third Period. This acquisition program was undertaken over the basinal areas identified from the potential fields (gravity and magnetic) legacy data. The three month program was completed in late August 2017, safely and on time, with the second 500km recorded at an average of 14.5km per day.

### Outlook

As of November 2017, Sterling undertook an integrated geological review of the basic post-stack processed 2D dataset provided by the Operator Genel Energy. Following encouraging technical indications, the Company is undertaking a highly focused and rigorous processing effort, independent of the Operator, with the primary technical objective of improving the deeper subsurface image. The first phase deliverables will be a full pre-stack time migrated dataset, consisting of 3 lines of approximately 235km. Processing is progressing as per schedule and interim products show encouraging results.

There is an option in place for a second phase of processing on the remaining 765km (13 lines) of data; the decision to progress to this optional second phase will be made once the initial deliverable have been received and assessed. This workflow will allow for an informed technical and commercial perspective on the block in H2 2018.

## Mauritania

### Chinguetti oil field (Deed of Termination January 2018)

As of 26 January 2018, in light of the cessation of production from the Chinguetti oil field, the Company, the Government of Mauritania and SMHPM agreed to terminate the Funding Agreement ('Deed of Termination'). The Deed of Termination provides for a payment (made on 26 January 2018) by Sterling to the Government of Mauritania and SMHPM of a fixed sum of $32.6 million to settle any and all claims under the Funding Agreement, including Sterling's obligation to pay for its share of abandonment and decommissioning ("A&D") costs and outstanding 2018 operational expenditures. As a result, Sterling has no residual exposure to the A&D costs for the Chinguetti oil field.

Production from the Chinguetti oil field is stored on location in the Berge Helene floating, production storage and offloading vessel ('FPSO'). The final cargo lift was undertaken during the period, totalling 9,222k bbls net (Q1 2017: one lifting totalling 30,489 bbls net). The realised oil price in the period was $58.31 bbl compared to $48.7 bbl for the equivalent period in Q1 2017.

**PSC C-10 (Relinquished November 2017)**

The gross penalty payment owing to the Mauritanian government of $7.5 million ($1.1 million net to Sterling Energy Mauritania Limited) was paid during the period.

**Financial Summary**

In the period, the Group reports the following results:

| | | **Q1 2018 (unaudited)** | Q1 2017 (unaudited) | FY 2017 (audited) |
|---|---|---|---|---|
| | | **$ '000** | $ '000 | $ '000 |
| Revenue | *(1)* | 525 | 2,131 | 4,433 |
| Adjusted EBITDAX | *(2)* | (476) | (784) | (5,926) |
| Loss after tax | | (497) | (1,195) | (9,000) |
| Net to Group - cash and cash equivalents at period end | *(3)* | 47,338 | 88,008 | 81,365 |

*(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)* Excludes final cargo revenues (received in April 2018).

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

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